



**MANAGEMENT BOARD REPORT**  
**ON CD PROJEKT CAPITAL GROUP ACTIVITIES**  
**IN THE FISCAL YEAR 2013**

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## General Information

# I. Key factors affecting Group performance and other important events occurring in 2013 and up until the publication date of this report

1. On 11 January 2013 the Group released the first teaser trailer for Cyberpunk 2077, developed in collaboration with Platige Image Studio. Over the first week the trailer was viewed over 7 million times, mostly by American viewers (31.52%). Polish residents accounted for 5.75% of the total viewer count. The trailer quickly attracted more than 8 million viewers, which is several times more than any earlier promotional materials released by the Studio.
2. On 5 February 2013 CD PROJEKT announced its other upcoming release - The Witcher 3: Wild Hunt. The game is scheduled to appear in stores in February 2015 and will be released simultaneously on the PC, Sony PlayStation 4 and Microsoft Xbox One.
3. The Witcher 3 was featured on the cover of the March issue of Game Informer. The world's foremost printed gaming magazine, with a circulation of over 8 million copies, ran a cover story (14 internal pages) devoted to the game, hailing it as a "*must-see next-generation RPG*". The newest project by the CD Projekt RED studio, a subsidiary of CD PROJEKT, was also featured on the cover of the prestigious British Edge magazine, which was distributed free of charge to all visitors at the E3 fair in Los Angeles - the largest such event in the world. Up until the publication date of this report The Witcher 3 has been featured in 14 printed magazines worldwide.
4. CD Projekt RED and The Witcher 3 were both featured at the unveiling of the newest generation of consoles by Sony and Microsoft. At the Microsoft conference in Los Angeles a representative of the Studio presented scenes from The Witcher 3 to an international audience. This event was part of an exhibition of 19 games handpicked by Microsoft as the most important upcoming titles for its newest console which was released in late 2013.
5. The Witcher 3 attracted great interest at the E3 fair in Los Angeles - the most important gaming trade fair in the world. Over the course of the three-day event (11-13 June) company staff manning the CD Projekt RED stand in the exclusive business zone conducted 25 presentations of the game for over 1,000 members of the press and business partners.
6. The Witcher 3 garnered 58 awards and accolades at E3, including prestigious media awards from (among others) IGN, GameStop, Official Xbox Magazine and PC Gamer. Among the awards were: Best Game of E3, Most Anticipated Game of E3, Best RPG of E3 and the Popular Prize.
7. On 1 July 2013 CD Projekt RED opened a new studio in Kraków. An entirely new 20-person team will augment the production capacity of existing studios in Warsaw, carrying out two smaller high-quality development projects.
8. In addition to ongoing development of The Witcher 3, CD Projekt RED also carried out work on The Witcher Adventure Game in collaboration with Fantasy Flight Games - a global leader in development and distribution of board games. In Poland the game will be published by cdp.pl, a subsidiary of CD PROJEKT. In addition to the classic board version, digital editions are being prepared for iPad and Android tablets.
9. In October the Company announced that Dark Horse Comics, one of the largest and most acclaimed publishers of comic books worldwide, is collaborating with CD Projekt RED on a new series of comic books depicting the adventures of the Witcher Geralt of Rivia. The first issue is scheduled to appear in American bookstores on 19 March 2014.
10. Up until the publication date of this report the Company has concluded distribution agreements for The Witcher 3 in all key territories. In North America the newest game in the series will be distributed by Warner Bros. Interactive Entertainment. NAMCO BANDAI will handle distribution in Western Europe as well as (under a separate contract) in Australia and New Zealand. In Japan the game will be distributed by Spike Chunsoft while in Hungary, the Czech Republic and Slovakia it will be distributed by Cenega. Publication in Poland will be handled by cdp.pl in collaboration with Agora. CD PROJEKT retains digital publication rights for all territories and hardware platforms.
11. Up until the publication date of this report The Witcher 3: Wild Hunt has garnered over 90 international media and online service awards, including Most Anticipated Game awards from such notable media as IGN (readers' poll), GameSpot, Eurogamer (readers' poll), GameTrailers, The Escapist and The Angry Joe Show.

12. In March 2014 CD PROJEKT announced that both instalments of The Witcher have together sold over 7 million copies over the past five-year period.
13. In March 2014 the Company announced that for over one year it had been developing a yet-to-be-announced multiplatform online mobile game in collaboration with an external partner. The game represents a groundbreaking endeavour for the Company in terms of the underlying business model and is designed as a long-term project, capable of attracting new players over time and providing its player base with an ever expanding set of features. Owing to collaboration with an external partner the Company is capable of carrying out development of the game in parallel with ongoing work on The Witcher 3 and Cyberpunk 2077. The game is scheduled for release in 2014.
14. In March 2013, GOG Ltd. paid out a dividend to CD PROJEKT SA (its sole shareholder) in the amount of 1.5 million EUR. GOG Ltd. is not currently in debt due to outstanding loans and advances.
15. In May 2013 GOG.com was selected as one of the 50 best websites in the world by the prestigious TIME magazine. The magazine praised GOG.com for (among others) supporting development of independent games and avoiding DRM which hampers the use of legally purchased products.
16. In August 2013 GOG.com announced its new project: extended marketing and financial support for promising developers of indie games. The project aims to provide GOG.com with persistent access to quality indie titles. Up until the end of 2013 the project attracted over 700 submissions.
17. In 2013 the GOG.com digital distribution platform released approximately 170 new titles, extending its catalogue to over 660 titles (37% year-to-year increase). The Apple catalogue was likewise expanded to over 250 titles.
18. In 2013 GOG.com began distributing products by inXile Ent., Polytron Corporation, Stardock Entertainment, Night Drive Studios (System Shock 2) and many others, expanding its list of business partners to over 180 companies - developers and publishers of videogames from around the world.
19. In March 2013 cdp.pl Sp. z o.o., a CD PROJEKT subsidiary, announced expansion of its digital portfolio with a new product category: e-books and e-comics.
20. In the second quarter of 2013 cdp.pl Sp. z o.o. entered into a partnership with one the global leaders in digital entertainment - Electronic Arts. As a result the Company began distributing products from EA's catalogue, including such hits as The Sims, FIFA and Battlefield games. In June 2013 cdp.pl also began offering products by Paradox Interactive, developers of the well-known Europa Universalis series. Under the new contract cdp.pl will eventually carry over 100 titles by this renowned Swedish publisher of strategy games.
21. At a press conference held on 10 October, almost exactly one year after the release of its digital platform, cdp.pl announced the expansion of its portfolio with additional product categories: motion pictures and audiobooks.
22. In late 2013 the cdp.pl digital catalogue was expanded with games by Warner Bros. Interactive Entertainment, including such classics as Batman: Arkham City GOTY, LEGO Marvel Super Heroes and the F.E.A.R. series. In February 2014 the platform also began distributing Warner Bros.' motion pictures.
23. In December 2013 members of the Management Board of cdp.pl took over 5% of the company share capital in recognition of their successful work on developing the company and in acknowledgement of cdp.pl's autonomous business strategy.
24. cdp.pl will be responsible for the distribution of retail and digital editions of The Witcher 3: Wild Hunt in Poland as well as for the distribution of The Witcher Adventure Game in Poland. This announcement was made after the balance sheet date.
25. In February 2014 the digital platform operated by cdp.pl began offering access to Warner Bros. motion pictures, including such cult series as The Matrix, Batman, Lord of the Rings and Harry Potter, as well as Gravity - winner of seven Academy Awards in 2014.
26. The consolidated revenues of the CD PROJEKT Capital Group in 2013 were 142 172 thousand PLN, with the following subdivision into activity segments:
  - Distribution and publishing in Poland: 61 235 thousand PLN,
  - Videogame development: 22 286 thousand PLN,
  - Global digital videogame distribution: 57 634 thousand PLN,
  - Other: 1 017 thousand PLN.

27. EBITDA for the CD PROJEKT Group in 2013 was 18 013 thousand PLN.
28. The consolidated net profit attributable to equity holders of the CD PROJEKT Group in 2013 was 14 900 thousand PLN.
29. In late 2013 the Group settled all of its liabilities under existing credit and loan agreements. Over the course of the year the Company remitted 4 738 thousand PLN in outstanding loans.
30. At the end of 2013 the Group held cash assets valued at 39 684 thousand PLN (including cash equivalents) as well as financial assets valued at 805 thousand PLN, most of which were shares of the PKO retirement fund purchased as a means of temporary allocation of surplus cash.

## ■ Summary of business activities in the 2013 fiscal year

The operations of the CD PROJEKT Capital Group are divided into four activity segments:

- Distribution and publishing in Poland,
- Videogame development,
- Global digital videogame distribution,
- Other activities.

## ■ Distribution and publishing in Poland - summary

cdp.pl Sp. z o.o. (formerly CD Projekt Sp. z o.o.), a subsidiary of the CD PROJEKT Capital Group, is among the leading Polish publishers and distributors of videogames on the PC and consoles, as well as DVD and Blu-ray motion pictures. Since 2012 the company is also the exclusive Polish partner of Wizard of the Coast which distributes collector's editions of board and card games. In October 2012 the company launched its proprietary digital distribution platform, available in Polish at [www.cdp.pl](http://www.cdp.pl).

### Publishing games for PCs and consoles

This activity comprises publishing and distribution of games for the PC and for consoles, both stationary and mobile. Products offered by cdp.pl Sp. z o.o. are licensed or purchased from external suppliers and sold via domestic retail distribution channels.

cdp.pl Sp. z o.o. carries out distribution of localized (i.e. translated into the local language) editions of PC, Xbox 360 and PlayStation games from many global developers and publishers. This activity is usually carried out on the basis of exclusive distribution agreements. Since its creation the company has published several hundred fully localized releases for the PC and several dozen localized editions of games for the PlayStation 3 and Xbox 360. Selected titles are also distributed in their original language versions.

### Distribution of DVD and Blu-ray motion pictures

Since November 2009 cdp.pl Sp. z o.o. is the official distributor of DVD and Blu-ray motion pictures produced by Walt Disney Studios Home Entertainment which includes Walt Disney Studios, Touchstone Pictures, Pixar Animation Studios, ABC Studios, MARVEL and (since 2013) Lucasfilm.

### Sales of digital products via the [www.cdp.pl](http://www.cdp.pl) platform

Since October 2012 cdp.pl has been operating its proprietary digital distribution platform at [www.cdp.pl](http://www.cdp.pl), distributing videogames directly to final customers. On 7 March 2013 this platform was extended with e-books and e-comics, while in October 2013 the company offered access to motion pictures and audiobooks. Products distributed via [www.cdp.pl](http://www.cdp.pl) are licensed from foreign and domestic suppliers and, for the most part, undergo full localization. The platform offers a number of competitive advantages such as the lack of any hidden costs or overheads, instant delivery of products, transaction security and the best technical support on the market. Compared to other digital content distribution platforms [www.cdp.pl](http://www.cdp.pl) is notable in that it carries a diverse range of products (games, motion pictures, e-books, e-comics and audiobooks) and enables clients to download products directly to their own devices for personal use (unlike VOD platforms).

## ■ Distribution and publishing in Poland - key events occurring in 2013

### Digital distribution

During the early months of 2013 the domestic digital distribution activity centered around the [www.cdp.pl](http://www.cdp.pl) platform underwent numerous changes associated with deployment of new service features facilitating purchases and expansion of its product catalogue. The service was integrated with the PayPal system, making it easier and safer for clients to remit payment. A standalone downloader application was also released, enabling convenient downloads of purchased products. Finally, an invitation and recommendation interface was deployed - clients can now invite their friends to join the service and the platform rewards its most active users with free games and special discounts.

In the first quarter of 2013 the cdp.pl catalogue was extended with new product categories: e-books and e-comics. In cooperation with the Supernova publishing house, cdp.pl offered exclusive access to Andrzej Sapkowski's The Witcher saga - the first digital release of books belonging to this series. Another important event, occurring in December 2013, was the exclusive release of Andrzej Sapkowski's bestseller - *Sezon Burz*, a new addition to The Witcher universe. The book's debut was accompanied by an outdoor

marketing campaign in major Polish cities. In May 2013 cdp.pl initiated collaboration with one of the largest distributors of e-books and paperback editions on the Polish market - Firma Księgarska Olesiejuk. This enabled cdp.pl to extend its e-book catalogue with several hundred new titles, including fantasy literature classics (both Polish and foreign), an exclusive collection of Polish e-comics, game manuals and e-zines. The company's e-book catalogue currently comprises several thousand such items.

cdp.pl is actively involved in B2B operations. Together with Lark Europe (an electronic hardware distributor) the company introduced a Witcher-themed collection of Lark e-book readers, available in Polish bookstores. Customers purchasing a Lark FreeBook reader with the special offer option can select one of five e-books forming The Witcher saga by Andrzej Sapkowski, and then conveniently download it from cdp.pl directly to their device.

Regarding videogame distribution, cdp.pl entered into a partnership with Electronic Arts, one of the global leaders in the digital entertainment segment. As a result, the cdp.pl videogame catalogue was extended with such hit franchises as The Sims, FIFA and Battlefield.

In the second quarter of 2013 the company initiated closed tests of its upcoming motion picture service. A handpicked group of 100 users was allowed to try out the new features and submit opinions which enable developers to enhance the service's functionality and eliminate any bugs prior to its official release. Following several months of testing, on 10 October 2013, at a special conference held almost exactly one year since the debut of [www.cdp.pl](http://www.cdp.pl), the company officially announced the expansion of its product catalogue with new categories: motion pictures and audiobooks. This event was accompanied with an exclusive release (prior to DVD and VOD releases) of *Układ zamknięty* - one of the most notable Polish motion pictures produced in 2013. To celebrate the first anniversary of the platform, cdp.pl organized a number of special sales and published an outline of its activity: over the first 12-month period [www.cdp.pl](http://www.cdp.pl) grew from 36 games grouped into a single category to nearly 3 thousand products in four categories representing all aspects of modern e-entertainment - videogames, motion pictures, audiobooks and e-books/e-comics. During this time the service attracted over 3 million visitors and transmitted over 300 TB of data. As of 10 October 2013 the average number of products (games, books and comics) on a cdp.pl customer's virtual bookshelf was 21.

In the videogame distribution category highlights of the second half of 2013 include expansion of the product catalogue with Paradox Interactive games including such well-known series as Crusader Kings and Magicka (with all available expansion packs), as well as popular products by Warner Bros. - cult classics such as Batman, Mortal Kombat and LEGO. Key releases from this period include Europa Universalis IV, Divinity: Dragon Commander, Splinter Cell Blacklist, FIFA 14, Battlefield 4 and Football Manager 2014. In the first quarter of 2014 the company also commenced distribution of Assassin's Creed: Liberation HD, Thief, Castlevania: Lords of Shadow 2, LEGO Adventures and Assassin's Creed: Freedom Cry.

