



MANAGEMENT BOARD REPORT ON
CD PROJEKT CAPITAL GROUP ACTIVITIES
IN THE FISCAL YEAR 2015





Disclaimer

This English language translation has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain discrepancies, omissions or approximations may exist. In case of any differences between the Polish and the English versions, the Polish version shall prevail. CD PROJEKT, its representatives and employees decline all responsibility in this regard.

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CD PROJEKT

CD PROJEKT Capital Group – our achievements in 2015

1

Significant achievements of the Capital Group in 2015

Table 1 Key events at the CD PROJEKT Capital Group in 2015

Videogame development	<p>19 May 2015: release of The Witcher 3: Wild Hunt. The game was released in 15 language versions, simultaneously for the PC, Xbox One and PlayStation 4. Physical (box) sets of the game were made available in 109 countries around the world.</p> <p>According to Metacritic – the world’s most popular critic rating aggregator, current scores for the Witcher 3: Wild Hunt are 93/100 for the PC version, 92/100 for the PlayStation 4 version and 91/100 for the Xbox One version.</p> <p>13 October 2015: release of the first major expansion pack for The Witcher 3 – Hearts of Stone. The PlayStation 4 version currently holds a Metacritic score of 90/100, the PC version scores 89/100 while the average of available ratings for the Xbox One version is 93/100. Accordingly, Hearts of Stone is among the most favorably reviewed expansion packs in the history of videogames.</p> <p>November 2015 – The Witcher 3: Wild Hunt and CD PROJEKT RED picked up a record-breaking 5 awards at the prestigious Golden Joysticks Awards 2015, sweeping the following categories: Game of the Year, Best Storytelling, Best Visual Design, Best Gaming Moment and Studio of the Year (award presented to CD PROJEKT RED).</p> <p>December 2015 – The Witcher 3: Wild Hunt received two trophies at The Games Awards: Game of the Year and Best Role Playing Game. Additionally, CD PROJEKT RED took home the Developer of the Year award.</p> <p>As of the publication date of this report The Witcher 3: Wild Hunt has received over 800 awards, including more than 250 Game of the Year awards, distancing its competition¹.</p> <p>Market analysis carried out by ICO Partners – a company which specializes in monitoring online trends – indicates that The Witcher 3: Wild Hunt was the most widely reviewed and talked-about game of 2015 worldwide, with over 51 thousand dedicated media articles.</p>
Global digital distribution	<p>February 2015 – GOG launched the German edition of its platform: full web portal localization, native customer support and integration with payment methods popular in Germany.</p> <p>April 2015 – GOG launched the Russian edition of its platform: local prices in rubbles, full web portal localization, native customer support and integration with payment methods popular in Russia.</p> <p>May 2015 – GOG launched an open beta of its GOG Galaxy technology stack. Before the end of May, with help from GOG Galaxy, GOG.com successfully weathered the global release of The Witcher 3: Wild Hunt.</p> <p>In 2015 GOG signed new agreements and amendments to existing ones that allowed new titles in the catalogue with 121 partners, including Bethesda Softworks, Telltale Games, Stardock, Ubisoft and Deep Silver.</p> <p>2015 sales to external customers on GOG.com reached 115 823 thousand PLN which represents a year-over-year increase of 81%.</p>
Other market events	<p>August 2015 – on the initiative of CD PROJEKT S.A. an association called Stowarzyszenie Polskie Gry was founded. The goal of the association is to foster the potential and innovative activities of Polish videogame developers on the global market, and to cement the sector’s long-term competitive advantage.</p> <p>In October 2015 the GameINN sectoral development strategy proposed by the association under the auspices of CD PROJEKT was positively reviewed by the National</p>

¹ <http://gotypicks.blogspot.com/2015/09/2015-game-of-year.html>



Center for Research and Development, which recommended its implementation.



CD PROJEKT

Brief description of the CD PROJEKT Capital Group

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Activity profile

CD PROJEKT S.A. (also referred to as “CD PROJEKT” and “the Company”) conducts business on the dynamically growing digital entertainment market. Domestic activities, carried out for more than 20 years under the CD PROJEKT brand name, originally focused on distribution of foreign videogames in Poland (this activity segment, coordinated by CDP.pl, was disaggregated from the Group in 2014). A pivotal moment in the Group’s history came in 2002, with the establishment of the CD PROJEKT RED studio and commencement of work on the Company’s first major RPG² – The Witcher.

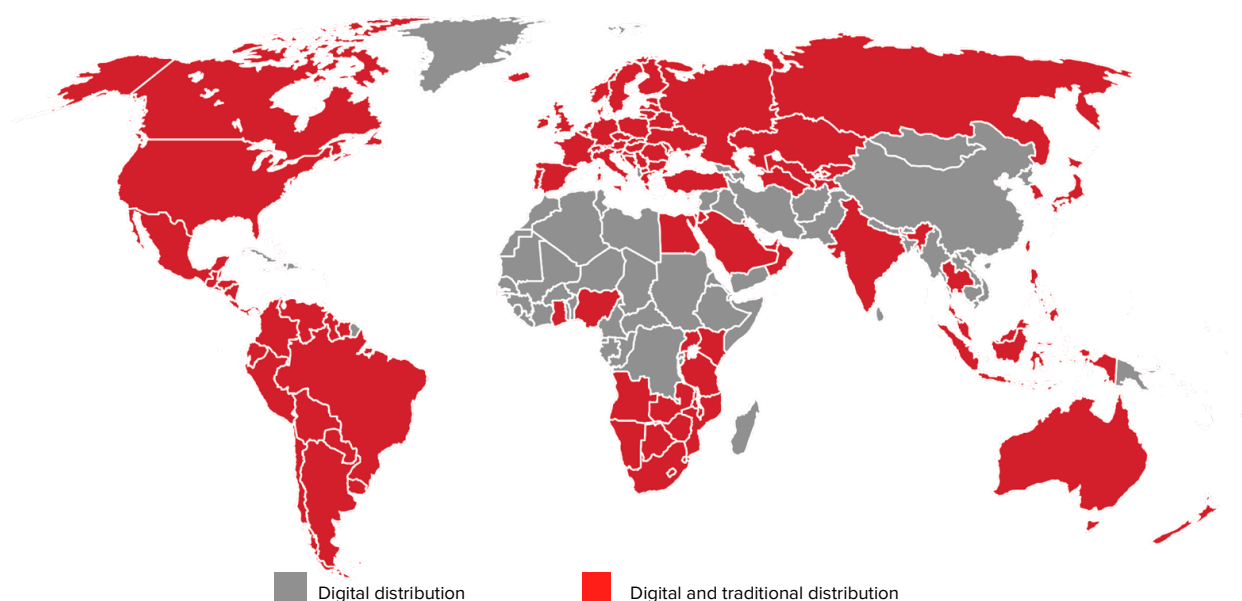
The CD PROJEKT Group conducts operating activities in two key segment – videogame development and global digital distribution.

Development and publication of world-class videogames is the main area of activity of the CD PROJEKT RED studio, which specializes in RPGs and has achieved global acclaim thanks to its trilogy of The Witcher games based upon Andrzej Sapkowski’s novels. The most recent part of the series – The Witcher 3: Wild Hunt – was published on 19 May 2015, while on 13 October 2015 the Studio released the first paid expansion for The Witcher 3 – Hearts of Stone.

In 2015 95% of CD PROJEKT S.A. sales revenues was generated by exports. The Company markets box editions of its games in collaboration with 23 distributors, covering 109 countries around the world.

CD PROJEKT games are also globally available via digital distribution platforms, including GOG.com, Steam, Origin, App Store and Google Store, as well as PlayStation Store and Xbox Games Store.

Figure 1 Retail availability of The Witcher 3: Wild Hunt.



Source: Company data

The global digital distribution activity segment of the CD PROJEKT Capital group is embodied by GOG.com – one of the world’s foremost digital distribution platforms, currently providing access to over 1 400 handpicked games licensed from over 300 producers and publishers under the Company’s DRM³-free policy. GOG.com is offered in four language versions – English, German, French and Russian. Customers can remit payment in five currencies (USD, AUD, RUB, GBP, EUR) and choose from a variety of locally popular payment channels.