In trying to meet the demands of clients who - in addition to purchasing games - also seek additional content, in the fourth quarter of 2013 the cdp.pl platform was extended with a pop culture blog named CDBlog.pl, discussing games, movies, books and technological/cultural events. Finally, in late 2013 the company unveiled its newest project: an online TV channel named CDP.tv, implemented in collaboration with Ginx TV and devoted to videogames.

The beginning of the new year is traditionally a period of sales and clearances. Accordingly, the highlight of Q1 2014 in the domestic digital distribution segment was an event called Wielki Giermasz Cyfrowy (*Grand Digital Game Sale*), an online counterpart to a hugely popular live event organized in collaboration with the Biedronka retail store chain. Over 300 games, motion pictures and e-books were offered at a discounted price of 9.99 PLN over a 12-hour period. As the event attracted great interest among purchasers, the company decided to extend it by another 12 hours. During this time clients purchased products at an average rate of 12 per minute. The sale was featured in mainstream online media such as Interia, Onet, Spidersweb and CD Action. More than 50 thousand users interacted with the company's social media profiles during this period.

In February 2014 cdp.pl signed a new digital distribution agreement with Warner Bros. Home Entertainment - the world's largest publisher of motion pictures. An initial batch of 30 movies was selected for inclusion in the cdp.pl catalogue, including such cult classics as Matrix, Batman, Lord of the Rings, Harry Potter and the recent blockbuster Gravity (7 Academy Awards; available prior to its official release on the home entertainment market).

### Retail distribution of videogames

Among the most important events occurring in the first half of 2013 in the retail distribution segment was the release of Starcraft II: Heart of the Swarm by Blizzard Entertainment. On the initiative of cdp.pl - the exclusive distributor of Blizzard games in Poland - a midnight release was organized in collaboration with the company's business partners: the Tesco retail chain, Empik and Ultima. The game was stocked in over 60 stores throughout Poland and made available at midnight on its global release day. In July 2013 the company announced that it entered into an agreement with Bohemia Interactive and that its online platform will carry products from the Czech studio. Bohemia Interactive specializes in publishing simulation games, which are a good match for the cdp.pl publishing profile and complement its catalogue. August 2013 saw another important release - Disney Infinity, an innovative project by Disney Interactive. Due to the product's ongoing development cdp.pl will carry - in addition to the base game - a set of expansion packs as well additional downloadable content scheduled for release in the future.

In August the company announced that it has begun distributing videogames set in the Star Wars universe. As a globally recognizable brand, the Star Wars franchise greatly strengthens the cdp.pl catalogue. cdp.pl is the official Polish partner of Disney which owns the Star Wars trademark.

In the third quarter of 2013 key highlights in the retail distribution segment included the release of Pro Evolution Soccer 2014, an acclaimed soccer simulator. Under its agreement with Konami cdp.pl was able to offer access to the game on its global release day. The game turned out to be one of the hottest releases of September 2013. Its debut was accompanied by a sizeable marketing campaign involving notable gaming and sports media, as well as social media channels. Later in September the company initiated sales of the groundbreaking PS3 and Xbox 360 releases of the legendary action RPG - Diablo III.

The final quarter of 2013 saw the release of a cinematic (subtitled) Polish edition of Football Manager 2014. True to its reputation, the game did not fail to attract media and customer attention, garnering high marks from reviewers and generating substantial sales.

In the first quarter of 2014 the most important event will be the market release of Diablo III: Reaper of Souls, an official expansion pack for one of the most popular games on the domestic market. To-date approximately 250 thousand copies of Diablo III have been sold in Poland. A fully dubbed Polish localization of Reaper of Souls is scheduled for release on March 25. The game is attracting great interest, evidenced by its preorder volume.

In addition to new releases the company continues to successfully manage its back catalogue with particular focus on Blizzard products and simulators. cdp.pl has set up a Brand Zone on Allegro (a popular Polish online auction service) offering videogames from Blizzard Entertainment and Disney.

In 2013 cdp.pl decided to rehash its traditional sales campaign (Giermasz). In July the company organized an event called Giermasz Wszepolski (*All-Polish Game Sale*) during which selected products from among the 500 videogame and motion picture releases carried by cdp.pl could be purchased online and picked up at designated points in 7 major cities throughout Poland. Over 15 thousand purchases were made during the course of this event. In the first quarter of 2014, in collaboration with the Biedronka retail chain, cdp.pl organized the so-called Wielki Giermasz (*Grand Game Sale*), stocking Biedronka stores with nearly 400 thousand copies of 300 games offered at a discount price of 9.99 PLN. The event proved enormously popular with clients and the media. On the first day alone 120 thousand units were sold - a near-record on the domestic videogame market.

#### Distribution - games unplugged

The “games unplugged” segment, comprising card and board games, experienced further dynamic growth in 2013. The company added new product categories and signed contracts with new business partners. In April 2013 cdp.pl published a set of collector’s puzzles featuring art from The Witcher cult videogame series. In early July 2013 the company announced an exclusive distribution agreement concerning the globally acclaimed wargaming franchise - Flames of War by Battlefront Miniatures; a system which reconstructs World War 2 era battles using 1:100 scale figurines. In addition to distributing the game in Poland, cdp.pl also undertook distribution of other products by Battlefront Miniatures, including gaming accessories and hobbyist kits from two additional series: Gail Force Nine and Battlefront on the Table. Early September saw the debut of Gamedec - the first board game published by cdp.pl. The game itself, as well as its single-player expansion (published in the final quarter of 2013), received rave reviews from gaming media and fans. Towards the end of the year the “games unplugged” segment was further expanded with Polish language releases of bestselling Hasbro products: Monopoly, Jenga and Cluedo.

In January 2014, following the close of the reporting period, cdp.pl announced that it would become the exclusive Polish distributor of The Witcher Adventure Game. The company is also preparing to expand its catalogue with card games from Ultra Pro, in accordance with a cooperation agreement signed in February 2014.

Games unplugged are being actively promoted at major domestic gaming fairs and other similar events, including Radość Wygrywania (*The Joy of Winning*; Warsaw, 31 August 2013 - ca. 3 thousand visitors); Fantasy Expo (Wrocław, 13 October 2013 - ca. 5 thousand visitors) and Poznań Game Arena (18-20 October 2013 - ca. 43 thousand visitors).

#### Motion picture distribution

With regard to the motion picture distribution segment, in January 2013 cdp.pl again received the prestigious Empik Bestseller award for topping sales charts at Empik retail stores in 2012. In the kids/family DVD category the award went to *Merida Waleczna (Brave)* published by cdp.pl, with another Disney release - *Auta 2 (Cars 2)* nominated in the same category.

Ongoing cooperation with the Walt Disney Company in the DVD and Blu-ray motion picture segment resulted in further releases: the blockbuster *Frankenweenie* by the acclaimed director Tim Burton was published in March 2013 while *Oz: Wielki i Potężny (Oz: The Great and Powerful)* appeared in July.

In addition to its normal publishing and distribution activities, in the first half of 2013 the company actively expanded its B2B services, signing product placement contracts with Virgin Mobile Polska, mBank, Ursus and BGŻ (corporate credits) for the URSUS Farming Simulator, as well as with ACER (joint promotional activities with Disney games in the run-up to the International Children's Day).

Key motion picture releases in H2 2013 included: *Oz Wielki i Potężny (Oz: The Great and Powerful)* on Blu-ray, Blu-ray 3D and DVD, and the bestselling movie of the year - *Iron Man 3*, released in September. Marvel's theatrical blockbuster was released on DVD under an exclusive distribution agreement, with 96 thousand copies stocked in Biedronka stores. Blu-ray and Blu-ray 3D versions of the same movie were released in parallel.

In the second half of 2013 the company also released two beloved classic animations by Disney: *Księga Dżungli 1 and 2 (The Jungle Book 1 and 2)* on Blu-ray and DVD, and three movies featuring the Little Mermaid - *Mała Syrenka (The Little Mermaid)*, *Mała Syrenka: Powrót do Morza (The Little Mermaid II: Return to the Sea)* and *Mała Syrenka: Dzieciństwo Ariel (The Little Mermaid III: Ariel's Beginning)*. In August and September remastered versions of Disney Pixar classics were released in two batches, together with an informative booklet and new cover designs. The collection comprises the following movies: *Toy Story*, *Toy Story 2*, *Toy Story 3*, *Cars*, *Cars 2*, *Złotka Bujdy na Resorach (Mater's Tall Tales)*, *Gdzie jest Nemo (Finding Nemo)*, *Potwory i Spółka (Monsters Inc.)*, Pixar shorts (two parts), *Wall-E*, *Odlot (Up)*, *Ratuj (Ratatouille)*, *Iniemamocni (The Incredibles)* and *Dawno Temu w Trawie (A Bug's Life)*.

## Other

In December 2013 members of the Management Board of cdp.pl took over 5% of company stock. In this way the CD PROJEKT Group recognizes their contribution to the development of the company and acknowledges cdp.pl's autonomous business strategy.

Additionally, as announced in Current Report No. 27/2013 of 30 December 2013, an agreement was signed on 31 December 2013 between CD PROJEKT S.A. and cdp.pl concerning the sale of the CD PROJEKT brand name. The sale was concluded following remittance of the second batch of the agreed-upon payment in the amount of 9 182 thousand PLN.

## ■ Videogame development - summary

Videogame development is carried out by the CD Projekt RED Studio which is a division of CD PROJEKT S.A. The activity covers creation of videogames and selling the associated distribution rights, as well as manufacturing and selling 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 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 computers (since 2012).

The Company carries out active distribution of its games (*The Witcher* and *The Witcher 2*) for a number of hardware platforms, using traditional distribution channels as well as leading digital distribution services worldwide. Taken together, both installments of the series have received over 200 awards and accolades, and sold more than 7 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 the current generation of gaming consoles: Sony PlayStation 4 and Xbox One. Since July 2013 the Studio has a presence in Kraków, with a dedicated branch established on the premises of the Kraków Technology Park and working on additional videogame projects.

In addition to its work on *The Witcher 3* and *Cyberpunk 2077* the Studio is actively involved in developing tie-in products for *The Witcher* franchise.

## ■ Videogame development - key events occurring in 2013

The largest project undertaken by the Company in 2013 involved continuing development of *The Witcher 3: Wild Hunt*. In parallel, a separate development team carried out intensive work on the Company's other major release - *Cyberpunk 2077*. The Kraków branch, established in 2013, worked on two smaller high-quality products tied to the Company's major franchises. Several other projects were also underway during the reporting period, including *The Witcher Adventure Game*, a set of comic books and a new multiplatform multiplayer mobile game announced in March 2013.

## Cyberpunk 2077

The first teaser trailer promoting the Studio's second major franchise - Cyberpunk 2077 - was released on 11 January 2013. Over the first week the trailer was viewed over 7 million times, mostly by American viewers (31.52%). Polish residents accounted for 5.75% of the total viewer count. Over a short time the trailer garnered more than 8 million viewers, which is several times more than earlier promotional materials released by the Studio. The teaser also fared well in numerous domestic and international competitions - it was nominated for the Golden Trailer Award in the Best Video Game Trailer category and won the FITC People's Choice Award. In April 2014 the trailer received a silver Clio Award at one of the world's foremost advertising festivals, in the Film Technique/Animation category.

## The Witcher 3: Wild Hunt - marketing activities

On 5 February 2013 the Company announced the third game in The Witcher series, titled Dzikie Gon (Wild Hunt). Based on the proprietary REDengine 3 technology, The Witcher 3 is slated for release on eighth-generation consoles (PlayStation 4, Xbox One) and on the PC. Its open-world sandbox (35 times larger than in The Witcher 2) and nonlinear storyline will constitute the next step in the evolution of video RPGs. The game is eagerly anticipated and was featured on the cover of the March issue of Game Informer. This most widely circulated (8 million copies; nearly 34 million readers) and highly respected gaming monthly devoted 14 pages to The Witcher 3, hailing it as a "must-see next-generation RPG".

The new CD Projekt RED project was also recognized by Sony. At the official unveiling of PlayStation 4 in New York Sony announced that CD Projekt RED is among the developers whose games will be released for the new hardware platform in the near future. The Warsaw studio thus became the only Polish developer to join such well-known brands as Bethesda, EA, LucasArts, Ubisoft and Activision.

The Xbox One release of The Witcher 3 was announced at a special Microsoft conference in Los Angeles on the eve of E3 (Electronic Entertainment Expo). The event, which received global coverage, presented 19 key games scheduled for release on the Redmond giant's newest hardware platform. The Witcher 3 was the only RPG in this group. After the conference CD Projekt RED released a special video feed presenting - for the first time - footage from the actual game as well as a dedicated clip filmed in Scotland and titled "The Witcher 3: Wild Hunt - The Beginning" in which game developers reveal many details concerning the game and its development process.

The Witcher 3 was very well received at E3 - the most important gaming trade fair in the world. Even before the event commenced, the game was featured on the cover of the prestigious Edge magazine distributed free of charge to all visitors at the fair. Over the course of the three-day event (11-13 June) company staff manning the CD Projekt RED stand in the exclusive business zone conducted 25 presentations of the game, showcasing gameplay elements for approximately 1 000 spectators from 37 countries - members of the press and business partners. The game (scheduled for release in February 2014) received an average score of 9.11 (out of 10) in post-presentation surveys.

Below are some sample statements by international media representatives:

*"If I was asked to name one game that made me feel like we have crossed a technological threshold at E3 - that soon we will be able to play games which would not have been possible on the previous hardware generation; games which are truly different and not just prettier - I would single out The Witcher 3" - IGN,*

*"The Witcher 3 is incredible" - Gamestop,*

*"If CD Projekt delivers on its vision - which I'm confident they will - Wild Hunt will become one of the defining RPGs for the next generation of consoles" - Destructoid,*

*"It's been years since I felt so excited by an RPG" - PlayStation Universe.*

Altogether, The Witcher 3 garnered 58 awards and accolades at E3, including prestigious media awards from (among others) IGN, GameStop, Official Xbox Magazine and PC Gamer. At E3. Among the awards were: Best Game of E3, Most Anticipated Game of E3, Best RPG of E3 and the Popular Prize.

On 14 August 2013, one week before Europe's largest gaming fair (in Cologne), the Company published an online teaser trailer of The Witcher 3: Wild Hunt. The trailer was highly praised by the international media and the gaming community, and was viewed by significantly more people than the corresponding trailers for The Witcher 1 and 2.

In the third quarter of 2013 the Company carried on with the promotional campaign launched at E3, showcasing The Witcher 3 at key trade fairs and events, as well as in specialist media. In August 2013 the game was presented at Gamescom in Cologne - Europe's largest gaming fair, attracting more 340 thousand visitors. During this three-day event the Company's stand in the closed business

zone held presentations for nearly 900 media representatives. In September CD Projekt RED presented The Witcher 3 at the Tokyo Game Show, while in October the game was featured at Russia's largest gaming fair - Igromir, held in Moscow. Later that month CD Projekt RED participated in the Brasil Game Show in Sao Paulo, the largest such event in Latin America (approximately 150 thousand visitors).

### The Witcher 3: Wild Hunt - distribution agreements

The intensive marketing campaign, international media presence and numerous industry awards have enabled the Company to conclude distribution agreements on favorable terms. On 24 July 2013 CD PROJEKT S.A. signed an agreement with Warner Bros. Home Entertainment (WBHE), granting the company exclusive distribution rights for the boxed edition of The Witcher 3 in the USA, Canada and Mexico. WBHE will thus be responsible for distributing and marketing the game throughout North America. The agreement lists the rights and responsibilities of each party, broadly specifies how the game should be distributed and contains provisions governing the game's promotional campaign, including the minimum level of WBHE financial commitments to same. The distribution license is granted for a three-year period. In October the Company concluded a similar agreement with NAMCO BANDAI, granting the company manufacturing, distribution and sales rights for the PC, Xbox One and PlayStation 3 editions of The Witcher 3 in countries such as Andorra, Austria, Belgium, Cyprus, Denmark, France, Finland, Germany, Greece, Iceland, Ireland, the Duchy of Lichtenstein, Luxembourg, Malta, Monaco, the Netherlands, Norway, Portugal, San Marino, Spain, Switzerland, Sweden and the United Kingdom. A separate contract was signed with the Australian branch of NAMCO BANDAI, concerning promotional and advertising activities in Australia and New Zealand. In Poland the game will again be co-published by Agora and distributed by cdp.pl, a subsidiary of CD PROJEKT S.A.

The above-mentioned agreements do not cover digital distribution to which CD PROJEKT retains exclusive rights.

### The Witcher 3: Wild Hunt - awards and media presence

The intensive marketing campaign has already contributed to the project's success, even though the game is still under development. To-date the newest addition to The Witcher franchise has received over 90 awards and accolades from gaming media worldwide, including such prestigious awards as the best RPG and the best game of the show. In addition to the media, The Witcher 3 was also lauded by the fans, winning the Golden Joystick award in the Most Wanted category. Golden Joystick is among the most prestigious and oldest videogaming awards, dating back to 1983. In a popular vote fans from around the world deemed the upcoming release of The Witcher 3 the most eagerly anticipated gaming event, eclipsing the launch of PlayStation 4 and the release of Ubisoft's Watch Dogs. Even more remarkably, The Witcher 3 has topped numerous "most wanted" lists recently published by the largest and most respected gaming media, including IGN (popular vote), Gametrailers, NeoGAF, Eurogamer and The Escapist.

As of the publication date of this report The Witcher 3: Wild Hunt - currently scheduled for release in 2015 - has been featured in a large number of printed journals and online publications. Despite being a work in progress, the game has already appeared on the covers of the most widely circulated gaming magazines, including Game Informer (USA), Edge (UK), PC Games (Germany), PC Gamer (UK), CD Action (Poland), Canard PC (France) and PC Guru (Hungary).

### The Witcher - franchise development

In addition to developing and promoting The Witcher 3, CD PROJEKT also focused on expanding its catalogue of tie-in products. In August 2013, at the Gamescom fair in Cologne, the Studio announced a new board game - The Witcher Adventure Game, scheduled to appear in 2014. The game is the brainchild of the globally acclaimed developer of role playing and board games Ignacy Trzewiczek whose other works include Neuroshima and Stronghold. The retail version of The Witcher Adventure Game will be published in collaboration with Fantasy Flight Games, a global leader in the development and distribution of board games. In addition to the box set, the game will also be released digitally for the iPad and Android tablets. CD PROJEKT retains the exclusive distribution rights for all digital editions of the game.

In October 2014 the CD Projekt RED Studio announced that it had signed an agreement with the American publisher Dark Horse Comics concerning a new series of comics set in The Witcher universe. Dark Horse Comics is among the largest and most renowned publishers of comic books worldwide, managing such notable series as Star Wars, Alien, Predator, Conan and Buffy: Vampire Slayer. It also has substantial experience with videogame adaptations, having collaborated on franchises such as Halo and Mass Effect. Many Dark Horse comics have been spun off into successful motion pictures - The Mask, Virus, TimeCop, Mystery Men and R.I.P.D. to name just a few. The American release of the first volume of The Witcher is scheduled for 19 March 2014.

Following its business strategy the Company also aims to publish two smaller high-quality products tied to its major franchises. To this end in July 2013 the Company established a separate branch in Kraków. An entirely new development team (20 people) significantly expands the Studio's development capabilities. Initial releases by the Kraków studio are scheduled to follow the official debut of The Witcher 3.

Additionally, in line with its strategy, the Company has announced its plans to enter the mobile game market. The current generation of mobile devices is seen as sufficiently powerful to enable development of high-quality videogames, consistent with the Studio's mission statement. Over the last year, in collaboration with an external partner, the Studio has carried out work on a mobile multiplatform game, concurrently with its other development projects, i.e. The Witcher 3: Wild Hunt and Cyberpunk 2077. The new game will be one of two titles released in 2014 for mobile platforms (the other being the digital edition of The Witcher Adventure Game described above). More information about this project will be revealed in the coming months.

## ■ Global digital videogame distribution - summary

Global digital videogame distribution (i.e. distribution via online channels to purchasers from around the world, permitting clients to purchase games, remit payment and download the products to their personal computers) is carried out by GOG Ltd., proprietor of the digital distribution platform at GOG.com.

The platform was launched in September 2008. The initial mission of GOG.com was to revitalize major PC cult classics and offer them for sale to international clients with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia.

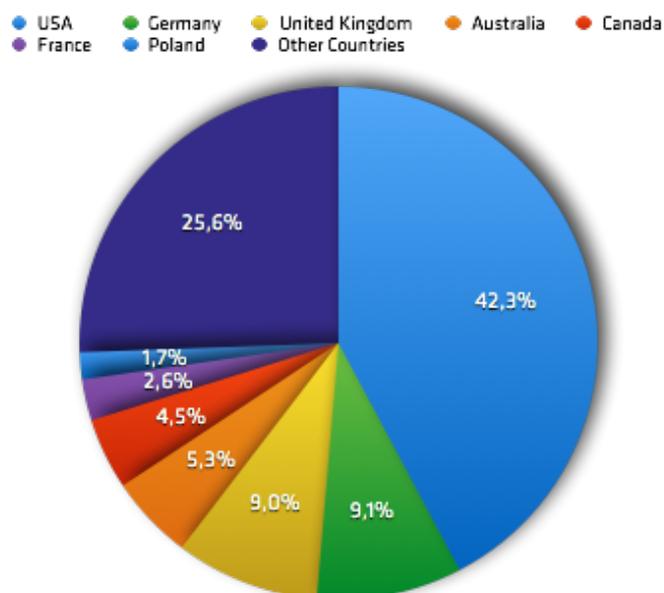


Fig. 1 GOG.com sales by territory between 1 January and 31 December 2013.

Source: GOG Ltd.

During its start-up period products were offered in two price categories - 5.99 and 9.99 USD. Over time the platform began adding newer games and fresh releases from independent developers. In 2012 the company introduced additional price categories: 14.99 USD, 19.99 USD, 29.99 USD and 34.99 USD. Since October 2012 GOG.com also carries games for Apple computers.

The Company catalogue includes over 700 games by over 180 publishers and developers, including such well-known brands as Electronic Arts, Activision, Ubisoft and Atari-Hasbro.

The key difference between GOG.com and its competitors (i.e. other independent platforms - Steam, Gamersgate, Gamestop etc.<sup>1</sup>) is its set of core principles. As a rule, the Company ensures that all of its games are free of cumbersome DRM measures. In addition, products offered on GOG.com are as fully featured as possible and usually include bonus content such as soundtracks, maps, wallpapers etc. GOG Ltd. also ensures full compatibility of its games with popular versions of the MS Windows operating system and provides technical support in case of installation problems. In its quest for customer satisfaction in December 2013 the Company instituted a novel returns policy.

Owing to the values described above GOG.com is experiencing steady growth and has become one of the most popular digital videogame distribution platforms in the world.

<sup>1</sup> In mid-2011 the global e-entertainment giant Electronic Arts launched its own digital distribution platform called Origin. Due to the relatively narrow overlap between GOG.com and Origin catalogues as well as the fundamental differences in operating principles between the two platforms CD PROJEKT is not in direct competition with Electronic Arts.

The Group uses GOG.com to market its own products, such as The Witcher and The Witcher 2: Assassins of Kings for the PC directly to end users.

## ■ Global digital videogame distribution - key events

Following its best year on record GOG Ltd. secured its status as the world's second most popular independent digital distributor of videogames and the most visible alternative to the current market leader in the indie game distribution segment - the Steam platform operated by Valve Corporation. In 2013 the company carried on with its business expansion strategy and continued work on two new, unannounced projects.

GOG Ltd. also continued to expand its portfolio. On 17 January 2013, slightly more than 4 years following the platform's launch, the company announced that it had exceeded the 500-game threshold, collaborating with over 100 business partners - developers and publishers from around the world. Throughout 2013 GOG.com released approximately 170 new titles, expanding its catalogue to over 660 items, which represents a growth rate of 37% compared to 1 January 2013. 250 games are offered for Apple computers while 120 of the available titles are indie releases. Nearly half of the indie games carried on GOG.com are priced above the standard thresholds of 5.99/9.99 USD. As of the publication date of this report GOG.com carries more than 700 titles from approximately 180 partners. In 2013 the company signed distribution agreements with (among others) inXile Ent., Polytron Corporation, Stardock Ent. and Night Dive Studios (System Shock 2).

Between 1 January and 31 December 2013, i.e. in its sixth year of operation, the GOG.com user base grew by approximately 80%.

Towards the end of Q1 2013 GOG Ltd. paid out a dividend in the amount of 1.5 million EUR to its sole shareholder - CD PROJEKT S.A. GOG Ltd. is not currently in debt due to outstanding credits and loans. At the end of June 2013 (following the dividend payout) the company held 16 427 thousand PLN in cash and cash equivalents.

On 14 February 2013 GOG.com began distributing the classic FPS System Shock 2 - #1 on the clients' "most wanted" list, with over 34 thousand votes. The game was released under a time-restricted exclusive license along with its soundtrack, concept art, area maps, an interview with Ken Levine and other bonus content. It proved to be one of the most successful releases on GOG.com in the past year.

In May GOG.com was named one of the 50 best websites in the world by the prestigious TIME magazine, providing a huge boost to the reputation of this young digital distribution platform. It should be noted that only two game-related services other than GOG.com appeared on the list. TIME decided to recognize GOG.com for its support for independent developers and firm anti-DRM policy, helping users access their legally purchased products.

Another notable success (in terms of sales) was this year's summer sale, which lasted from 18 June to 5 July. During this time GOG.com discounted more than 500 games from its catalogue and additionally offered the classic action RPG Torchlight free of charge throughout the first two days of the event. Over this 48-hour period platform users acquired nearly 2.5 games and the platform itself reported 1.1 unique visits. The event proved hugely successful. Friday 21 was the best day in GOG.com's history in terms of net sales, surpassing all previous promotional campaigns, including those organized during busy holiday periods.

In August 2013 GOG revealed its new project: extended support for indie game developers. The company launched a dedicated portal at [www.gog.com/indie](http://www.gog.com/indie) where game creators may submit their games for evaluation. Results are available within two weeks of submission. In case of a favorable outcome, the company extends financial and marketing support to the game's developers.

The GOG.com support scheme is distinguished by its procedural clarity:

- The game is evaluated within two weeks of submission;
- The distributor may choose to advance royalty payments to the developer, providing funds which can be used to finalize development;
- The profit split between the publisher and the developer follows clear rules (70/30 or 60/40 until repayment of advances).

The goal of this initiative is to ensure a steady influx of high-quality indie games for GOG.com. Over 700 submissions have been made since the launch of the project, with the first finished games appearing before the end of 2013.

Towards the end of the year GOG.com instituted a groundbreaking returns policy with a "money back" guarantee. Clients who are not satisfied with the product they have purchased may return them within 14 days of purchase and obtain a full refund. If the game fails to work on the user's computer and technical support is unable to resolve the problem the refund can be obtained within a month of purchase. Even though GOG games are released with no DRM and the entire system is based on trust, the ratio of returns has not exceeded 0.002%.

Following an exceptionally successful first half of the year, with a substantial increase in sales and numerous aggressive promotional and marketing campaigns, the second half of 2013 was less hectic. During this time the company devoted most of its resources to future upgrades and extensions scheduled for release in 2014. Among the projects currently under development is an innovative technology for optional use of networking facilities in new games without violating the “DRM-free” policy.

GOG.com - 2013 in numbers:

- 80% increase in number of users between 1 January and 31 December 2013,
- 1.1 unique visits in a 48-hour period between 18 and 20 June 2013,
- approximately 175 suppliers,
- 660 games in the catalogue (37% year-to-year growth), including over 250 releases for Apple computers and over 120 indie games,
- one of the 50 best websites in the world according to the prestigious TIME magazine.

## ■ Other activities

CD PROJEKT S.A. is the proprietor of immovable property located in Nowy Sącz at Nawojowska 118, which is rented out to local businesses. Additionally, as the holding company of the CD PROJEKT Capital Group, it coordinates the Group’s activities with a view towards maximizing efficiency and exploiting synergies.

In 2013 CD PROJEKT S.A. collected the following dividends from its subsidiaries:

- from cdp.pl - 7 200 thousand PLN,
- from GOG Ltd. - 1 500 thousand EUR (PLN equivalent)

In the final quarter of 2013 the Group performed an evaluation of the available credit options. The Group’s activities in this regard helped reduce the cost of financing, as evidenced by a significant decrease in bank commitment fees associated with prolongation of selected credit agreements.