² Role Playing Game – a story-driven game built around a consistent narrative

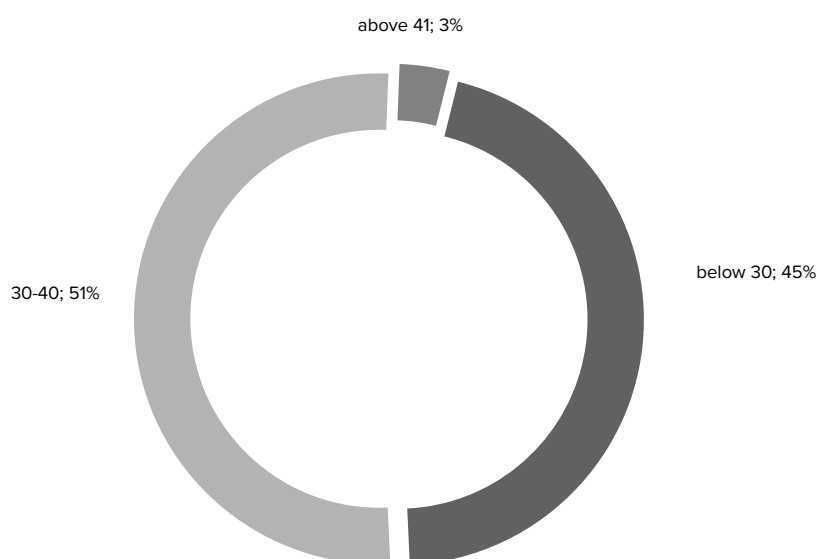
³ Digital Rights Management

The Warsaw-based headquarters of the CD PROJEKT Capital Group are equipped – among others – with a full-fledged professional motion capture studio⁴, three sound recording studios and an in-house canteen.

In April 2013 CD PROJEKT established an office in Kraków, where an independent development team works on the Studio's upcoming releases, as well as a Los Angeles branch tasked with coordinating marketing and sales activities on the US market.

At the end of 2015 the average age of individuals contractually employed by the Capital Group was 31, with 45% of the total number of employees still under 30. Most employees of the CD PROJEKT Capital Group hold university degrees (80%). As of 31 December 2015 44% of Capital Group employees were female.

Figure 2 CD PROJEKT Capital Group employment by age



Source: Company

Summary of CD PROJEKT Capital Group strategy for 2011 - 2016

In March 2013 the Management Board of CD PROJEKT S.A. adopted an updated market strategy for the Company and its Capital Group, covering the years 2013-2016. This strategy defines the mission of the CD PROJEKT Capital Group as creating cutting-edge innovative products and services sought after by clients worldwide.

The stated goal for the CD PROJEKT Group was to establish itself as one of the foremost videogame developers in the world, while also operating one of the world's most popular digital distribution platforms and continuously expanding its activities to include new branches of digital entertainment.

During the period covered by the strategy the CD PROJEKT Group greatly strengthened its market position as a renowned videogame developer and distributor.

CD PROJEKT RED's newest triple-A release – The Witcher 3: Wild Hunt – was a global success both commercially and in terms of the Group's image. The vast array of publications, awards and proofs of acclaim among media and gamers alike is testament to our position as one of the world's foremost game creators. Altogether, by the end of 2015 the Group sold over 20 million copies of its own games, which is twice the target defined in the original strategy.

⁴ The motion capture technology uses special cameras and sensors to accurately register the movements of a human actor and store them in computer memory for further processing. This enables computer-generated characters to act in a smooth, realistic fashion, replicating the original actor's personal "style"

During the same period GOG.com charted new directions of growth by deploying additional language localizations, support for additional currencies and new payment options. With GOG Galaxy, the GOG.com service can be migrated from a web browser directly to the user's personal computers, enabling better interactions and providing support for new videogames with multiplayer features.

Incentive program

One of the activities which comprised the Company's business strategy originally announced in 2011, was the implementation of an incentive program covering the years 2012-2015. The incentive program is intended to benefit persons of key importance for the Company itself and for other members of its Capital Group. Implementation of the incentive program is contingent upon two distinct goals:

Market goal (20% of warrants)

The change in the Company share price, calculated as the difference between the closing price on the final trading day preceding 31 December 2015 and the closing price on the day of enactment of the program, i.e. 16 December 2011, must exceed the corresponding change in the WIG index calculated over the same period (i.e. 16 December 2011 – 31 December 2015) by at least 100 percent points.

- WIG index at the close of the 16 December 2011 session: 37 001.49 points,
- WIG index at the close of the 30 December 2015 session: 46 467.38 points.

The value of the WIG index increased by 25.6% during the target period.

- CD PROJEKT S.A. share price at the close of the 16 December 2011 session: 4.89 PLN,
- CD PROJEKT S.A. share price at the close of the 30 December 2015 session: 22.15 PLN.

The CD PROJEKT share price increased by 353.0% during the target period, which is 327.4 percentage points more than the corresponding change in the WIG index. Accordingly, the market goal was surpassed by a large margin.

Result goal (80% of warrants)

With regard to entitled parties deemed as having significant influence on the results of the Capital Group in all of its activity segments, the result goal for the years 2012-2015 stipulates that the aggregate consolidated net earnings per share for the target period must be equal to or greater than 2.436 PLN.

The aggregate consolidated net earnings per Company share during the 2012-2015 period were 4.11 PLN. Accordingly, the result goal set in 2011 was not only met but surpassed by 69%.

CD PROJEKT Capital Group growth outlook

The CD PROJEKT Capital Group perceives the scope of future growth of its business as rooted in the Group's strategy for 2016-2021, described below.

Strategy of the CD PROJEKT Capital Group for the years 2016-2021

In the coming years the CD PROJEKT Capital Group will base its actions on its updated strategy, covering the years 2016-2021.

Mission and objectives

CD PROJEKT RED mission statement

To create revolutionary RPGs which go straight to the heart of gamers from around the world.

CD PROJEKT RED business objectives

To be counted among the world's top three videogame developers; to ensure a lasting place for our brands in the global popular culture.

GOG.com mission statement

We combine our passion for videogames and respect for fans to successfully deliver the world's top videogame releases, supported by online services.

GOG.com business objectives

To create a catalogue of brand-new AAA releases fully supported by GOG Galaxy; to turn GOG Galaxy into a technological foundation upon which gamers can access videogames produced by CD PROJEKT RED and interact with one another.

CD PROJEKT Group philosophy

The way we operate is determined by a unique business philosophy. At its core are values shared by both GOG.com and CD PROJEKT RED, which then naturally gravitate towards two respective fields of business: game development and digital distribution.

What guides our business activities

- The Company is founded upon the principle of fair play. We treat our employees, our gamers, and our business partners fairly in everything we do.
- Our team is our greatest asset. We are always on the lookout for new solutions that can enhance our teamwork.
- We employ people who are passionate about videogames and about delivering top-quality products and services.
- We stand for tolerance. We combat all forms of racism, homophobia and xenophobia, as we believe tolerance is the foundation of creativity and innovation.
- We forge strong, direct contacts with our player base. We believe that only ongoing, open and honest customer relations matter.

How we perceive videogames

- We believe that videogames are a form of art, rather than a just an entertainment product. We want to leave a mark on the global gaming community by delivering outstanding, thoughtful digital experiences.
- We create games we would like to play ourselves: complex, nonlinear and focused on audiences appreciating deep storylines and genuine emotions.
- We have long ago decided to specialize in the role-playing game (RPG) genre. RPGs are among the most challenging videogame projects from the creative point of view and for many years we have been adding to our pool of knowledge and experience. Each new release gives us more ideas for future projects.
- We believe that hard work, attention to detail, and genuine affection towards the stories we tell resonates in gamers, who, upon finishing our games, feel that they've spent their money well.

- We develop proprietary tools that facilitate game development and apply them in our own videogames.
- We adopt a boutique approach and carefully select titles to be added to the GOG.com's catalogue.

Why we remain independent

- We believe that creative and financial independence is the cornerstone of our commercial success. These qualities enable us to manage our company and develop videogames on our own terms.
- We emphasize retaining control over technological aspects, creative processes, publishing and promotion, as well as community relations.
- We develop our own digital distribution and online gaming platform, creating a full-featured user-friendly ecosystem that will constitute an integral part of our future videogame releases.
- We are in this business because we love what we do. Our independence allows us to take an active part in shaping the digital entertainment market.