## II. Information concerning key products and services offered by the Capital Group in 2013

With regard to the activity segments described in the previous section, the CD PROJEKT Capital Group obtained the following sales revenues in 2013:

PLN thousands	Distribution and publishing in Poland	Videogame development	Global digital videogame distribution	Other	Consolidation adjustments (incl. adjustments from business combinations)	Total
<b>Sales revenues</b>	<b>61 255</b>	<b>23 579</b>	<b>63 806</b>	<b>6 473</b>	<b>(12 941)</b>	<b>142 172</b>
<i>Revenues from sales of products</i>	-	23 208	-	-	(1 219)	21 989
<i>Revenues from sales of services</i>	3 571	-	63 806	6 471	(11 628)	62 220
<i>Revenues from sales of goods and materials</i>	57 684	371	-	2	(94)	57 963

In 2013 the key products and services offered by the Group can be assigned to activity segments in the following manner:

## ■ Distribution and publishing in Poland

cdp.pl Sp. z o.o., which is a subsidiary of the CD PROJEKT Capital Group, publishes and distributes videogames for the PC and gaming consoles, as well as DVD and Blu-ray motion pictures. Products are targeted at customers from various age brackets and the company’s catalogue includes a wide range of premium and collector’s editions. Unit prices range from 19.90 PLN to over 200 PLN (for selected console games).

Due to the specific character of cdp.pl's operations, part of the company's revenue stream comes from sublicensing videogames and leasing publishing/distribution services to third parties.

Since 2012 cdp.pl also distributes card and board games (Magic: The Gathering, RISK, Dungeons&Dragons etc.) within Poland. In October 2012 the Company added a new distribution channel and began selling digital products via its dedicated online platform at [www.cdp.pl](http://www.cdp.pl). As of the publication date of this report the [www.cdp.pl](http://www.cdp.pl) catalogue comprises over 3800 items - videogames, motion pictures, audiobooks, e-books and e-comics.

## ■ Videogame development

In 2013 the primary source of revenues in the videogame development segment consisted of royalty payments from distributors of The Witcher 2: Assassins of Kings for the PC, Apple and Xbox 360. Additionally, the Company carried on with sales of the first part of The Witcher which still attracts customer attention.

The Company also obtained revenue from sales of tie-in products exploiting The Witcher trademark.

Throughout 2013 and up until the publication date of this report the Company has been collecting advance royalty payments associated with distribution and licensing contracts for The Witcher 3. These payments are not, however, recognized as Company revenues in 2013.

The Company estimates that approximately 7 million copies of The Witcher games have been sold worldwide as of mid-February 2014.

As part of the Studio's ongoing activities, a proprietary multiplatform game development toolkit is being created. This toolkit may present a future source of revenues, should the Company choose to license it to third parties.

The toolkit consists of two main elements:

- a so-called game engine which is a complex software package responsible for proper execution of the game and visualization of its content;
- a game editor which facilitates game development - designing and prototyping game elements, assembling them into a coherent whole and testing the final product.

The third iteration of the proprietary REDengine, completed in 2013, supports development of groundbreaking nonlinear storylines set in an open sandbox. The engine also comprises a new animation subsystem capable of visualizing realistic emotions, cinematic scenery and complex character interactions. REDengine makes use of 64-bit HDR rendering, ensuring cutting-edge visuals along with realistic, precise lighting and a wide array of postprocessing effects. It is compatible with all modern hardware platforms, including eighth-generation consoles (PlayStation 4 and Xbox One).

## ■ Global digital videogame distribution

The global digital videogame distribution segment is the prime focus of activities of GOG Ltd. which operates a proprietary distribution platform at [www.gog.com](http://www.gog.com), distributing DRM-free videogames. All games carried on [www.gog.com](http://www.gog.com) can be downloaded to the clients' personal devices and freely used with no need for an Internet connection. The GOG Ltd. mission statement also emphasizes worldwide availability of all products from its catalogue with no territorial restrictions.

The Company offers classic videogames at modest prices as well as newer releases in higher price brackets. In 2013 particular attention was devoted to the increasingly more popular indie videogame segment. GOG Ltd. also distributes games for Apple computers, with over 250 such products currently available.

Altogether, as of the publication date of this report, the GOG Ltd. catalogue comprises over 700 games from a wide variety of publishers - from major studios all the way to independent developers.

## ■ Other activities

Activities belonging to this segment consist mainly of intragroup services offered by the parent company to its subsidiaries. Additionally, in 2013 the Company obtained revenue from leasing out commercial office and storage space belonging to its immovable property in Nowy Sącz.

### III. Sales markets, customers and suppliers of the Capital Group

The geographical breakdown of sales revenues obtained by the Capital Group is as follows:

PLN thousands	01 Jan 2013 - 31 Dec 2013		01 Jan 2012 - 31 Dec 2012	
	PLN	%	PLN	%
Domestic sales	62 072	43.7%	*75 567	46.1%
Exports, including:	80 100	56.3%	88 473	53.9%
<i>EU member states</i>	25 188	17.7%	26 684	16.3%
<i>Former USSR countries</i>	828	0.6%	1 392	0.8%
USA	43 135	30.3%	51 183	31.2%
Asia	2 093	1.5%	2 277	1.4%
Others	8 856	6.2%	6 937	4.2%
<b>Total</b>	<b>142 172</b>	<b>100.0%</b>	<b>164 040</b>	<b>100.0%</b>

\* The difference in the amount of 768 thousand PLN represents the Polish revenues of GOG Ltd., incorporated in Cyprus.

#### ■ Distribution and publishing in Poland

cdp.pl Sp. z o.o. is an innovative distributor of videogames, DVD/Blu-ray motion pictures and card/board games, operating on the domestic market. The company markets its products using traditional retail distribution channels as well as through its proprietary digital distribution platform at cdp.pl.

Retail products sold by cdp.pl are manufactured on the basis of licensing agreements with copyright holders or purchased (imported) in a completed state.

The Company cooperates with such renowned publishers and developers as Activision Blizzard (concerning Blizzard products), Astragon, Codemasters, Disney Interactive Studios, Walt Disney Studios Home Entertainment, Giant Software, Sega and Wizards of the Coast (member of the HASBRO group).

Disc manufacturing and printing tasks are subcontracted to local partners (GM Records, Takt, Printmax) or external suppliers (Sony DADC, Technicolor).

In the scope of 2013 trade activities, cooperation between cdp.pl and Media Saturn Holding generated revenues exceeding 10% of the consolidated sales revenues of the entire Capital Group. Net sales to companies affiliated with Media Saturn Holdings amounted to 15 486 thousand PLN, representing 10.9% of the consolidated sales revenues of the CD PROJEKT Group.

Media Saturn Holding is not not affiliated with cdp.pl Sp. z o.o. or with CD PROJEKT S.A.

In 2013 the largest supplier of products to cdp.pl was Cooperatie Activision Blizzard International U.A. (which distributes, among others, the popular action RPG Diablo III). Throughout the year cooperation with Cooperatie Activision Blizzard International U.A. generated sales exceeding 10% of the consolidated sales revenues of the entire Capital Group - total sales amounted to 14 729 thousand PLN, representing 10.4% of the consolidated sales revenues of the CD PROJEKT Group.

Cooperatie Activision Blizzard International U.A. is not affiliated with cdp.pl Sp. z o.o. or with CD PROJEKT S.A.

#### ■ Videogame development

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 consolidated sales revenues of the Capital Group in 2013. Altogether, sales to Valve Corporation amounted to 17 143 thousand PLN which constitutes 12.1% of the consolidated sales revenues of the CD PROJEKT Group.

Valve Corporation is not affiliated with CD PROJEKT S.A. or its subsidiaries.

The videogame development process relies on external tools and solutions; this, however does not translate into significant concentrations of supplier dependence. In the videogame development segment no single supplier provided goods whose value would exceed 10% of the Group's consolidated sales revenues.

## ■ Global digital videogame distribution

Since its founding GOG Ltd. has managed to acquire a strong position on the global digital distribution market and is now counted among the foremost digital distribution platforms in the world. GOG Ltd. distributes games using online channels directly to end users throughout the world. This process does not result in any significant concentrations of customer dependence.

In 2013 games sold by GOG Ltd. were licensed from a number of partners. No single partner provided goods whose value would exceed 10% of the Group's consolidated sales revenues.

## IV. Disclosure of significant agreements affecting the Group (except credit and loan agreements) concluded in 2013 and up until the publication date of this report

In Current Report No. 18/2013 of 25 July 2013 the Management Board of the Company disclosed a significant agreement concluded with Warner Bros. Home Entertainment (WBHE).

The agreements grants WBHE an exclusive license to use The Witcher 3: Wild Hunt for the PC, Microsoft Xbox One and Sony PlayStation 4 (as well as for earlier generations of Xbox and PlayStation consoles, should such versions be released in the future) insofar as it is necessary to ensure distribution of boxed versions of the Game by WBHE in the United States, Canada, Mexico and their dependent territories. The agreement lists the duties of each party, broadly specifies how the game should be distributed and contains provisions governing the game's promotional campaign, including the minimum level of WBHE financial commitments to same.

According to the agreement WBHE acquires the right to produce, distribute and sell box sets of the Game throughout the specified territory over a period of 3 years following the game's official release.

The Company's compensation due to the license grant will be estimated on the basis of WBHE's revenues less the agreed-upon distribution fees and promotional expenses. The agreement also lays out the mechanism for creation and dissolution of provisions. Financial obligations will be settled on a quarterly basis, according to sales reports prepared by WBHE.

In Current Report No. 23/2013 of 28 October 2013 the Management Board of the Company disclosed a significant agreement concluded with Namco Bandai Games Europe S.A.S. headquartered in France. The agreement grants Namco an exclusive license to use The Witcher 3: Wild Hunt for the PC, Microsoft Xbox One and Sony PlayStation 4 (as well as for earlier generations of Xbox and PlayStation consoles, should such versions be released in the future) insofar as it is necessary to ensure distribution of the boxed version of the game in Andorra, Austria, Belgium, Cyprus, Denmark, France, Finland, Germany, Greece, Iceland, Ireland, the Duchy of Lichtenstein, Luxembourg, Malta, Monaco, the Netherlands, Norway, Portugal, San Marino, Spain, Switzerland, Sweden and the United Kingdom. The agreement lists the duties of each party, broadly specifies how the game should be distributed and contains provisions governing the game's promotional campaign, including the minimum level of Namco financial commitments to same.

According to the agreement Namco acquires the right to produce, distribute and sell box sets of the game throughout the specified territory over a period of 3 years following the game's official release.

The Company's compensation due to the license grant will be estimated on the basis of Namco's revenues less the agreed-upon distribution fees and promotional expenses. The agreement also lays out the mechanism for creation and dissolution of provisions. Financial obligations will be settled on a quarterly basis, according to sales reports prepared by Namco.

In Current Report No. 27/2013 of 30 December 2013 the Management Board of the Company disclosed that on 31 December 2013 an agreement was signed between CD PROJEKT S.A. and cdp.pl concerning the sale of the CD PROJEKT brand name. The sale was concluded following remittance of the second batch of the agreed-upon payment in the amount of 9 182 thousand PLN, as a result of which on 30 December 2013 the parent company became the sole proprietor of the aforementioned brand name.

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

Each subsidiary of the CD PROJEKT group performs ongoing assessment of the development opportunities concerning its products and services, and undertakes R&D activities as appropriate.

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.

CD Projekt RED is currently working on REDengine 3, the third iteration of its proprietary development platform for innovative, visually appealing RPGs. In 2013 - much like in the preceding year - the Studio invested significant resources into upgrading the engine and making sure it meets the demands of the newest generation of consoles (Sony PlayStation 4 and Microsoft Xbox One) as well as modern gaming PCs. Recent accomplishments include full native support for 64-bit architectures and a ground-up reimplementing of the terrain rendering subsystem, ensuring even more realistic graphics together with more efficient use of resources. In order to increase the performance of REDengine 3 while also increasing the visual appeal of its graphics the team implemented a new rendering pipeline (Physically Based Rendering - PBR) and improved memory management mechanisms. Pipelining support enables REDengine 3 to provide fluid gameplay with no interruptions caused by loading additional game content. Player immersion is further enhanced by a novel weather system, advanced sea texture rendering algorithms and a dedicated facial feature renderer which ensures that characters are capable of talking and exhibiting realistic emotions. Together with support for inertial physics (modeling objects such as necklaces, pendants etc.) and real-time mesh transformation (enabling e.g. monster morphing) the progress achieved throughout 2013 and in the first quarter of 2014 firmly places The Witcher 3: Wild Hunt at the technological forefront of modern video RPGs.

The multiplatform projects currently under development at the Studio, based on next-generation solutions provided by REDengine 3, will showcase the full range of the engine's capabilities in rendering vast game worlds and nonlinear storylines.

Regarding the activities of cdp.pl in 2013 much effort has been devoted to expanding the [www.cdp.pl](http://www.cdp.pl) digital distribution platform. Key upgrades concerned new product categories (e-books, audiobooks and motion pictures), a redesign of the product browser and performance optimization. The introduction of e-books (March 2013) and audiobooks (October 2013) required implementation of digital watermarking components and integration with external suppliers of digital content.

In June 2013 [www.cdp.pl](http://www.cdp.pl) began distributing HD movies in the *download to own* model, which - contrary to VOD (*video on demand*) - gives clients unrestricted access to the purchased content. The downloader which enables users to download files from the platform was transformed into the OPOS application, enabling offline playback of videos secured with Microsoft PlayReady DRM. The platform was also adapted to support online streaming of video content using Microsoft Silverlight.

Adding new product categories necessitated a redesign of the product browser and GUI layout. Real-time filtering and sorting capabilities were expanded and the search tool was upgraded. In April 2013 an intelligent personalized recommendation system was deployed, in parallel with performance optimizations enabling the platform to serve more clients concurrently.

With regard to the global videogame distribution segment which is the primary area of activity of GOG Ltd., development work focused on improving the performance of the GOG.com platform and extending its set of end-user features. Platform upgrades are periodically rolled out as part of the Company's ongoing activities.

Two notable features were deployed in 2013. The first concerns support for potential business partners - developers of indie games. Prospective collaborators may submit their games for evaluation at [www.gog.com/indie](http://www.gog.com/indie). The evaluation is carried out within 2 weeks and following a positive outcome the developer is offered financial and marketing support. The other important novelty is a returns policy instituted towards the end of 2013. Any customer who is not satisfied with their purchase may return the product within 14 days and obtain a full refund.

In 2013 GOG Ltd. continued work on long-term projects associated with further expansion of the [www.gog.com](http://www.gog.com) distribution platform, in line with the Company's goal to "*liberate the world from DRM, restore freedom of choice and promote the concept of ownership of purchased games*". The first of two large-scale projects will be revealed to selected partners at a closed business meeting held in conjunction with GDC (Game Developers Conference) in San Francisco in March 2014.

# 2

## Financial standing of the CD PROJEKT Capital Group - overview

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

## ■ Consolidated statement of financial position

PLN thousands	Note	31 Dec 2013	31 Dec 2012
<b>FIXED ASSETS</b>	-	<b>95 047</b>	<b>94 202</b>
<i>Tangible assets</i>	12	11 187	10 755
<i>Intangible assets</i>	13	36 403	34 801
<i>Goodwill</i>	14	46 417	46 417
<i>Deferred income tax assets</i>	6	755	1 980
<i>Other fixed assets</i>	18	285	249
<b>CURRENT ASSETS</b>	-	<b>122 588</b>	<b>108 690</b>
<i>Inventories</i>	22	51 966	33 367
<i>Trade receivables</i>	24	17 064	31 247
<i>Current income tax receivables</i>	-	901	-
<i>Other receivables</i>	25	3 856	4 635
<i>Other financial assets</i>	-	805	855
<i>Prepaid expenses</i>	26	8 312	11 720
<i>Cash and cash equivalents</i>	27	39 684	26 866
<b>TOTAL ASSETS</b>	-	<b>217 635</b>	<b>202 892</b>

PLN thousands	Note	31 Dec 2013	31 Dec 2012
<b>EQUITY</b>	-	<b>167 368</b>	<b>151 530</b>
<i>Equity attributable to shareholders of the Parent Company</i>	-	<b>166 500</b>	<b>151 530</b>
<i>Share capital</i>	28	94 950	94 950
<i>Supplementary capital, incl. sales of shares above nominal price</i>	29	112 438	105 200
<i>Other reserve capital</i>	30	989	551
<i>Exchange rate differences</i>	-	(790)	(837)
<i>Retained earnings</i>	31	(55 987)	(76 459)
<i>Net profit (loss) for the reporting period</i>	-	14 900	28 125
<i>Minority share capital</i>	-	<b>868</b>	-
<b>LONG-TERM LIABILITIES</b>	-	<b>5 276</b>	<b>7 604</b>
<i>Credits and loans</i>	33	-	-
<i>Other financial liabilities</i>	34,40	177	235
<i>Deferred income tax liabilities</i>	6	3 686	6 658
<i>Deferred revenues</i>	41	1 376	679
<i>Provisions for employee benefits and similar liabilities</i>	42	37	26
<i>Other provisions</i>	43	-	6
<b>SHORT-TERM LIABILITIES</b>	-	<b>44 991</b>	<b>43 758</b>
<i>Credits and loans</i>	33	21	4 745
<i>Other financial liabilities</i>	34	260	277
<i>Trade liabilities</i>	36	24 738	33 930
<i>Liabilities from current income tax</i>	-	1 270	184
<i>Other liabilities</i>	37,38	18 218	4 020
<i>Deferred revenues</i>	41	211	197
<i>Provisions for employee benefits and similar liabilities</i>	42	145	238
<i>Other provisions</i>	43	128	167
<b>TOTAL LIABILITIES</b>	-	<b>217 635</b>	<b>202 892</b>

As of 31 December 2013 the major component of the Group's tangible assets, jointly valued at 11 187 thousand PLN, was buildings and structures, with a total listed value of 7 968 thousand PLN. This includes the storage and office space belonging to the immovable property in Nowy Sącz at Nawojowska 118 which is owned by CD PROJEKT S.A.

Regarding intangible assets, key components were the CD PROJEKT brand name, valued at 17 095 thousand PLN, and The Witcher trademark, valued at 15 104 thousand PLN. Intangible assets also included computer software owned or licensed by the Group.

The goodwill listed in the consolidated financial statement of the CD PROJEKT Capital Group for 2013 was valued at 46 417 thousand PLN as of the balance sheet date. This figure did not change in relation to the preceding year. Goodwill is defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including conditional liabilities) of the controlled entity on the date of acquisition.

Deferred income tax assets were valued at 755 thousand PLN as of 31 December 2013 which is 1 225 thousand PLN less than the corresponding value from the preceding year. The main reason behind the change was the decrease (by 9 182 thousand PLN) in negative temporary differences due to losses deductible from future income of cdp.pl associated with sales to CD PROJEKT S.A. Applying a CIT rate of 19% results in a corresponding decrease in deferred income tax assets by 1 744 thousand PLN.

The total value of inventories at the close of 2013 was 51 966 thousand PLN which represents a 56% increase compared to the preceding year. The majority of this figure was associated with inventories held by CD PROJEKT S.A. (valued at 44 514 thousand PLN) and comprising chiefly half-finished goods and videogames under development (book value: 40 267 thousand PLN). This value increased by 23 315 thousand PLN in comparison with the preceding year as a result of ongoing development of videogames, particularly the Studio's core projects: The Witcher 3: Wild Hunt and Cyberpunk 2077. Of note is the significant decrease in the value of finished products in the videogame development segment (from 9 311 thousand PLN to 4 193 thousand PLN). This figure covers production costs of The Witcher 2, discounted throughout 2013 in proportion to the game's sales. The aggregate value of inventories belonging to the Issuer's Capital Group also covers inventories held by cdp.pl Sp. z o.o., valued at 7 452 thousand PLN (compared to 7 006 thousand PLN at the close of 2012).

The Group's aggregate trade receivables consist of receivables incurred by each individual subsidiary - chiefly cdp.pl, whose trade receivables were valued at 19 117 thousand PLN at the end of 2013. This figure includes consolidation adjustments in the amount of 9 182 thousand PLN associated with sale of the CD PROJEKT brand name to CD PROJEKT S.A. Overall, cdp.pl trade receivables decreased by 27% in 2013. The other major reason behind the change in total trade receivables within the Group was the decrease in CD PROJEKT S.A. trade receivables by 9 830 thousand PLN, to 3 556 thousand PLN (73% reduction). The relatively high value of 2012 trade receivables in the videogame development segment was due to receipt of licensing reports for Q4 2012, which included settlement of provisions created by the Company's foreign distributors in conjunction with the release of The Witcher 2: Assassins of Kings - Extended Edition. The overall decrease in receivables is due to the inflow of payments, which positively affects cash flows within the Company and the Group. Additionally, the reported balance of trade receivables includes receivables incurred by GOG Ltd., valued at 3 862 thousand PLN as of 31 December 2013 (a slight reduction compared to the preceding year).

Other receivables, valued at 3 856 thousand PLN at the close of 2013, include tax liabilities (except corporation tax) in the amount of 3 298 thousand PLN. The total value of other receivables decreased by 17% in comparison with the preceding year.

The "Other financial assets" line item consists mostly of PKO retirement fund shares purchased as a temporary means of allocating surplus cash.

The consolidated value of prepaid expenses, i.e. 8 312 thousand PLN, represents a 29% decrease compared to the close of the preceding year (i.e. by 3 408 thousand PLN). The final value of this item and the reported decrease was influenced by the reduction of prepaid expenses in cdp.pl by 3 320 thousand PLN (to 5 261 thousand PLN) since the end of 2012. The majority of prepaid expenses reported by cdp.pl concern license payments for published products discounted over time. The decrease in prepaid expenses is therefore due to a change in the composition of the cdp.pl portfolio, with a greater fraction of sales involving imports as opposed to licensed products. Additionally, the consolidated prepaid expenses include expenses attributable to the global digital videogame distribution segment in the amount of 2 668 thousand PLN, which represents a 7% decrease compared to the preceding year.

Cash and cash equivalents increased significantly on a year-to-year basis, by 12 818 thousand PLN (48% increase). The total value of the Group's cash assets at the end of 2013 was 39 684 thousand PLN of which 20 002 thousand was held by CD PROJEKT S.A. while 16 427 thousand was held by GOG Ltd.

Throughout 2013 fixed assets increased by 845 thousand PLN, i.e. by 1%. Over the same period current assets grew by 13 898 thousand PLN, i.e. by 13%, mostly as a result of ongoing development (aggregated with inventories in the videogame development segment) as well as due to an increase in the amount of available cash and cash equivalents. As of 31 December 2013 fixed assets accounted for 44% of the Group's total assets, with the remaining 56% representing current assets.

77% of the Group's total liabilities were due to equity while the remaining 23% comprised long- and short-term liabilities. This represents further improvement (from the financial security standpoint) compared to the preceding year where the corresponding figures were 75% and 25% respectively. The Group's equity increased mostly as a result of the positive financial result in 2013, generating 14 900 thousand PLN in additional equity.

Deferred income tax liabilities, which are aggregated with long-term liabilities of the Group, decreased by 45% and amounted to 3 686 thousand PLN at the end of 2013. This reduction was the result of a decrease in taxable temporary differences requiring recognition of deferred tax provisions due to the aforementioned disclosure of the CD PROJEKT brand name (which was purchased by CD PROJEKT S.A. from its subsidiary cdp.pl) as well as a decrease in uninvoiced revenues and returns in the videogame development segment compared to the end of 2012. A detailed breakdown of taxable temporary differences requiring recognition of deferred tax provisions can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group.

Deferred revenues increased from 679 thousand PLN to 1 376 thousand PLN, mostly due to subsidies received by the Group.

In 2013 the Group repaid all outstanding credits due to BRE Bank S.A. (currently operating under the name mBank S.A.), which amounted to 4 745 thousand PLN at the end of 2012 (including credit card charges). The figure listed in the "credits and loans" line item at the end of 2013 (21 thousand PLN) corresponds to outstanding charges on credit cards used by Group members in day-to-day operations.

As of 31 December 2013 the Group's trade liabilities equaled 24 738 thousand PLN and were chiefly attributable to increased holiday-period sales at cdp.pl (16 124 thousand PLN) and GOG Ltd. (8 475 thousand PLN). Total trade liabilities at the end of 2013 were lower than the corresponding figure at the end of 2012 by 9 192 thousand PLN (27% decrease).

Other liabilities increased significantly throughout 2013 (by 14 198 thousand PLN, reaching a total of 18 218 thousand PLN). This change was mostly attributable to the videogame development sector which accounted for 16 180 thousand PLN in other liabilities. In 2013 the Company began negotiating licensing and distribution agreements concerning The Witcher 3: Wild Hunt with partners representing key territories. Commercial interest in the upcoming release enabled the Company to conclude 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 before the end of 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 great interest in The Witcher 3: Wild Hunt on the part of the Company's business partners. In 2014 the Company continues to sign distribution and licensing agreements with partners representing additional territories.

The consolidated statement of financial position of the Capital Group with regard to its individual activity segments can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2013.

## ■ Consolidated profit and loss account

PLN thousands	Note	01 Jan 2013 - 31 Dec 2013	01 Jan 2012 - 31 Dec 2012
Sales revenues	1,2	142 172	164 040
<i>Revenues from sales of products</i>	-	21 989	41 641
<i>Revenues from sales of services</i>	-	62 220	46 756
<i>Revenues from sales of goods and materials</i>	-	57 963	75 643
Cost of products, goods and materials sold	3	88 827	93 264
<i>Cost of products and services sold</i>	-	46 029	40 954
<i>Value of goods and materials sold</i>	-	42 798	52 310
Gross profit (loss) from sales	-	53 345	70 776
<i>Other operating revenues</i>	4	3 420	3 056
<i>Selling costs</i>	3	22 377	21 597
<i>General and administrative costs</i>	3	12 856	13 063
<i>Other operating expenses</i>	4	6 658	10 805
Operating profit (loss)	-	14 874	28 367
<i>Financial revenues</i>	5	2 995	1 887
<i>Financial expenses</i>	5	679	1 967
Profit (loss) before tax	-	17 190	28 287
Income tax	6	2 339	162
Net profit (loss) from continuing operations	-	14 851	28 125
Net profit (loss)	-	14 851	28 125
<i>Net profit (loss) attributable to minority interests</i>	-	(49)	-
<i>Net profit (loss) attributable to equity holders of parent entity</i>	-	14 900	28 125
Net earnings per share (in PLN)			
<i>Basic for the reporting period</i>	8	0.16	0.30
<i>Diluted for the reporting period</i>	8	0.16	0.30
Net earnings per share from continuing operations (in PLN)			
<i>Basic for the reporting period</i>	8	0.16	0.30
<i>Diluted for the reporting period</i>	8	0.16	0.30

## ■ Consolidated statement of comprehensive income

PLN thousands	Note	01 Jan 2013 - 31 Dec 2013	01 Jan 2012 - 31 Dec 2012
Net profit (loss)	10	14 851	28 125
<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>	-	47	(559)
<i>Differences from rounding to PLN thousands</i>	-	(1)	1
<i>Other comprehensive income which will not be entered as profit (loss)</i>	-	-	-
Total comprehensive income	-	14 897	27 567
Total comprehensive income attributable to minority interests	-	(49)	-
Total comprehensive income attributable to equity holders of parent entity	-	14 946	27 567

In terms of sales revenues, 2012 was the best year on record for the CD PROJEKT Capital Group. A large portion of the Group's revenues was generated by the release of The Witcher 2: Assassins of Kings for the Xbox 360, affecting two activity segments: videogame development and distribution and publishing activities in Poland. Revenues generated in 2012 were also greater than the corresponding figures for 2011 (136 210 thousand PLN, mostly due the successful release of The Witcher 2 for the PC). Although - in contrast to the preceding years - there were no major releases in 2013, the Group's sales revenues in 2013 were still greater than in 2011, totaling 142 172 thousand PLN. Due to the aforementioned lack of new releases sales to external clients in the videogame development segment decreased from 44 862 thousand PLN to 22 286 PLN, while sales attributable to distribution and publishing activities in Poland decreased from 75 889 thousand PLN to 61 235 thousand PLN. On the other hand, the global digital videogame distribution segment achieved a marked increase in sales - from 42 096 thousand PLN to 57 634 thousand PLN. Following an exceptionally successful first half of the year, with substantial growth and numerous aggressive promotional and marketing campaigns, the second half of 2013 was less hectic. During this time the company devoted most of its resources to future upgrades and extensions scheduled for release in 2014.

A detailed revenue report broken down into activity segments is attached below.

Altogether, 56.3% of all revenues obtained in 2013 were generated by exports while 43.7% corresponded to domestic sales.

On the side of expenses, the aggregate cost of products, goods and materials sold was 88 827 thousand PLN and consisted mostly of costs borne by cdp.pl Sp. z o.o. (43 691 thousand PLN) and GOG Ltd. (39 805 thousand PLN), as well as individual costs attributable to the videogame development segment (6 337 thousand PLN). Intragroup sales in the amount of 7 335 thousand PLN - mostly associated with services rendered by GOG Poland Sp. z o.o. to GOG Ltd. and by CD PROJEKT S.A. to its subsidiaries - were subject to consolidation eliminations.