How we want to develop our business

- We are convinced that one can remain commercially successful without sacrificing the creative vision to business calculation.
- Quality is the foundation of our long-term strategy and development plans. We do not seek easy profit and are not interested in taking shortcuts. We focus on ambitious plans with the potential to achieve global impact, and we make no compromises in pursuing them.
- We love breaking the mold and proving that we can achieve what many would consider unachievable. We always try to set goals which seem just out of reach.
- In our attempts to achieve breakthroughs and innovation, we are not afraid to enter uncharted territory, undertake risks and make mistakes. Creative curiosity calls for courage if one is to go a step further than the rest of the pack.
- We treasure creative energy and the passions embodied by our team. We believe that a crucial condition of success is the ability to harness these rare resources and put them to good use in implementing our key projects.
- We focus on flagship IPs with a plan to expand them onto multiple fields of entertainment. We work hard on delivering a wide array of tie-in products that complement games. This strategy allows us to utilize our creative workforce to the fullest and delivers additional PR & Marketing beats, which help to attain critical mass in sales and brand awareness. All this serves one purpose: creating content rich universes that bring quality entertainment to gamers worldwide.
- Given that CD PROJEKT RED creates games while GOG.com distributes them and provides support for online gaming features, our activity segments are mutually reinforcing and together underpin the commercial advantage of the CD PROJEKT Capital Group.

Plans

In order to preserve our competitive advantage, this public version of the Group's plans only lists selected components of our strategic agenda. For the same reasons, the descriptions of certain projects are necessarily terse. Plans have been divided into two periods: the current year (2016) and the following five-year period (2017-2021). Within each period individual items are not arranged in chronological order.

CD PROJEKT RED Studio

2016

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

- Implementation of new promotional and marketing activities supporting continued sales of The Witcher 3: Wild Hunt.
- A new type of video game format previously unexplored by the Studio.

Later years (2017-2021)

- Release of Cyberpunk 2077.
- Release of another AAA RPG title.
- Expansion of our core franchises with additional media content and product lines.
- Further active marketing and support for our earlier releases.
- Near-twofold expansion of the CD PROJEKT RED team. Creation of four individual teams, two of which will be tasked with development of games representing new segments.
- Establishment of new local branches of CD PROJEKT RED in key territories.

GOG.com

2016

- Release of a AAA game developed by an unaffiliated entity with full support for GOG Galaxy, concurrent with its global release date.
- Expansion of GOG Galaxy with new features and networking technologies required by new CD PROJEKT RED products.
- Support for pricing and payments in additional currencies and new language localizations of the GOG.com platform.
- Ongoing support for the “early access” mechanism introduced in early 2016, important from the point of view of the platform’s ability to expand its catalogue with new games.

Later years (2017-2021)

- Additional global releases of major videogames developed by unaffiliated entities with full support for GOG Galaxy.
- Technological support for new CD PROJEKT RED development projects, including customized solutions for multiplayer gaming and other online features.
- Rollout of additional language localizations of the GOG.com platform.

New incentive program

Due to the expiration of the incentive program approved by the Extraordinary General Meeting of Shareholders of 16 December 2011 and covering the years 2012-2015, the Management Board, having approved an updated Group strategy for the years 2016-2021, intends to apply to the General Meeting of Shareholders of CD PROJEKT S.A. for approval of a new incentive program aimed at key employees and collaborators of the Group and based on the following goals:

Market goal (20% of warrants)

Achievement of this goal is dependent on the growth of the Company’s share price outpacing the corresponding growth of the WIG index by at least 100 percentage points.

Result goal (80% of warrants)

With regard to entitled parties seen as having key impact on the results of the Group in all of its activity segments achievement of this goal is dependent on attaining specific result thresholds:

The consolidated net profit of the Capital Group for the years 2016-2019 must be at least 618 427 thousand PLN.

Alternatively, if the above goal is not met, the consolidated net profit of the Capital Group for the years 2016-2020 must be at least 855 538 thousand PLN.

Alternatively, if the above goal is not met, the consolidated net profit of the Capital Group for the years 2016-2021 must be at least 1 092 649 thousand PLN.

In line with the expected provisions of the program, the market goal can be considered met on the basis of the Group's financial result for the year 2016, or for the years 2016-2017, or for the years 2016-2018, should the Group's consolidated net profit exceed the values specified for the 2016-2019 period earlier than anticipated.

In case of early attainment of the result goal during any fiscal year covered by the program, early verification of the market goal (i.e. increase in Company share price exceeding the corresponding change in the WIG index by at least 100% for the period between the enactment of the program and the attainment of the result goal) is also permitted according to the assumptions of the incentive program.

With regard to entitled parties seen as having key impact on the results of individual activity segments of the Capital Group, the corresponding result goals (associated with the results of each activity segment) will be determined on an individual basis.

If, at the moment of final verification of the program's goals after the year 2021, the result or market goals for the fiscal years 2016-2021 are seen as attained to a degree lower than 100% but not lower than 80%, each unrealized percent will correspond to a 2% decrease in the quantity of warrants assigned in conjunction with the given goal, compared to full attainment of that goal.

According to the assumptions of the incentive program, in any event, between the date of recognition of eligibility for participation in the program and the date of positive verification of attainment of the program's goals, a separate loyalty criterion shall remain in force. Under this criterion each entitled party must remain employed by the Company or by any other member of its Capital Group, as attested by a formal contract of employment or any other legal contract with regulates rendition of work, services or products to the Company or to other members of its Capital Group in exchange for remuneration or other monetary benefits.

In the Management Board's intent, the program should enable – subject to Company future decisions undertaken during the program's duration – settlement in the Company's own shares specifically issued for this purpose or purchased on the market specifically for this purpose, or an equivalent cash settlement.

The above assumptions, valid for the publication date of this report, reflect the current opinions and plans of the Company's Management Board. Specific conditions and terms of the incentive program will be announced at a later date, in the form of draft resolutions submitted to the General Meeting of Shareholders of CD PROJEKT S.A., and may differ from the provisions listed in this document.

CD PROJEKT S.A. on the capital market

The CD PROJEKT brand has been present on the Warsaw stock exchange since 2010, when – as a result of an investment agreement concluded in 2009 by CDP Investment sp. z o.o.⁵ and Optimus S.A., along with their respective major shareholders – Optimus purchased 100% of shares in CDP Investment. The formal merger between both companies was carried out in December 2010.

94 950 000 Company shares are traded on the Main Market of the Warsaw Stock Exchange under the continuous trading system. To the best of the Company's knowledge the largest shareholders of CD PROJEKT S.A. are its co-founders: Michał Kiciński (currently holding 12 281 616 shares, which represents 12.93% of the Company share capital) and Marcin Iwiński – Vice President of the Board (currently holding 12 000 000 shares, which represents 12.64% of the Company share capital). Other shareholders who are also members of the Company's Management Board include

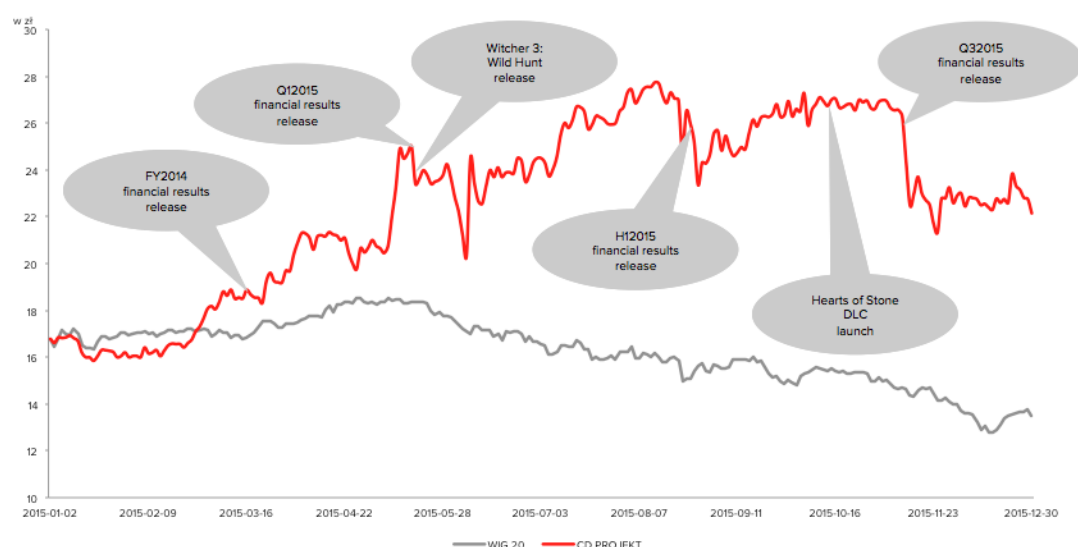
⁵ Former name of the "CD PROJEKT" group holding company.

Adam Kiciński – President of the Board (currently holding 3 122 481 shares, which represents 3.29% of the Company share capital) and Piotr Nielubowicz – Vice President of the Board and CFO (currently holding 5 985 197 shares, which represents 6.3% of the Company share capital).