The ratio of gross profit to total sales revenues in 2013 was 38%, compared to 43% in 2012. The corresponding change in the margin coefficient resulted from changes in the Group's sales profile, i.e. reduction of revenues attributable to videogame development (which is the Group's most profitable activity segment) coupled with an increase in revenues attributable to the global digital distribution segment, which is characterized by a higher cost-to-revenue ratio.

Selling costs comprise advertising and marketing costs incurred in each activity segment, marketing bonuses resulting from contracts between cdp.pl Sp. z o.o. and retailers, and payments for external services associated with sales. Total selling costs (22 377 thousand PLN) increased by 4% in comparison with the preceding year.

In 2013 the Group's aggregate administrative costs were 12 856 thousand PLN, which is slightly less than the corresponding figure for 2012. This item chiefly comprises employee compensation and payments for bought-in services.

Other operating expenses amounted to 6 658 thousand PLN, of which 5 748 thousand PLN is attributable to distribution and publishing activities in Poland. Altogether, other operating expenses were 38% lower than in the preceding year, corresponding to a decrease by 4 147 thousand PLN.

Other operating revenues (3 420 thousand PLN) were 12% lower than in 2012. These revenues chiefly comprise write-off overdue liabilities, dissolution of provisions for extinguished liabilities, damages collected, dissolution of liability write-downs and subsidies received by the Group.

Financial revenues amounted to 2 995 thousand PLN in 2013, which is 1 108 thousand PLN higher than in 2012 (59% increase). This figure consists of the surplus from positive exchange rate differences (1 981 thousand PLN), interest collected on bank deposits and other forms of financial revenue.

Financial expenses decreased by 1 288 thousand PLN (i.e. by 65%) and amounted to 679 thousand PLN, mostly from bank fees (515 thousand PLN). This significant reduction in the Group's financial expenses was caused by more favorable credit agreements associated with an overall decrease in the Group's outstanding credit, as well as reduced interest on factoring agreements which were phased out in the "distribution and publishing in Poland" activity segment throughout 2013.

The following table illustrates the breakdown of sales revenues, expenses and the Group's financial result into individual activity segments:

PLN thousands	Distribution and publishing in Poland	Videogame development	Global digital videogame distribution	Other	Consolidation adjustments (incl. eliminations from business combination)	Total
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					s)	
Sales revenues	61 255	23 579	63 806	6 473	(12 941)	142 172
<i>Revenues from sales of products</i>	-	23 208	-	-	(1 219)	21 989
<i>Revenues from sales of services</i>	3 571	-	63 806	6 471	(11 628)	62 220
<i>Revenues from sales of goods and materials</i>	57 684	371	-	2	(94)	57 963
Cost of products, goods and materials sold	43 690	6 337	45 501	654	(7 355)	88 827
<i>Cost of products and services sold</i>	940	6 133	45 501	651	(7 196)	46 029
<i>Value of goods and materials sold</i>	42 750	204	-	3	(159)	42 798
Gross profit (loss) from sales	17 565	17 242	18 305	5 819	(5 586)	53 345
<i>Other operating revenues</i>	11 156	525	64	1 085	(9 410)	3 420
<i>Selling costs</i>	11 161	6 419	4 594	1 356	(1 153)	22 377
<i>General and administrative costs</i>	3 943	6 779	1 966	4 601	(4 433)	12 856
<i>Other operating expenses</i>	5 748	133	370	635	(228)	6 658
Operating profit (loss)	7 869	4 436	11 439	312	(9 182)	14 874
<i>Financial revenues</i>	1 271	2 017	156	13 868	(14 317)	2 995
<i>Financial expenses</i>	471	385	623	345	(1 145)	679
Profit (loss) before taxation	8 669	6 068	10 972	13 835	(22 354)	17 190
<i>Income tax</i>	1 414	972	1 457	253	(1 757)	2 339
Net profit (loss) from continuing operations	7 255	5 096	9 515	13 582	(20 597)	14 851
Net profit (loss)	7 255	5 096	9 515	13 582	(20 597)	14 851
<i>Net profit (loss) attributable to minority interests</i>	-	-	-	-	(49)	(49)
<i>Net profit (loss) attributable to equity holders of parent entity</i>	7 255	5 096	9 515	13 582	(20 548)	14 900

In terms of net profit, global digital videogame distribution was the Group's most important activity segment, generating 9 515 thousand PLN in 2013.

The videogame development segment reported a net profit of 5 096 thousand PLN generated from sales of previously released products - mostly The Witcher and The Witcher 2: Assassins of Kings.

Distribution and publishing in Poland generated a net profit of 7 255 thousand PLN; however this figure was subject to consolidation eliminations as most of it is attributable to the sale of cdp.pl's 50% share in the CD PROJEKT brand name to CD PROJEKT S.A. for 9 182 thousand PLN.

Other consolidation eliminations included the dividend paid out by GOG Ltd. to CD PROJEKT S.A. in association with the Company's result in 2012 (1.5 million EUR) and the dividend paid out by cdp.pl to CD PROJEKT S.A. (aggregated in the "Other" column). Altogether, dividends paid out within the Group amounted to 13 466 thousand PLN and represented the majority of activities reported in the "Other" segment.

## ■ Consolidated statement of cash flows

PLN thousands	01 Jan 2013 - 31 Dec 2013	01 Jan 2012 - 31 Dec 2012
<b>OPERATING ACTIVITIES</b>		
Net profit (loss)	14 851	28 125
Total adjustments:	8 096	(2 170)

<i>Depreciation</i>	3 139	2 617
<i>Interest and profit sharing</i>	(262)	602
<i>Profit (loss) on investment activities</i>	(43)	(570)
<i>Change in provisions</i>	(127)	(509)
<i>Change in inventories</i>	(18 600)	(2 255)
<i>Change in receivables</i>	14 264	(2 586)
<i>Change in liabilities excluding credits and loans</i>	4 990	(2 436)
<i>Change in other assets and liabilities</i>	4 047	2 985
<i>Other adjustments</i>	688	(18)
Cash flow from continuing operations	<b>22 947</b>	<b>25 955</b>
<i>Income tax on profit (loss) before taxation</i>	2 339	162
<i>Income tax (paid) / reimbursed</i>	(3 232)	578
A. Net cash flow from operating activities	<b>22 054</b>	<b>26 695</b>
<b>INVESTMENT ACTIVITIES</b>		
Inflows	<b>880</b>	<b>4 418</b>
<i>Disposal of intangible and tangible fixed assets</i>	67	206
<i>Disposal of financial assets</i>	143	3 512
<i>Other inflows from investment activities</i>	670	700
Outflows	<b>5 007</b>	<b>4 543</b>
<i>Purchases of intangible and tangible fixed assets</i>	4 175	4 145
<i>Other outflows from investment activities</i>	832	398
B. Net cash flow from investment activities	<b>(4 127)</b>	<b>(125)</b>
<b>FINANCIAL ACTIVITIES</b>		
Inflows	<b>71</b>	<b>1 674</b>
<i>Credits and loans</i>	1	1 250
<i>Other inflows from financial activities</i>	70	424
Outflows	<b>5 180</b>	<b>11 197</b>
<i>Repayments of credits and loans</i>	4 725	9 909
<i>Payments of liabilities under financial lease agreements</i>	299	289
<i>Interest paid</i>	156	999
C. Net cash flows from financial activities	<b>(5 109)</b>	<b>(9 523)</b>
D. Total net cash flow	<b>12 818</b>	<b>17 047</b>
E. Change in cash and cash equivalents on balance sheet	<b>12 818</b>	<b>17 047</b>
F. Cash and cash equivalents at the beginning of period	<b>26 866</b>	<b>9 819</b>
G. Cash and cash equivalents at the end of period	<b>39 684</b>	<b>26 866</b>

In the continuing operations segment the Group reported positive cash flows in the amount of 22 054 thousand PLN. The aggregate value of adjustments and income tax factored into the calculation of operating cash flows was 7 203 thousand PLN.

In the scope of the above described calculation of cash flows the greatest adjustment comes from an increase in value of the Group's inventories by 18 600 thousand PLN, of which 18 154 thousand PLN is attributable to CD PROJEKT S.A. and concerns the videogame development activities carried out within the Group (including ongoing work on two large-scale projects: The Witcher 3: Wild Hunt and Cyberpunk 2077).

Due to progressive collection of receivables (associated with the large positive balance of trade receivables reported at the end of 2012) the value of the Group's outstanding receivables was adjusted by 14 264 thousand PLN.

Another significant adjustment, in the amount of 4 990 thousand PLN, corresponds to an increase in the balance of liabilities excepting credits and loans. Throughout 2013 trade liabilities at the Group decreased by 9 192 thousand PLN while other liabilities increased by 14 198 thousand PLN to 18 218 thousand PLN at the end of 2013. This change is mostly attributable to the videogame development segment and advances for royalties collected by the Group in 2013 in anticipation of the release of The Witcher 3: Wild

Hunt. A detailed description of this adjustment is presented above, in the comments to the consolidated statement of financial position.

Adjustments to other assets and liabilities (in the amount of 4 047 thousand PLN) are chiefly due to changes in the balance of prepaid expenses and tax deferrals.

In summary, it should be noted that while incurring the highest ever expenses associated with development of new videogames the Group still managed to generate a net positive cash flow of 22 947 thousand PLN from its operating activities.

Regarding investment activities, the cost of purchasing intangible and tangible assets was similar to that reported in 2012. This cost, in the amount of 4 175 thousand PLN, comprised purchases made by cdp.pl Sp. z o.o. (188 thousand PLN), GOG Poland Sp. z o.o. (534 thousand PLN) and CD PROJEKT S.A. (12 634 thousand PLN, 9 182 thousand of which represents payment for the CD PROJEKT brand name purchased from cdp.pl Sp. z o.o. and is therefore subject to consolidation eliminations). As such, the aggregate negative cash flow from investment activities was 4 127 thousand PLN.

Cash flows associated with financial activities consisted mostly of expenses associated with complete repayment of outstanding credits and loans in the amount of 4 725 thousand PLN. As of the end of 2013 the Group was not in debt due to credit/loan agreements.

The negative balance of cash flows associated with financial activities (5 109 thousand PLN) is chiefly due to repayment of all outstanding credits and loans.

Despite significant expenses associated with the development of games and total repayment of all outstanding credits and loans the Group still achieved a positive cash flow of 12 818 thousand PLN.

As of 31 December 2013 the Group held cash assets valued at 39 684 thousand PLN and other financial assets (retirement fund shares) valued at 804 thousand PLN. The Group was not in debt due to credit/loan agreements.

## ■ Disclosure of credits and loans in the 2013 fiscal year

During 2013 the CD PROJEKT Capital Group significantly decreased its liabilities due to credits and loans. Changes in outstanding credits and loans payable to entities not affiliated with the Issuer's Capital Group are summarized in the following table:

Name of bank/lender and type of credit/loan	Contractual credit/loan amount as of 31 Dec 2013	Amount outstanding as of 31 Dec 2013	Amount outstanding as of 31 Dec 2012
<i>mBank S.A. - working capital loan</i>	19 000	0	1 250
<i>mBank S.A. - overdraft facility</i>	10 000	0	3 438
<i>mBank S.A. - revolving credit</i>	11 000	0	-
<b>TOTAL *</b>	<b>40 000</b>	<b>0</b>	<b>4 688</b>

\* 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 consolidated statement of financial position by 21 thousand PLN at the end of 2013 and by 57 thousand PLN at the end of 2012. These differences are due to liabilities associated with cash pool interest, negative current account balance and outstanding credit card charges.

Despite incurring expenses associated with intensive development of videogames the Group has been able to fully repay its outstanding credits and loans in 2013 while also increasing its cash assets from 26 866 thousand PLN to 39 684 thousand PLN (i.e. by 12 818 thousand PLN). High liquidity coupled with the availability of long-term credit options is essential for unhindered development of videogames.

In Current Report No. 14/2013 of 23 May 2013 the Management Board of the Company announced that on 23 May 2013 the Company concluded an amendment to the working capital loan facility agreement previously signed with BRE Bank Spółka Akcyjna, headquartered in Warsaw (currently operating under the name mBank S.A.) and disclosed in Current Report No. 9/2012 of 18 April 2012. According to the amendment the availability of the relevant credit was extended to 30 May 2014 and both parties have agreed to a change in repayment conditions: the existing monthly repayment schedule was replaced with an obligation to fully repay all outstanding credit no later than on 29 May 2015. Finally, following recognition of pending liabilities due to the existing repayment

schedule, both parties have agreed to reduce the amount of available credit associated with the agreement to 19 000 000 (nineteen million) PLN.

In Current Report No. 15/2013 of 23 May 2013 the Management Board of CD PROJEKT S.A. announced that on 23 May 2013 the Company concluded an agreement with BRE Bank S.A., headquartered in Warsaw (currently operating under the name mBank S.A.). The agreement concerns a revolving credit facility in an amount not exceeding 11 000 000 (eleven million PLN) granted by the bank to finance current activities at the Company, including the production of games. In the Management Board's view the resources thus obtained will constitute an additional financial buffer facilitating the videogame development process.

According to the agreement the Company is entitled to draw upon the credit no later than on 29 May 2015. Repayment of each batch should occur within 120 days following its withdrawal, but no later than on 28 September 2015.

As the credit is backed by European Investment Bank funds, the financial resources made available to the Company are subject to a reduced interest rate.

In Current Report No. 19/2013 of 29 August 2013 the Management Board of CD PROJEKT S.A. announced that on 28 August 2013 the Issuer and its subsidiary CDP.pl Sp. z o.o. concluded an amendment to the overdraft facility credit agreement (previously signed with BRE Bank Spółka Akcyjna, headquartered in Warsaw (currently operating under the name mBank S.A.))

According to the amendment both parties agreed to a yearlong prolongation of the overdraft facility in an amount not exceeding 10 000 000 PLN (ten million PLN) on accounts belonging to the Issuer and to CDP.pl Sp. z o.o. at BRE Bank S.A., which is equivalent to the amount of credit granted to both companies by the bank. The amendment specifies that repayment of any outstanding overdraft should occur no later than on 29 August 2014. In conjunction with this prolongation existing collateral in the form of a contractual assignment of CDP.pl Sp. z o.o. trade receivables from selected business partners to BRE Bank S.A. was replaced with a registered pledge of CDP.pl Sp. z o.o. inventories in an amount not exceeding 15 000 000 PLN (fifteen million PLN). The validity of other forms of collateral associated with this credit agreement was duly extended.

In Current Report No. 21/2013 of 30 September, referring to Current Report No. 108/2010 of 20 December 2010 and to Current Report No. 71/2011 of 1 December 2011, the Management Board of the Company announced that as of 30 September 2013 the cash pooling agreement between companies belonging to the CD PROJEKT Capital Group and RBS Bank Polska S.A. had been dissolved.

The reason for the dissolution was that the provider of bank account consolidation services for companies belonging to the Capital Group had changed.

In Current Report No. 22/2013 of 4 October 2013, referring to Current Report No. 19/2013 of 29 August 2013 the Management Board of the Company announced that on 3 October 2013 the Issuer and its subsidiary CDP.pl Sp. z o.o. concluded an amendment to the overdraft facility credit agreement previously signed with BRE Bank Spółka Akcyjna, headquartered in Warsaw (currently operating under the name mBank S.A.)

According to the amendment both parties agreed to strike the provision for collateral in the form of a registered pledge of CDP.pl Sp. z o.o. inventories in an amount not exceeding 15 000 000 PLN (fifteen million PLN) and to replace it with a contractual assignment of CDP.pl Sp. z o.o. trade receivables from selected business partners to BRE Bank S.A.

In Current Report No. 25/2013 of 19 December 2013, referring to Current Report No. 56/2011 of 24 August 2011 the Management Board of the Company announced that on 19 December 2013 the Issuer and its subsidiary cdp.pl sp. z o.o. concluded an amendment to the overdraft facility credit agreement (hereafter referred to as "the Agreement") previously signed with BRE Bank Spółka Akcyjna, headquartered in Warsaw (currently operating under the name mBank S.A.)

According to the amendment both parties agreed to a two-year prolongation of the overdraft facility on accounts belonging to the Issuer and to cdp.pl sp. z o.o. at mBank S.A., with the new deadline set as 30 December 2015. The amendment specifies that repayment of all outstanding overdraft (which may not exceed 10 000 000 PLN) should occur no later than on 31 December 2015. The validity of all forms of collateral associated with this credit agreement was duly extended.

Additionally, the costs associated with further provisioning of this overdraft facility, including the bank's markup and commitment fees, were significantly reduced.

In Current Report No. 26/2013 of 19 December 2013 the Management Board of the Company announced an extension to the working capital loan credit agreement previously signed with BRE Bank Spółka Akcyjna, headquartered in Warsaw (currently operating under the name mBank S.A.) The agreement had initially been disclosed in Current Report No. 9/2012 of 18 April 2012. The amendment provides for a yearlong extension (until 29 May 2015) of the availability of financial resources under the agreement and stipulates that repayment of all outstanding credit should occur no later than on 31 December 2015. The validity of all forms of collateral associated with the agreement was duly extended.

Additionally, the costs associated with further provisioning of this working capital loan facility, including the bank's markup and commitment fees, were significantly reduced.

## ■ Disclosure of loans granted in the 2013 fiscal year

In 2013 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 2013 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 Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2013.

## ■ Disclosure of the current economic and financial position of the Capital Group and assessment of the management of financial resources

In 2013 the global digital videogame distribution segment experienced further dynamic growth and was responsible for a major share of the Group's overall financial result and cash flows. The second most important segment (from the point of view of sales profits) was the videogame development segment.

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

In 2013 the Group's equity increased by 15 838 thousand PLN, which represents a 10% increase compared to the end of 2012. The aggregate value of long- and short-term liabilities decreased by 1 095 thousand PLN, which represents a 2% decrease compared to the end of 2012.

At the end of 2013 the aggregate credit available to the Group under credit agreements was 40 million PLN. As of 31 December 2013 the Group was not in debt due to outstanding credits and loans. Detailed information concerning the Group'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 2013 the total value of cash assets and other financial assets (PKO retirement fund shares) held by the Group was 40 489 thousand PLN, which represents a 46% increase compared to the end of 2012.

Surplus financial assets are made available to 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.

In 2013 cdp.pl phased out factoring of financial receivables. At the end of the year cdp.pl receivables were substantially lower than at the end of the preceding year, while receivables attributable to the global digital videogame distribution segments remained on a near-constant level. In the videogame development segment the balance of receivables decreased significantly, owing to collection of a large portion of receivables associated with settlement of provisions created in conjunction with the release of *The Witcher 2: Assassins of Kings - Extended Edition* in the second quarter of 2012.

## ■ Disclosure and assessment of unusual circumstances and other factors affecting the Group's performance in 2013

The financial result of cdp.pl, which is a subsidiary of CD PROJEKT, included a write-off on licenses in the amount of 1 728 thousand PLN. This figure represents the costs of licenses purchased in the preceding years but left unused until the expiration of the corresponding licensing contracts. This write-off affected the financial result of cdp.pl and therefore of the Group's distribution and publishing activities in Poland.

In Current Report No. 27/2013 of 30 December 2013 the Management Board announced that on the basis of the contract signed on 31 December 2012 by the Company and its subsidiary cdp.pl sp. z o.o., headquartered in Warsaw, the Company had acquired exclusive rights to use the CD PROJEKT brand name. In line with the seller's statement, as of 30 December 2013, following the remittance of the second installment of the agreed-upon payment, the parent company had become the sole owner of the aforementioned brand name.

## **II. Assessment of differences between earlier estimates and reported financial results for 2013**

The CD PROJEKT Capital Group had not published any estimates referring to 2013.

## **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 2013 and the publication date of this report.

# 3

## Growth outlook of the CD PROJEKT Capital Group

# I. Potential growth opportunities for the CD PROJEKT Capital Group - overview

With regard to further expansion of business activities, the policies implemented by the CD PROJEKT 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 intends to expand its activities to other branches of digital entertainment.

# II. Capital Group growth outlook

The Group regards the following areas as crucial to its further growth in 2014 and onwards:

## ■ Distribution and publishing in Poland

cdp.pl expects to see further migration away from physical distribution of games and motion pictures (on DVD and Blu-ray) in favor of online channels. This trend could already be observed in 2013 and the company takes effort to support it, carrying out intensive development work on its [www.cdp.pl](http://www.cdp.pl) platform (launched in 2012), offering access to an ever expanding catalogue of digital motion pictures, books, games and audiobooks.

## ■ Videogame development

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 Group's revenue stream in 2011 and 2012. The games are still being marketed and continue to generate revenues - in fact, the majority of revenues obtained in 2013 in the videogame development segment are based on existing license agreements concerning The Witcher and The Witcher 2. As the release date of The Witcher 3 draws close and the corresponding promotional campaign intensifies, the Company expects its clients to show renewed interest in older games in the franchise.

As part of its work on The Witcher 2 the Company 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. REDengine 3 will be released for at least three separate hardware platforms, including 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 in February 2015. Additionally, CD Projekt RED is working on two smaller high-quality products supporting its major franchises.

In parallel with the projects described above the Company initiated cooperation with Dark Horse Comics, one of the largest and most highly acclaimed global publishers of comic books. The first issue of a new comic series created under this cooperation agreement and depicting the adventures of the Witcher Geralt of Rivia will appear in American bookstores on 19 March 2014.

In 2013 the CD Projekt RED Studio also carried out work on The Witcher Adventure Game, together with Fantasy Flight Games - a renowned publisher and distributor of board games. In addition to the standard board version, the game will also be released in digital form, for iPads and Android tablets. This project represents the Company's next foray into the mobile device market.

In March 2014 the Company announced that a heretofore unrevealed multiplatform multiplayer mobile game had been under development for over a year in collaboration with an external partner. The game will utilize an entirely new business model and is envisioned as an ongoing project, capable of attracting additional players over time and providing an ever expanding set of features. Bringing an external partner onboard has enabled the Studio to carry out work on this project in parallel to its other commitments, particularly The Witcher 3 and Cyberpunk 2077. The game is slated for release in 2014.

## ■ Global digital videogame distribution

Global digital videogame distribution is among the youngest and most rapidly developing segments of the digital entertainment market. Its continuing growth can be observed as more and more clients migrate away from traditional retail distribution channels and instead purchase and download games directly from online services.

In 2013 gog.com continued work on upgrading and expanding its digital distribution platform. Major changes are scheduled for rollout before the end of 2014. In the company's view the planned changes will enhance the gog.com catalogue and attract new clients, which should translate into increased revenues.

## ■ External and internal factors affecting growth of the Capital Group - summary

The activities of CD PROJEKT Capital Group members are affected by external factors such as the global macroeconomic condition, legal reforms and changes in taxation. In this sense CD PROJEKT 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 the Group's 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 Group'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 Capital Group and having the potential to affect its performance is technological progress which influences development as well as distribution of videogames.

CD PROJEKT was among the limited circle of developers who had received access to technologies powering the newest generation of gaming consoles many months before these consoles were officially released (in late 2013). The Witcher 3: Wild Hunt has been announced for release on all state-of-the-art hardware platforms, including PlayStation 4 and Xbox One. Early sales figures for these consoles represent an improvement upon the previous generation (over an analogous period), which bodes well for future sales of games developed by the Group.

The 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.

In the global digital videogame distribution segment maintaining the current high sales volume should be supported by the clients' increasing tendency to turn to online channels for purchases. In the near term GOG.com growth will depend on expanding its catalogue. The company will seek access to newer products, including entirely new releases and games by indie developers offered in higher price brackets (above 9.99 USD), as well as additional releases for Apple computers.

GOG Ltd. is in talks with leading global videogame publishers and continues to expand its portfolio. Each new release on gog.com contributes to the platform's popularity and drives up sales.

In addition to adding new products, GOG Ltd. also seeks to increase its user base by attracting new players - those who have not yet set up a gog.com account. The Company has been remarkably successful in this regard throughout 2013, owing chiefly to its PR activities and synergies stemming from cooperation with CD PROJEKT S.A. Between 1 January and 31 December 2013 the number of platform users increased by 80%.

Distribution and publishing activities in Poland rely on good business relations between cdp.pl Sp. z o.o. and its suppliers of videogames and motion pictures. A key factor contributing to future growth in business activities is the Company's publishing plan, replete with major releases and based on favorable agreements with external partners. In the longer run the performance of cdp.pl Sp z o.o. depends upon further diversification of its digital entertainment portfolio, which is being extended with new product categories (e.g. card and board games introduced in early 2012). The company also carries out further development of its proprietary digital distribution platform targeted at Polish customers (also introduced in 2012).

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

Part of the CD PROJEKT S.A. revenue stream is generated by renting office and storage space belonging to the immovable property in Nowy Sącz which is owned by the company. While the company does not directly control rent rates in Nowy Sącz, it works to maintain good relations with its tenants and prefers long-term rent agreements.

Another specific factor which may affect the financial position of CD PROJEKT S.A. is the outcome of pending litigation affecting 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 2013 the Group held cash and cash equivalents valued at 39 685 thousand PLN. Additionally, CD PROJEKT S.A. held PKO retirement fund investment shares purchased as a means of temporary allocation of surplus cash and valued at 804 thousand PLN.

Future Group activities will be financed with the Group's own resources and with bank credits, as required. As of 31 December 2013 the Group had access to 40 000 thousand PLN in unused bank credits.

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.

As part of financial optimizations affecting distribution and publishing activities in Poland in 2013 the company relied on bank guarantees to secure and prolong trade credits from suppliers.

# 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

In Current Report No. 12/2013 of 7 May 2013 the parent entity disclosed that, as a result of a meeting held on 7 May 2013 in conjunction with the expiration of the term of the Management Board which occurred on the day the Company's Consolidated Financial Statement for the year 2012 was approved by the Ordinary General Meeting of Shareholders, the Supervisory Board decided to reappoint existing members of the Management Board to the following positions:

Mr. Adam Kiciński - as President of the Board,

Mr. Marcin Iwiński - as Vice President of the Board in charge of international affairs,

Mr. Piotr Nielubowicz - as Vice President of the Board in charge of financial affairs,

Mr. Adam Badowski - as Board Member,

Mr. Michał Nowakowski - as Board Member.

The current term of the Management Board began on the day the Company's Consolidated Financial Statement for the year 2012 was approved by the Ordinary General Meeting of Shareholders, i.e. on 7 May 2013, and will expire on the day the Company's Consolidated Financial Statement for the year 2013 is approved by the Ordinary General Meeting of Shareholders.

## ■ Supervisory Board

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

## ■ Changes in Supervisory Board composition

As disclosed in Current Report No. 10/2013 of 7 May 2013, following expiration of the Supervisory Board's term the Ordinary General Meeting of Shareholders decided to grant a vote of acceptance to all Supervisory Board members on account of the performance of their duties, and to reappoint them to another two-year term which will expire on the day the Company's Consolidated Financial Statement for the year 2014 is approved by the Ordinary General Meeting of Shareholders.

No personal changes in the composition of the Supervisory Board occurred in the reporting period although the responsibilities of Mr. Piotr Pągowski and Mr. Cezary Iwański have changed as follows: Mr. Piotr Pągowski, former Deputy Chairman of the Board, was reappointed as Board Member while Mr. Cezary Iwański, former Board Member, was reappointed as Deputy Chairman of the Board.

## 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 2013:

Full name	Position	01 Jan 2013 - 31 Dec 2013	01 Jan 2012 - 31 Dec 2012
<b>Members of the Management Board:</b>			
<i>Adam Kiciński</i>	<i>President of the Board</i>	404	1 252
<i>Marcin Iwiński</i>	<i>Vice President of the Board</i>	286	824
<i>Piotr Nielubowicz</i>	<i>Vice President of the Board</i>	312	902
<i>Adam Badowski</i>	<i>Board member</i>	1 042	288
<i>Michał Nowakowski</i>	<i>Board member</i>	500	459
<b>Members of the Supervisory Board:</b>			
<i>Katarzyna Szwarc</i>	<i>Chairwoman of the Supervisory Board</i>	72	72
<i>Cezary Iwański</i>	<i>Deputy Chairman of the Supervisory Board</i>	18	2
<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
<i>Adam Świetlicki vel Węgorek*</i>	<i>Supervisory Board member</i>	-	16

\* On 23 November 2013 Adam Świetlicki vel Węgorek ceased to discharge his function as member of the Supervisory Board

Compensation paid out in 2013 to members of the Management Board and Supervisory Board of CD PROJEKT S.A. by CD PROJEKT S.A. subsidiaries:

Full name	01 Jan 2013 - 31 Dec 2013	01 Jan 2012 - 31 Dec 2012
<i>Adam Kiciński</i>	17	48
<i>Marcin Iwiński</i>	21	20
<i>Piotr Nielubowicz</i>	20	24

On 16 December 2011 the Extraordinary General Meeting of Shareholders voted to institute a motivation 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 motivation program is listed below:

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

Full name	Position	Warrants granted (quantity)	01 Jan 2013 - 31 Dec 2013	01 Jan 2012 - 31 Dec 2012
<i>Adam Kiciński</i>	<i>President of the Board</i>	200 000 warrants	93	76
<i>Piotr Nielubowicz</i>	<i>Vice President of the Board</i>	150 000 warrants	69	57
<i>Adam Badowski</i>	<i>Board member</i>	150 000 warrants	69	57
<i>Michał Nowakowski</i>	<i>Board member</i>	100 000 warrants	46	38

The fair value of warrants issued under the Motivation Program to members of the Management Board has assessed by a licensed actuary and is included in the 2013 financial statement as a company liability (in the same way as in 2012).