In accordance with statements submitted to the Company, the following legal entities hold more than 5% of Company stock: PKO TFI S.A. (9 000 000 shares – 9.48% of the share capital), AVIVA OFE (4 940 000 shares – 5.2% of the share capital) and AMPLICO PTE S.A. (5 003 719 shares – 5.27% of the share capital). The free float of CD PROJEKT S.A. amounts to 48.17% of its share capital.

For nearly all of 2015 CD PROJEKT S.A. was part of the mWIG40 index. On 18 December 2015, as a result of a quarterly review procedure, the Company was moved up to the WIG30 index which comprises 30 of the largest companies by stock and liquidity on the Warsaw Stock Exchange. As of the end of 2015 the CD PROJEKT S.A. share in the WIG30 index is 0.81%. The Company is also part of the WIG Informatyka index.

Figure 3 CD PROJEKT S.A. share price (in PLN) throughout 2015



Source: Company data

Throughout 2015 the closing price of Company shares fluctuated between 15.85 PLN (20 January 2015) and 27.74 PLN (13 August 2015). Year-over-year share price increase was 32.63%, closing at 22.15 PLN on December 30. Consequently, the year-end market capitalization was reported as 2 103 142 500 PLN.

Table 2 Key CD PROJEKT S.A. financial indicators in 2015

	2015	2014	y/y change
Net earnings per share (PLN)	3.61	0.10	3510.0%
Number of shares in stock exchange trading (thousands of units)	94 950	94 950	0.00%
Peak share price in the financial year (PLN)	27.74	18.35	51.17%
Lowest share price in the financial year (PLN)	15.85	12.96	22.30%
Share price at beginning of period (PLN)	16.80	17.40	-3.45%
Share price at end of period (PLN)	22.15	16.70	32.63%
Average share price in the period (PLN)	22.61	16.11	40.35%
P/E indicator at end of period	6.14	166.61	-
Market capitalization at end of period (PLN thousands)	2 103 143	1 585 665	32.63%
Average daily value of session trading (PLN thousands)	6 105	2 307	164.63%
Average daily trading volume (units)	259 677	144 259	80.01%

Source: Company data

In 2015 seven recommendations concerning Company shares were issued by brokerage houses. Altogether, 17 recommendations were issued in 2015 (10 “buy”, 5 “hold” and 2 “sell” recommendations).



CD PROJEKT

CD PROJEKT Capital Group activity

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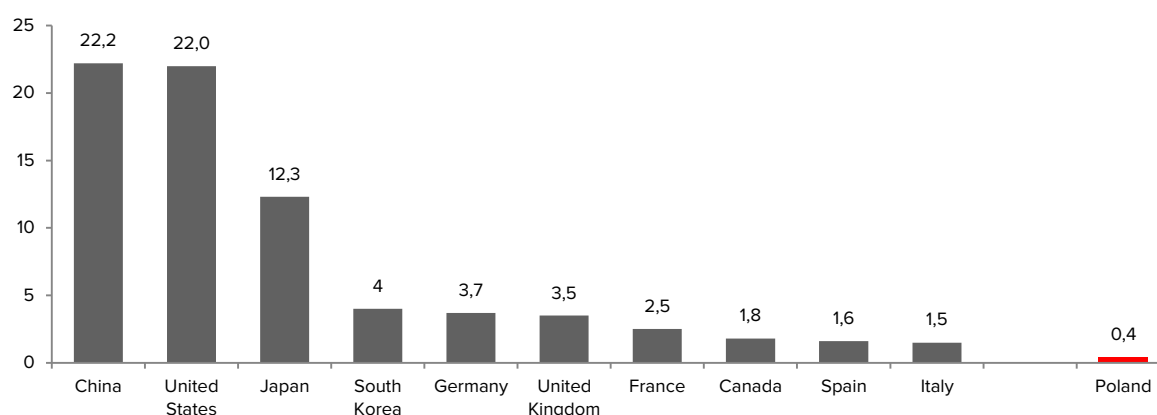
Market environment – domestic and global videogame market

Videogames are among the fastest growing branches of global entertainment.

According to the 2015 Global Games Market Report compiled by the Newzoo market analysts⁶ the global videogame market was expected to grow by 9.4% in 2015, reaching 91.5 billion USD at the year's end. Newzoo analysts predict that if the current rate of growth is maintained, the market volume will reach 107 billion USD in 2017. Key factors responsible for this increase are videogames for tablets and mobile devices, PCs and consoles while from the geographical point of view growth will be concentrated in the Asia-Pacific and Latin America regions. For the first time China may emerge as the market leader in 2015 (the projected volume of the Chinese videogame market in 2015 is 22.2 billion USD, compared to 22.0 for the US). In the United States the videogame market is expected to outpace the corresponding markets for printed press (21 billion USD), radio (17 billion USD), motion pictures (11 billion USD) and music (9 billion USD).^{7 8}

The observed dynamic growth is also due to steady expansion of the console user pool. According to recent reports total sales of current-generation gaming consoles have exceeded 55 million units within two years following their release⁹ – this is nearly 50% more than the corresponding figures for the previous generation of consoles.

Figure 4 Largest videogame markets in 2015 by volume (USD billions).



Source: Newzoo.com

According to Newzoo, the three largest videogame markets are China (22.2 billion USD), USA (22.0 billion USD) and Japan (12.3 billion USD) respectively.

The current volume of the Polish videogame market is approximately 408 million USD, which corresponds to 1.6 billion PLN (0.45% global market share). Poland ranks 19th in the world.¹⁰

Focusing on Eastern Europe, Poland ranks 2nd in the region, following Russia, which remains the unquestioned leader in this part of the world (1.3 billion USD). Further down the list are Ukraine (148.6 million USD), the Czech Republic (128 million USD) and Romania (123 million USD),

The Newzoo report indicates that PC games and MMOs¹¹ currently hold the largest share (30%) of the global videogame market (27.1 billion USD – 8% y/y increase). The second largest segment comprises console games (25.1

⁶ newzoo.com, 22 April 2015, <http://www.newzoo.com/insights/global-games-market-will-grow-9-4-to-91-5bn-in-2015/>

⁷ Studio market share – Box Office Mojo <http://www.boxofficemojo.com/studio/?view=company&view2=yearly&yr=2015&p=.htm>

⁸ SuperData Research, http://www.gamesindustry.biz/articles/2016-02-04-the-esa-must-adapt-or-die?utm_source=newsletter&utm_medium=email&utm_campaign=european-daily

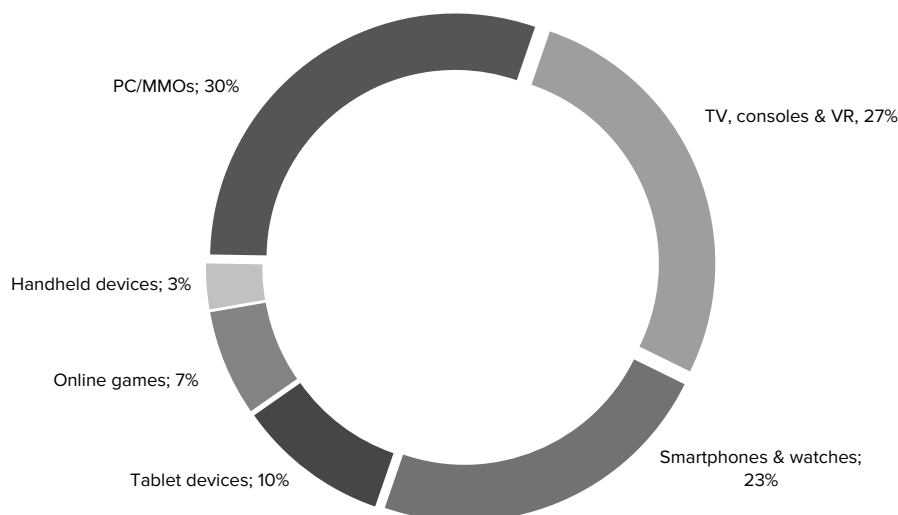
⁹ <http://arstechnica.com/gaming/2016/01/ea-lets-slip-lifetime-xbox-one-and-ps4-consoles-sales/>

¹⁰ <http://www.newzoo.com/free/rankings/top-100-countries-by-game-revenues/>

¹¹ MMO or MMOG (Massively Multiplayer Online Game) – a game in which many players participate simultaneously via network links.

billion USD; 27% market share), while the most rapid growth can be observed in the tablet segment (27% y/y increase, 2015 market volume: 9.4 billion USD; 10% market share).

Figure 5 Global videogame market by platform



Source: Newzoo.com

The Polish videogame market continues to experience dynamic growth: according to Newzoo it will continue to expand at an average rate of 5.4% by 2018. 13.4 million players currently reside in Poland, while the corresponding global figure is 1.7 billion players (including 155 million Americans¹²). 160 videogame development studios are active on the domestic market, employing 6 thousand individuals. Given the observed growth, the videogame sector is well on its way to becoming the cornerstone of the Polish creative industry and a hallmark of the Polish economy¹³.

Continued growth is also projected in the digital videogame distribution segment (both for PCs and for consoles) – an increasingly important component of the market. According to the PwC *Global entertainment and media outlook 2014-2019* report¹⁴ we are witnessing ongoing migration of consumers towards digital distribution channels. By the end of 2019 digital distribution of classic videogames is expected to generate 12.89 billion USD in revenues, representing 19.6% of total videogame sale revenues.

A particularly important factor characterizing nearly all videogames developed in Poland is the large contribution of exports to total sales. Consequently, the activities of the domestic videogame development industry feed the growth of national exports, particularly regarding IPR fees and royalties collected by domestic enterprises. In 2015 CD PROJEKT S.A. exports were valued at 660 475 thousand PLN, while the total volume of national exports listed in the “IPR fees” category of the 2014 Foreign Trade Statistical Yearbook published by the Central Statistical Office was 996 030 thousand PLN.

CD PROJEKT Capital Group – organizational structure

As of 31 December 2015 the CD PROJEKT Capital Group consists of the parent entity – CD PROJEKT S.A. and four subsidiaries – GOG Ltd., GOG Poland sp. z o.o., CD PROJEKT Brands S.A. and CD PROJEKT Inc.

¹² Essential facts about the computer and video game industry in 2015, Entertainment Software Association

¹³ Condition of the Polish videogame industry in 2015; Kraków Technology Park (Kondycja polskiej branży gier wideo 2015, Krakowski Park Technologiczny)

¹⁴ <http://www.pwc.com/gx/en/global-entertainment-media-outlook/assets/2015/video-games-key-insights-3-shift-to-digital.pdf>

Figure 6 CD PROJEKT Capital Group



On 21 October 2015 the Extraordinary General Meeting of Shareholders adopted a merger plan for CD PROJEKT S.A. (the Acquirer) and Brand Projekt sp. z o.o. (the Acquiree, heretofore wholly owned by CD PROJEKT S.A.). This decision was disclosed in the Company **Current Report no. 23/2015**. The merger was carried out without increasing the Acquirer's share capital or converting Acquiree shares into Acquirer shares, as all Acquiree shares had been owned by the Acquirer prior to the merger. The merger was duly registered in the National Court Registry on 31 December 2015. The merger was carried out in the framework of optimizing CD PROJEKT Capital Group business activities in order to streamline management procedures and reduce operational overhead.

Table 3 Summary of business activities of the parent company and other members of the CD PROJEKT Capital Group as of 31 December 2015.

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

Source: Company

Disclosure of business segments, products, services, suppliers, customers and markets

In 2015 the Capital Group conducted business activities in three segments:

- Videogame development,
- Global digital videogame distribution,
- Other activities.

**697 033 THOUSAND PLN
IN SALES REVENUES
IN THE VIDEOGAME
DEVELOPMENT SEGMENT
(2 027% Y/Y INCREASE)**

**OVER 800 AWARDS,
INCLUDING 250
“GAME OF THE YEAR”
AWARDS FOR
THE WITCHER 3: WILD HUNT**

**OVER 20 MILLION COPIES
SOLD OF THE WITCHER,
THE WITCHER 2:
ASSASSINS OF KINGS
THE WITCHER 3: WILD HUNT**

Videogame development segment

Target and scope of business activities

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

Sales of The Witcher 3: Wild Hunt are carried out under three distinct business models:

- territorial distribution rights (for box and digital editions), accounted for *post factum* on the basis of monthly or quarterly sales reports submitted by the Company's business partners, or license reports;
- supplies of physical box editions to the Company's business partners for retail resale;
- supplies of batches of activation codes which permit the game to be downloaded and installed.

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

In 2015 the Company also obtained revenues from sales of rights to tie-in products exploiting the popularity of The Witcher brand, including comic book series published by Dark Horse Comics.

Key products

Videogame development commenced in 2002 and initially focused on the studio's RPG debut: The Witcher. This game, set in Andrzej Sapkowski's fantasy world, was released in 2007 to global acclaim. The Studio followed up in May 2011 with its second release – The Witcher 2: Assassins of Kings for the PC. In April 2012 an extended edition of The Witcher 2 was released for the PC and Xbox 360. Both The Witcher and The Witcher 2 Extended Edition are now also available for Apple and Linux machines.

Key products in the Company's portfolio include the following videogames: The Witcher, The Witcher 2: Assassins of Kings, The Witcher 3: Wild Hunt, which launched on 19 May 2015 and the first expansion pack for The Witcher 3 – Hearts of Stone, which debuted on 13 October 2015 (more information is provided later on in this report).

The Company is actively developing its franchise and expanding its list of tie-in products set in The Witcher universe, often in collaboration with external partners. Examples of such products include The Witcher Adventure Game (a

board game also available as a digital release for PCs and tablets), two series of comic books published by Dark Horse Comics, an official Prima Strategy Guide, soundtrack and a book titled *The Witcher Universe: Compendium* and numerous Witcher-themed gadgets and apparel distributed internationally by www.witcherstore.com.

Major upcoming releases announced by the Studio include the second expansion for *The Witcher 3 – Blood and Wine*, and the next AAA RPG – *Cyberpunk 2077*. *Blood in Wine* is scheduled for release in the first half of 2016.

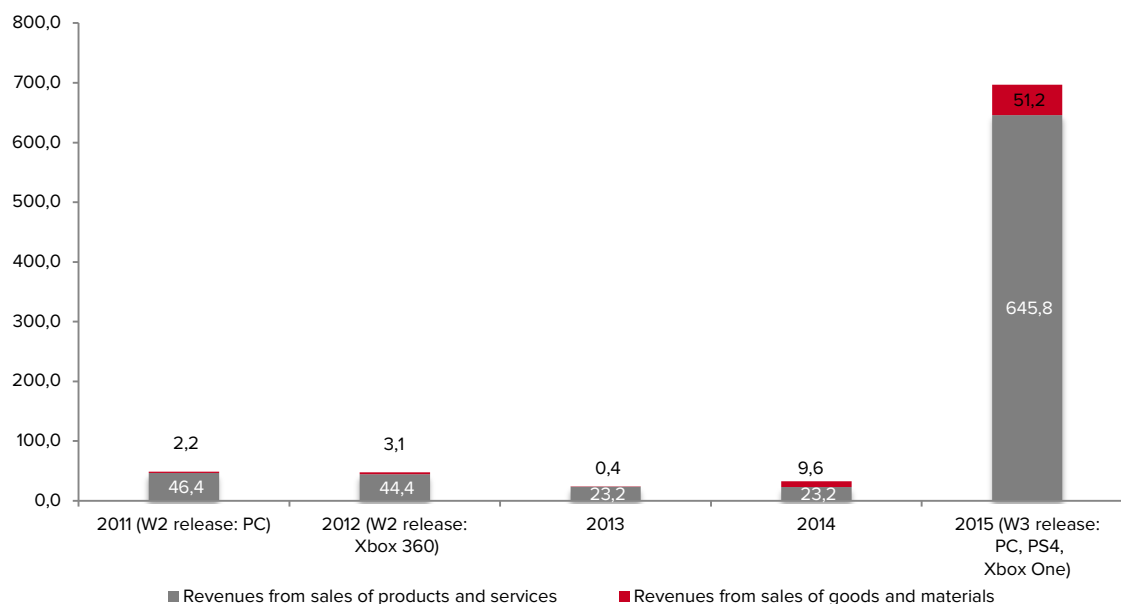
Key sources of revenues

Throughout 2015 the bulk of revenues in the videogame development segment was generated by sales of *The Witcher 3: Wild Hunt*. This includes sales of box sets and receipt of license fees from external distributors. In addition, the Company continued to market its earlier games – *The Witcher* and *The Witcher 2: Assassins of Kings*, both of which continue to attract gamers interest.

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

In 2015 the Company also obtained revenues from sales of rights to tie-in products exploiting the popularity of *The Witcher* brand, including comic book series published by Dark Horse Comics, board games, soundtracks, strategy guides, apparel and assorted gadgets.

Figure 7 Revenues in the videogame development segment in 2011-2015 (PLN millions).



Key suppliers and clients

Within the videogame development activity segment the Group carries out active distribution of its games for various hardware platforms, using both traditional distribution channels and the leading digital distribution platforms (e.g. Steam, GOG.com, Origin, PlayStation Store, Xbox Store, AppStore and Google Play).