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 2013 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 2013 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 other members of the Management Board and Supervisory Board do not 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 and its Capital Group

No changes in basic management policies affecting the Company and its Capital Group occurred in 2013.

# 5

## 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
In concert <sup>(1)</sup>	33 997 794	35.81%	33 997 794	35.81%
<i>Marcin Iwiński</i>	12 607 501	13.28%	12 607 501	13.28%
<i>Michał Kiciński</i>	12 282 615	12.94%	12 282 615	12.94%
<i>Piotr Nielubowicz</i>	5 985 197	6.30%	5 985 197	6.30%
<i>Adam Kiciński</i>	3 122 481	3.29%	3 122 481	3.29%
PKO TFI S.A. <sup>(2)</sup>	9 000 000	9.48%	9 000 000	9.48%
AVIVA OFE <sup>(3)</sup>	4 940 000	5.20%	4 940 000	5.20%
Amplico PTE S.A. <sup>(4)</sup>	5 003 719	5.27%	5 003 719	5.27%
Other shareholders	42 008 487	44.24%	42 008 487	44.24%

(1) Pursuant to art. 87 par. 1 item 5 of the Offerings Act, Mr. Michał Kiciński, Mr. Marcin Iwiński, Mr. Piotr Nielubowicz and Mr. Adam Kiciński are recognized as acting in concert.

(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 Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2013.

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

The Company has instituted a motivation 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 motivation 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 parent company and other entities



The Group has ceased to report Optibox Sp. z o.o. (in liquidation bankruptcy) as a subsidiary due to lack of control.

Brand Projekt Sp. z o.o. was entered in the National Court Register on 22 July 2013.

## VI. Companies subjected to consolidated financial reporting

The Consolidated Financial Report of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2013 applies to the following companies, each of which is a member of the Group:

	capital share	voting rights held	consolidation method
CD PROJEKT S.A.	parent entity	-	Full
cdp.pl Sp. z o.o.	95%	95%	Full
GOG Poland Sp. z o.o.	100%	100%	Full
GOG Ltd.	100%	100%	Full
Brand Projekt Sp. z o.o.	100%	100%	Full

## VII. Disclosure of transactions with affiliates

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

- 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,
- 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.

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

The Capital Group does not pursue direct investment activities in the traditional sense. Nevertheless, the operations of the Capital Group and particularly the development of videogames require access to significant financial assets as described below:

Assets disclosed in the consolidated statement of financial position of the CD PROJEKT Capital Group of 31 December 2013 in the "Intangible assets" line item (36 403 thousand PLN) comprise mainly the CD PROJEKT brand name and The Witcher trademark.

Additionally, the goodwill of the Group (which is defined as the positive difference between the cost of establishing a business combination and the parent company's share in the net fair value of all assets and liabilities of the controlled entities) is valued at 46 417 thousand PLN.

As of 31 December 2013 the Group held tangible fixed assets valued at 11 187 thousand PLN. This line item chiefly comprises the value of buildings and land holdings (7 968 thousand PLN) with special distinction to the immovable property at Nawojowska 118 in Nowy Sącz, owned by CD PROJEKT S.A.

Throughout 2013 surplus cash was invested into overnight and longer-term deposits. The total value of cash and cash equivalents held by the Group on 31 December 2013 was 39 684 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 2013 the Group held PKO fund shares valued at 804 thousand PLN. These shares are disclosed in the "Other financial assets" line item.

Major expenses on long-term projects carried out by the Group between 1 January 2013 and the publication date of this reports were mostly associated with videogame development. Assets generated by these projects include (among others) intermediates and ongoing production, in addition to existing trade inventories. As of 31 December 2013 the inventories of the videogame development segment were valued at 44 514 thousand PLN, of which 4 193 thousand PLN represented the value of finished products (mostly yet-to-be-settled expenditures associated with the development of The Witcher 2) while 40 267 thousand PLN was disclosed in the "Intermediates and ongoing production" line item and comprised the development costs of The Witcher 3: Wild Hunt and Cyberpunk 2077.

Members of the CD PROJEKT Group may finance their operating and investment activities with their own assets as well as with credits and loans. In 2013 the Group repaid all of its outstanding debt under existing credit and loan agreements.

## IX. Risk Management in the Capital Group

### ■ Risk factors specific to the activities carried out by the Group

#### Risk associated with customers

cdp.pl Sp. z o.o., which engages in videogame and motion picture distribution in Poland, distributes its products through retail chains, and wholesale purchasers. In this scope risks include termination of trade agreements (or their non-prolongation, in the case of fixed-term agreements) as well as customer bankruptcy. In order to mitigate the risk of termination or non-prolongation of trade agreements cdp.pl strives to maintain good relations with its existing partners, diversify its product portfolio and seek new distribution channels. In order to mitigate the risk of customer bankruptcy cdp.pl insures buyer's credit agreements which are offered to selected customers.

In the videogame development activity 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 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 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 Group's control. Group members strive to maintain open channels of communication with final customers. In line with the Group's mission statement, the Company 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

The operations of two Group members (cdp.pl Sp. z o.o. and 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. Both companies mitigate the risk of losing suppliers by maintaining good trade relations and by working to diversify their supply chains and attract new suppliers.

In the videogame development segment CD PROJEKT S.A. 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.

#### 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. 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.

#### Risk of delays in videogame development

Postponed releases are a commonplace occurrence on the videogame development segment. 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 products purchased by cdp.pl Sp. z o.o. and 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.

#### Risks associated with development of games for gaming consoles

Development of console games requires direct cooperation with the proprietor of a given hardware platform. Before a game can be released on the open market it must first undergo a certification process. 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. The Company 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 the Capital Group. The activities of Group members and their growth outlook are greatly dependent on the skill, experience and knowledge of key Management Board members, middle managers, employees and collaborators. Group members offer competitive employment conditions and benefits to their employees. In 2012 the Capital Group instituted a long-term motivation program through which persons regarded as crucial for the Capital Group and its individual members may be rewarded with Company stock options.

#### Risk of insolvency and credit risk

The Group compares its results to annual plans which include liquidity goals. Such evaluation is performed on a monthly basis and subdivided into weekly cycles.

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 Group identifies key customers whose total share in the Group's revenue stream exceeds 10%. Since 2012 cdp.pl (which carries out domestic distribution of videogames and motion pictures) has been insuring buyer's credit agreements offered to selected customers.

The Group actively manages its liquid assets and monitors its debt in relation to the Group's equity and financial results, both current and anticipated.

As of the publication date of this report the Group 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 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, Group members 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 Group members are based on variable interest rates. Increases in the cost of capital acquisition may negatively affect the Group's financial standing.

Group members perform day-to-day monitoring of financing costs and analyze their impact on the Group's 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 Group.

The Group 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 investing in retirement fund shares and bank deposits.

## 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 the Capital Group 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 Group, reducing its revenues from distribution and licensing contracts.

GOG Ltd. revenues are denominated primarily in USD while costs are borne in USD, EUR and PLN. Accordingly, the strengthening of PLN or EUR against USD is viewed as an unfavorable circumstance by the Group, reducing the profitability of GOG Ltd.

### Risks associated with PLN weakening against EUR and USD

cdp.pl Sp. z o.o., being an importer and licensee, is subject to risks associated with PLN weakening against USD and EUR. Such circumstances would render games sold on the local market more expensive for local consumers, decreasing their sales volume. Additionally, expenses borne by cdp.pl Sp z o.o. in relation to licensing payments owed to game publishers and producers would become commensurately greater, resulting in a decrease in markup. The Company mitigates exchange rate risks by performing hedging of foreign currency transactions.

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. Weakening of PLN against foreign currencies may result in additional negative exchange rate differences associated with these liabilities.

Considering the Group as a whole, exchange rate risks are somewhat mitigated as a result of the differing profiles of individual members: changes favorable to entities which obtain revenues in foreign currencies are unfavorable to entities which make purchases in those currencies. An analogous situation occurs under reversed circumstances. Nevertheless, various types of transactions peak at various times and exchange rate risks cannot be completely eliminated within the Group. In order to further mitigate these risks the Group 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 and moreover the major shareholders of CD PROJEKT S.A. (namely Mr. Marcin Iwiński, Mr. Michał Kiciński, Mr. Piotr Nielubowicz and Mr. Adam Kiciński) are recognized as acting in concert under Art. 87 section 1 item 5 of the Public Offerings Act.

Owing to their share in the Company share capital and the total number of votes at the General Meeting the major shareholders 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 Group'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 Group's financial standing.

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. Group members monitor the impact of global economic conditions on their respective markets and adjust their 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 Group activities, either by increasing their costs or invalidating projections concerning future events. Legislative changes may also impact the legal environment in which the Group conducts its operations. Introduction of new regulations may be associated with inconsistent case law and conflicting or outright unfavorable interpretations by public administration bodies (including tax authorities).

Members of the CD PROJEKT Capital Group 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 for publication, or acquire 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 Group members. In order to mitigate this risk Group members employ the services of foreign legal consultants who specialize in the relevant fields.

The CD PROJEKT Capital Group has no control over the legislative process either in Poland or abroad.

### Risks associated with competitors' actions

The Group's business performance is affected by its competition's strategy, financial standing and the ability to procure financing on favorable terms. The Group encounters competition when negotiating game publishing and distribution agreements, conducting marketing campaigns and introducing its own products to external distribution channels.

The Group mitigates this risk by implementing an active publishing policy and maintaining good relations with its business partners. Additionally, Group members work to diversify their suppliers and sales channels.

### 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. Consolidation trends may cause the Company to lose key suppliers due to decisions imposed by the acquiree, or reduce the number of publishers/distributors who carry Company products.

The Group mitigates this risk by implementing an active publishing policy and maintaining good relations with its business partners. Additionally, Group members work to diversify their suppliers and sales channels.

## Risks associated with illegal distribution of CD PROJEKT Capital Group products

Group 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. Group members have no direct control over the scale of such illegal distribution. Insofar as it is possible, Group members try to attract customers by releasing products in various price brackets, published in an appealing manner and therefore providing good value for money - both on the local market and via services operated by GOG Ltd. This policy also applies to Company products offered directly on foreign markets.

## Risks associated with the emergence of new technologies

The digital entertainment segment, which is the Group's primary area of activity is characterized by dynamic changes in the applied technologies and IT solutions. This rapid pace of development necessitates frequent corrective actions, development of novel systems and increasing sophistication of the products offered. Technological changes may also influence the means by which games 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.

Group members monitor technological changes which may affect their operations and take steps to adapt their strategy to such changes.

## 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 19 November 2009 the District Court decided to appoint an expert to examine the causative link between the damage caused to Optimus and the unlawful decisions of tax authorities, as well as the material consequences of said decisions borne by Optimus. The expert's opinion in this case was delivered to the Company plenipotentiary in January 2011, with a supplementary opinion delivered on 21 October 2013. The Company plenipotentiary responded by filing briefs with objections to the expert's opinion. All witnesses called by the Court appeared at the stand. The hearing scheduled for 10 March 2014 did not take place and another hearing was scheduled for 11 June 2014.

This case may bear significant influence on the financial status and profitability of CD PROJEKT S.A., albeit only in a positive sense, should a favorable adjudication be rendered by the Court.

## 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. At present the Company is waiting for the Supreme Administrative Court to schedule a hearing.

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 in Warsaw and is currently waiting for the Court to schedule a hearing.

## ■ 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. The next hearing is scheduled for 31 March 2014.

In the course of the above-mentioned proceedings the Company filed a claim for total damages in the amount of 4,397 thousand PLN. This claim will be addressed by a Court expert whose appointment is expected after 31 March 2014.

## ■ **Lawsuits filed by or on behalf of the Issuer's subsidiaries**

### 1. cdp.pl Sp. z o.o. vs. Empik Sp. z o.o.

The case concerns damages in the amount of 9 049 thousand PLN plus statutory interest for the period between 14 December 2013 and the remittance date, due to unfair competition practices employed by Empik Sp. z o.o. under Art. 15 section 1 item 4 of the Act on Combating Unfair Competition which stipulates that no charges other than trade margins may be imposed by the seller in exchange for facilitating the sale of products. The case was filed in the District Court for the City of Warsaw on 16 December 2013. On 31 January 2014 the Court issued a writ of payment against Empik Sp. z o.o. As of the day of publication of this statement the plaintiff is awaiting a copy of the respondent's objection to the writ of payment, filed by Empik Sp. z o.o. on 28 February 2014.

### 2. cdp.pl Sp. z o.o. vs. Empik Sp. z o.o.

The case concerns outstanding payment in the amount of 1 356 thousand PLN plus statutory interest for goods delivered to Empik Sp. z o.o. under the cooperation agreement with cdp.pl Sp. z o.o. The case was filed in the District Court for the City of Warsaw on 17 December 2013. As of the day of publication of this statement the Issuer's subsidiary is waiting for the Court to schedule a hearing.

## **XI. Information concerning audits of financial statements**

On 17 May 2013 the Supervisory Board of the Company selected PKF Audyt Sp. z o.o. (currently operating under the name 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 2013. The corresponding agreement was signed on 16 July 2013.

The GOG Ltd. financial statement was audited by MGI Gregoriou & CO Ltd.

The cdp.pl financial statement was audited by PKF Consult Sp z o.o.

Detailed information regarding the compensation of licensed auditors charged with performing audits of the Company's financial statement for 2013 can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2013 (see note 60: Disclosure of transactions with entities charged with performing audits of financial statements).

## **Signatures attached to the Management Board report on CD PROJEKT Capital Group activities**

Warsaw, 18 March 2014

Adam Kiciński  
President of the Board

Marcin Iwiński  
Board Member

Piotr Nielubowicz  
Board Member

Adam Badowski  
Board Member

Michał Nowakowski  
Board Member