In 2015 the Group reported the following key clients in the videogame development segment:

- Valve Corporation – 155 942 thousand PLN, which represents 19.5% of the consolidated sales revenues of the Capital Group. Valve Corporation is not affiliated with CD PROJEKT S.A. or its subsidiaries.
- BANDAI NAMCO Entertainment Europe – 103 043 thousand PLN, which represents 12.9% of the consolidated sales revenues of the Capital Group. Bandai Namco Entertainment Europe is not affiliated with CD PROJEKT S.A. or its subsidiaries.
- Warner Bros Home Entertainment Inc. – 86 291 thousand PLN, which represents 10.8% of the consolidated sales revenues of the Capital Group. Warner Bros Home Entertainment Inc. is not affiliated with CD PROJEKT S.A. or its subsidiaries.

- Microsoft Corporation – 82 115 thousand PLN, which represents 10.3% of the consolidated sales revenues of the Capital Group. Microsoft Corporation is not affiliated with CD PROJEKT S.A. or its subsidiaries.

The videogame development process relies on certain bought-in tools and technological solutions; however, these do not result in significant concentration of supply.

The major suppliers of the Group's videogame development segments were DVD pressing plants and proprietors of console platforms (Sony, Microsoft) to whom the Company remits license fees associated with manufacture of disks specific to each platform (Playstation, Xbox). No supplier accounted for more than 10% of the consolidated revenues of the Capital Group.

Key product and marketing events

Throughout 2015 activities of the CD PROJEKT RED Studio marketing department focused on promoting the release of The Witcher 3: Wild Hunt and, subsequently, its first expansion – Hearts of Stone.

Release of The Witcher 3: Wild Hunt

In January and March the Studio organized a series of hands-on sessions where invited media representatives could try their own hand at playing beta versions of The Witcher 3 on all target platforms – Xbox One, PlayStation 4 and PC. Sneak preview sessions were organized in Scotland, Los Angeles and Sydney, in addition to venues in Germany, France, Scandinavia, Brazil, Russia, Japan, Hong Kong, the United Arab Emirates and – of course – in Warsaw. Altogether, before its market release, the game was showcased to more than 300 journalists from 23 countries, resulting in several hundred notable press articles and publications.

On 16 and 17 April the CD PROJEKT RED office was visited by youtubers from around the world, invited to freely play The Witcher 3: Wild Hunt for two days. The event generated new media content, including developer interviews subsequently viewed more than 11 million times by the day of release of the game.

On 16 April 2015 CD PROJEKT RED's newest release – The Witcher 3: Wild Hunt – went gold and the Company announced that game discs were being manufactured. On 23 April a TV commercial featuring The Witcher 3: Wild Hunt debuted on American TV channels. The commercial was broadcasted by international TV stations in key markets, which included the United States, the United Kingdom, France, Germany, Poland, Russia and Australia. Altogether, the TV advertising campaign promoting the game's release was conducted in 14 countries. Before the end of April the Company launched a dedicated online store at www.witcherstore.com, carrying Witcher-themed gadgets and apparel, while Dark Horse Comics published the first issue of its second series of comics books set in The Witcher universe.

TV and online marketing activities peaked during the two-week period preceding the release of The Witcher 3 and stretched into the game's release week. In addition to TV commercials, the marketing campaign was augmented by online activities, including the Company's official YouTube channel. The release campaign covered POS (Point of Sale) activities conducted in key markets, in collaboration with major retailers and digital distributors, which included GameStop, GAME, EB Games, Toys R Us, Amazon, Media Markt, Saturn and mVideo. In the United States the Company enlisted the aid of the major fast food chain Carls Jr., with limited-time Witcher-themed sets available at restaurants. Outdoor advertising was utilized in selected countries. Seven days prior to the game's release CD PROJEKT RED announced that over a million copies of The Witcher 3: Wild Hunt had been preordered.

On the eve of the game's release the Warsaw headquarters of CD PROJEKT was visited by Prime Minister Ewa Kopacz. The following morning members of the Company Management Board were hosted by President Bronisław Komorowski at a formal breakfast.

The Witcher 3: Wild Hunt was released on 19 May 2015. At the stroke of midnight, the Polish distributor – cdp.pl – organized a series of openings, which includes sales of the game, interviews with its creators and contests. Following the game's release CD PROJEKT RED began unlocking 16 free DLC¹⁵ packages which had previously been announced. In order to further improve gameplay and enhance the overall quality of its product, the Studio continues to distribute patches which fix glitches and expand the game with new features.

In May 2015 the The Witcher Universe: Compendium was published – an illustrated guide to the Witcher universe. An official strategy guide, prepared in collaboration with the renowned international publisher of top game manuals – Prima Games – was also published.

Throughout the first six weeks following release (i.e. by 30 June 2015) total sales of The Witcher 3: Wild Hunt reported in the Company's financial statement for the first half of 2015 amounted to 6 014 576 copies.

¹⁵ Downloadable Content – an extension to a game offered by the producer

In August 2015 soundtracks from all games from The Witcher series debuted on major music streaming services, including Spotify, Apple Music and Google Play Music. In parallel the Company also released a set of modding tools which enable players to modify game files and enhance the game as they see fit. Such actions are favorably received by the gaming community, contribute to increased product appeal and extend its economic life.

In September 2015 The Witcher 3: Wild Hunt was nominated for the prestigious Golden Joystick awards in the following categories: Best Storytelling, Best Visual Design, Best Gaming Moment and Ultimate Game of the Year. CD PROJEKT RED itself was nominated in the Studio of the Year category. At a gala event held in London on 30 September The Witcher 3: Wild Hunt and CD PROJEKT carried all five categories. Golden Joysticks, often referred to as “gaming Oscars” are among the most prestigious awards in the videogame industry. Throughout the 33-year history of the awards only one game had ever won five trophies (in 2005). It should be noted that CD PROJEKT RED’s newest release had previously been named Most Wanted Game in 2013 and 2014, making it the most celebrated game in the entire history of Golden Joystick Awards.

In December The Witcher 3: Wild Hunt received also two trophies at the prestigious Games Awards held in Los Angeles (Game of the Year and Best Role Playing Game), while CD PROJEKT RED was named Developer of the Year.

Up until the publication game of this report CD PROJEKT RED’s newest release has received more than 800 awards, including more than 250 Game of the Year (GOTY) awards, which makes it by far the most celebrated videogame of 2015.

According to a market study carried out by ICO Partners (a global Internet analytics house) The Witcher 3 was the most talked-about and reviewed videogame of 2015, with over 51 thousand media articles devoted to it.

Release of Hearts of Stone expansion

On 7 April 2015 CD PROJEKT RED announced two large-scale paid expansions for The Witcher 3: Wild Hunt. The first of these – Hearts of Stone – debuted on 13 October 2015, while the second one is scheduled for release in the first half of 2016. The Company also began accepting digital preorders for an expansion pass, for all supported hardware platforms – PC, PlayStation 4 and Xbox One.

The release date of Hearts of Stone was formally announced on 8 October 2015. On the same day the Company launched the associated preorder campaign.

Simultaneous publication of video content promoting Hearts of Stone in over a dozen languages, rollout of a new edition of the online store at buy.thewitcher.com and launch of preorder campaigns covering limited-edition box sets and digital copies on Steam, GOG, PlayStation Store and Xbox store – all of these activities were part of the Studio’s marketing campaign aiming to reach as many potential buyers as possible and maximize the customer attachment rate¹⁶.

Marketing activities promoting Hearts of Stone peaked around the release date and included, among others, advertisements in influential business media targeting key markets, as well as intensified customer outreach on PlayStation Store, Xbox Store, Steam and GOG.com. Highlights of the promotional campaign included publication of a teaser trailer showcasing the expansion, which took place on 6 October 2015.

Global digital videogame distribution segment

**115 823 THOUSAND PLN IN
2015 SALES REVENUES
(81% Y/Y INCREASE)**

**OVER 350 NEW ITEMS
IN THE GOG.COM
CATALOGUE**

**OVER 1 300 ITEMS IN THE
GOG.COM CATALOGUE**

Target and scope of business activities

Global digital distribution of videogames, carried out by GOG Ltd. (with technical support from GOG Poland), represents a distinct activity segment within the CD PROJEKT Capital Group. At its core, this segment involves digital distribution of videogames via the Company’s proprietary GOG.com distribution platform, on the basis of contracts

¹⁶ Fraction of buyers of The Witcher 3: Wild Hunt who also bought Hearts of Stone.



signed by GOG Ltd. with developers, IPR holders and external publishers. The platform enables customers to purchase games, remit payment and download game files to their personal computers.

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

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

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

Key products

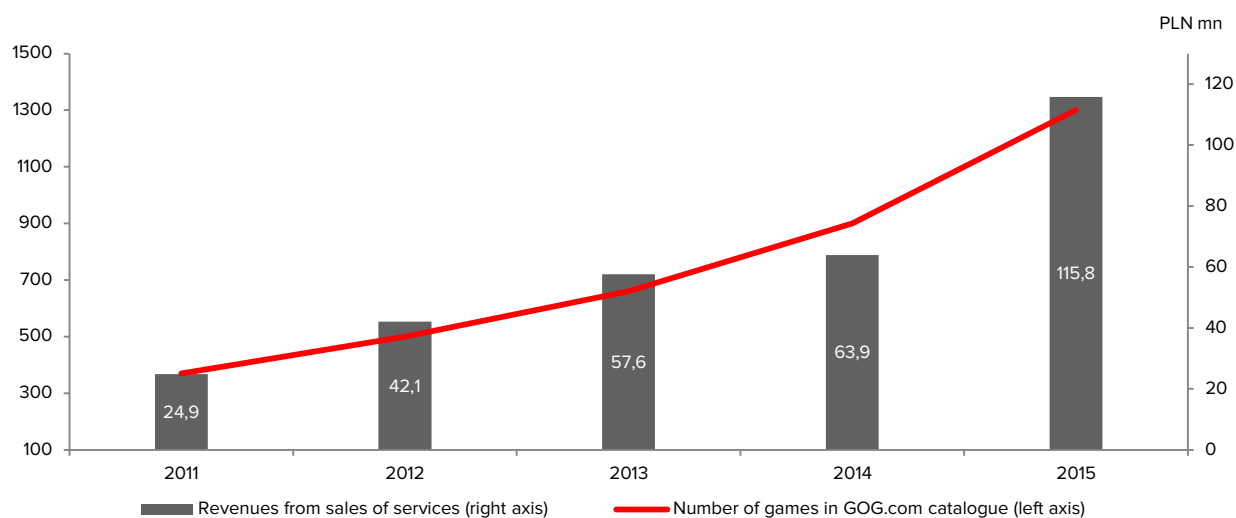
As of the publication date the GOG.com catalogue comprises over 1 400 products from over 300 publishers and developers of videogames, including such well-known brands as Activision, Disney, Electronic Arts, Ubisoft and Warner Bros. The key difference between GOG.com and its competitors (i.e. other independent platforms – Steam, Gamersgate, Humble Bundle etc.) is its set of core principles. As a rule, the Company ensures that all of its games are free of cumbersome DRM measures. In addition, products offered on GOG.com are richly featured and usually include bonus content such as soundtracks, maps and wallpapers. GOG Ltd. also ensures full compatibility of its games with popular versions of the MS Windows, Mac OS and Linux operating systems, and provides technical support in case of installation problems. If a game cannot be made to run on the user's computer, it can be returned within 30 days of purchase for a full refund. Owing to these values GOG.com has become one of the most popular digital videogame distribution platforms in the world.

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

Key sources of revenues

Revenues obtained in the global digital videogame distribution segment are directly dependent on the popularity of the offered games and their respective sales volumes. The Company continuously expands the scope of its cooperation with suppliers and seeks access to new, attractive products. GOG.com is also home to seasonal and one-off sales campaigns, including summer, fall and Christmas promotions as well as the periodic Cyber Monday and Black Friday events, which have proven enormously popular with gamers.

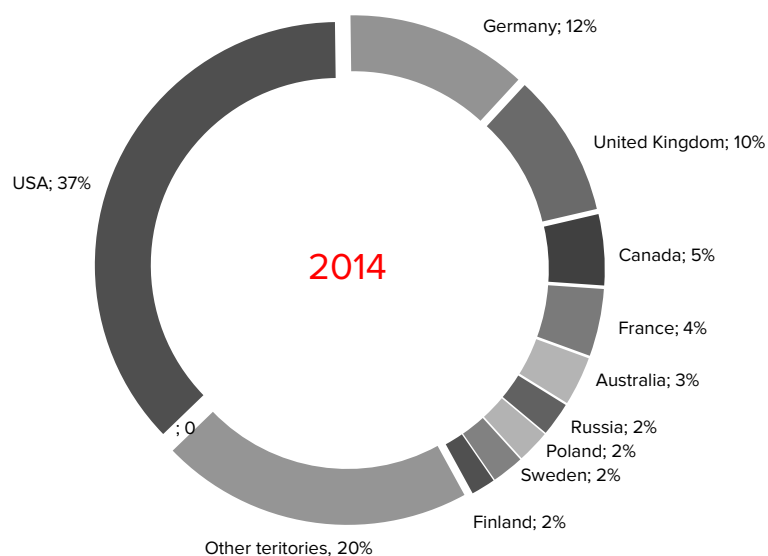
Figure 8 Sales revenues in the global digital videogame distribution segment and GOG.com catalogue volume.

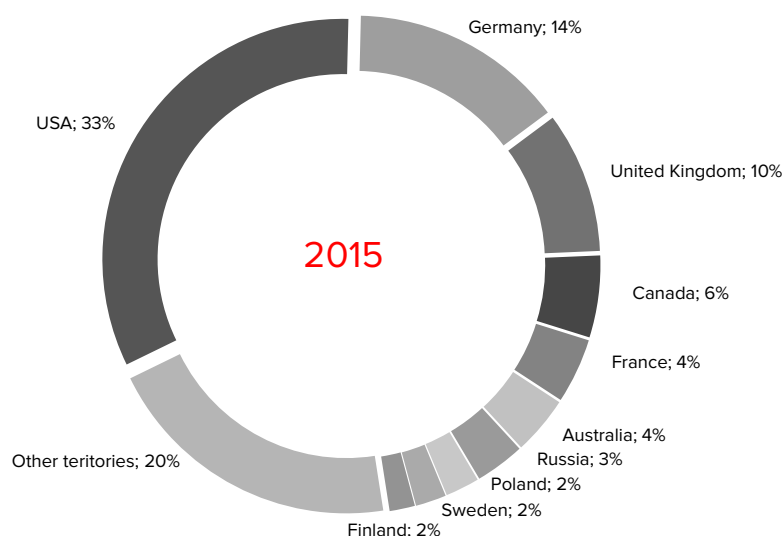


Key suppliers and clients

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

Figure 9 GOG.com net sales revenues by territory in 2014 and 2015





Similarly to the preceding years, in 2015 the majority of GOG.com purchases were made by customers from the United States (33% and 37% of purchases in 2015 and 2014 respectively), Germany (14% and 12% of purchases in 2015 and 2014 respectively) and the United Kingdom (10% of purchases in both 2015 and 2014). The growing share of German, Canadian and Russian markets in the overall sales volume is attributable to the rollout of dedicated language versions serving these countries.

In 2015 GOG Ltd. marketed games from over 300 suppliers with no single supplier accounting for more than 10% of the consolidated revenues of the Capital Group.

Key product and marketing events

The first important event affecting the digital videogame distribution segment in 2015 was the rollout of the German edition of GOG.com on 26 February. This was the second language localization of the platform, following the French edition which launched in November 2014. In addition to the platform itself, German-speaking customers were offered access to German videogame localizations and support for payment channels popular in Germany, including Sofort, Giropay and Paysafecard. The launch event coincided with a special sale on German videogames. As a result, a notable increase in sales was observed across the GSA¹⁷.

In April, GOG.com launched another edition of its platform – this time in Russian. The event was assisted by a sale during which 30 Russian videogame localizations were offered at promo prices.

In May 2015 the Company released an open beta of its proprietary GOG Galaxy technology stack. The aim of GOG Galaxy is to permit GOG.com to expand its catalogue with new, major videogame releases and to provide in-house support for online gaming features in products offered via GOG.com. GOG Galaxy tracks achievements, provides statistics and enables one-click installation and automatic updating of all games from the GOG.com catalogue. The technology remains true to the core principles of GOG Ltd. in that all of its components are entirely optional. In order to provide added security for players, GOG Galaxy can download DRM-free back-up copies directly to the user's computer.

The release of *The Witcher 3: Wild Hunt* was a crucial test for GOG Galaxy. Hundreds of thousands of players who purchased box editions of the PC version also received an activation key for the GOG.com electronic edition, with GOG Galaxy responsible for delivery and deployment of the so-called "day-1 patch". This event provided a real-life stress test for GOG Galaxy as during the peak period the platform registered approximately three game activations per second. Within two weeks of the game's release customers downloaded a total of 21.5 petabytes of data and spent over 15 million hours playing *The Witcher 3* supported by GOG Galaxy.

In June 2015 the GOG.com catalogue was extended with products by Telltale Games – developer of innovative adventure games such as *Game of Thrones: A Telltale Game Series* and *Walking Dead*. Most Telltale Games products (including its newest release – *Minecraft: Story Mode*) can now be downloaded from GOG.com and the platform will

¹⁷ This includes Germany, Switzerland and Austria.

offer further products on their respective release dates. Other important additions to the GOG.com catalogue include classic Warhammer RPGs and the well-known Dungeons and Dragons – Forgotten Realms Archives series. In addition, the platform now carries Deep Silver classics, including Metro and Saints Row.

Another highlight of the reporting period was the Company's distribution agreement with Bethesda Softworks, enabling GOG.com to offer such cult classics as Wolfenstein 3D, Quake I+II+III, Doom and four games from the Elder Scrolls series. Equally important was the return of the Fallout series, including Fallout, Fallout 2 and Fallout Tactics.

In September, on the basis of a distribution agreement with Night Dive, the Company expanded its catalogue with System Shock – a game high up on the wish list of the classic game fan community clustered around GOG.com. The game was released as an Enhanced Edition, with updated graphics and a robust set of supported controllers.

In addition to classic releases, GOG.com also added many brand-new titles on their respective global release dates – this includes Soma, Trine 3, Grand Ages: Medieval and Prison Architect. The rollout of GOG Galaxy enabled the Company to begin distributing previously unsupported games, such as the Van Helsing series.

On 29 July 2015 Microsoft released the newest edition of its flagship operating system – Windows 10. At that point GOG.com had already been testing the new system for several months and was able to report that nearly 90% of its games were Windows 10 compatible on the system's release date.

In September a major update was released for GOG Galaxy. Version 1.1 of the client includes the previously announced "rollback" feature which is unique to GOG Galaxy: any game update may be reverted if the customer likes the old version better. GOG Galaxy 1.1 also introduces a slew of updates to its social features (easier ways to find and add new friends), permits the game installation process to be suspended and then resumed, and has a smaller memory and CPU footprint.

The global digital videogame distribution segment was also significantly affected by the launch of The Witcher 3 expansion – Hearts of Stone preorder campaign, and by the subsequent release of the Hearts of Stone itself (on 13 October). Much like the main game, the expansion was distributed and installed on the clients' computers via GOG Galaxy. The infrastructure successfully passed this major stress test.

In November 2015 GOG Ltd. concluded an agreement with a well-known developer of strategy games: Stardock Entertainment. This enabled GOG.com to begin distributing Stardock's recent releases and moreover all new Stardock games will appear on GOG.com concurrently with their respective global release dates, with full support of GOG Galaxy.

Other activities

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

Key events

In the second half of 2015 the CD PROJEKT Capital Group completed deployment of several new IT solutions for the domestic Group companies.

The goal of this project was to optimize the Group's business processes, including information management, document flow and securing timely access to reliable financial data, facilitating accurate decision-making and reporting on the part of the Company's and Group's managerial bodies.

The following software was deployed:

- IFS Applications – Enterprise Resource Planning (ERP) system (Finances, Accounting, HR, Payroll, Production and Distribution, Warehousing);
- Tagetik – Corporate Performance Management (CPM) software which supports corporate decision-making;
- Plus Workflow (Poland) – Document Management System (DMS) supporting digitization of corporate documents.

External and internal factors crucial for the growth of the CD PROJEKT Capital Group – summary

The activities of CD PROJEKT Capital Group members are affected by external factors such as the global macroeconomic conditions, legal reforms and changes in taxation. In this sense CD PROJEKT is in a similar position to many other companies conducting business on domestic and international markets. Key internal and external factors which may prove detrimental to the Group's activities and growth prospects are listed in a separate risk assessment section elsewhere in this report.

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

The favorable reception of CD PROJEKT RED Studio's latest videogame – The Witcher 3: Wild Hunt – by the international media and gaming community (as evidenced by more than 250 Game of the Year 2015 awards) is important from the point of view of the series' overall commercial appeal, sales of tie-in products exploiting The Witcher trademark and CD PROJEKT RED's future videogame releases.

The recently announced second expansion for The Witcher 3: Wild Hunt – Blood and Wine, as well as the Studio's other major project – Cyberpunk 2077 have met with positive reactions from gamers and professional media. This outcome may favorably affect future sales.

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

Managing two separate major franchises (The Witcher and Cyberpunk) and several independent development teams enables the Company to conduct parallel work on several projects and smoothes its long-term publishing schedule. This migration towards a two-franchise model and simultaneous projects in development also permits optimization of development process, mitigates important risk factors and makes it easier for Company employees to seek professional fulfillment.

The capability for effective management of production and publishing activities which span multiple projects carried out at several geographically distributed offices, with a growing number of involved individuals, is one of the factors important from the point of view of continued growth of the CD PROJEKT Capital Group.

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

GOG Ltd. is in talks with leading global videogame publishers and continues to expand its portfolio. Each new release on GOG.com contributes to the platform's popularity and drives up sales. In addition to adding new products GOG Ltd. also seeks to increase its user base by attracting new players – those who have not yet set up a GOG.com account. The Company has been successful in this regard throughout 2015, owing to its PR activities and synergies resulting from cooperation with CD PROJEKT S.A. The GOG.com customer pool continues to grow at a steady pace.

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

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

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

Since 2008 CD PROJEKT RED 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 third iteration of REDengine, completed in 2013, provided support for cutting-edge nonlinear storytelling in dynamic open settings. Throughout 2014 work focused on further iterative optimization of the engine's core modules. In 2015 the development team worked on new features used – among others – in the first expansion pack for The Witcher 3 – Hearts of Stone. These features include advanced gesturing and emotional reaction models which acknowledge the speakers' social status, dialogue overdub accentuation capabilities and scene scaling – a pioneering module developed in support of top-quality localizations, capable of scaling animations, dialogue and pauses during cutscenes. REDengine was also augmented with a DLC and expansions management system supporting three distinct hardware platforms – PC, Sony PlayStation 4 and Xbox One.

In addition to the above, the Studio also introduced a set of organizational improvements based on new management software, and set up a full-fledged motion capture studio, which drastically improves the quality of rendering complicated animations while reducing the associated workload by a factor of 3.

CD PROJEKT was the driving force behind the establishment of Polskie Gry (Polish Games) – an association set up to foster the potential and innovative activities of Polish videogame developers on the global market, and to cement the sector's long-term competitive advantage. The Association's membership currently comprises more than a dozen companies representing the domestic videogame development and distribution market. The GamelINN sectoral development strategy, proposed by the Association under the auspices of CD PROJEKT and in collaboration with PwC, was positively reviewed by the National Center for Research and Development, which recommended its implementation.

With regard to the global digital videogame distribution segment which is the domain of GOG Ltd., current work focuses on upgrading the GOG.com management application and implementation of additional end-user features. Platform upgrades are rolled out at regular intervals as part of the Company's ongoing development effort.

In 2015 the platform added support for four new currencies along with a number of convenient payment channels. Work is also underway on an entirely new IT solution facilitating financial management, generation of reports and business analytics concerning GOG.com sales and usage statistics.

The most significant technical achievement in the global digital videogame distribution segment in 2015 was the development of GOG Galaxy. The technology comes with an optional client which enables players to engage in multiplayer online gaming, download games to their personal devices and automatically deploy patches. A beta version of GOG Galaxy was released in May 2015, with The Witcher 3: Wild Hunt being the first major videogame to make use of GOG Galaxy features.

Disclosure of significant agreements

In 2015 the Group concluded a number of amendments to existing credit agreements which qualify as significant. More information can be found in the section titled "Disclosure of credits and loans in 2015". Due to the fact that the Company had no need for external sources of funding in 2015 all of its pending credit agreements were discontinued. As of 31 December 2015 no member of the Capital Group had any outstanding liabilities under bank credit agreements.

In **Current Report no. 15/2015** of 29 May 2015 the Company disclosed that the limit for forward and derivative transactions carried out under the framework agreement between the Company and Raiffeisen Bank Polska S.A. had been increased. According to the amended agreement the limit for associated transactions was set at 30 million PLN

and the Company issued a declaration of voluntary submission to enforcement in an amount not exceeding 45 million PLN as collateral for liabilities emerging under the agreement.

In **Current Report no. 17/2015** of 5 August 2015 the Company disclosed that the limit for forward and derivative transactions carried out under the framework agreement between the Company and Raiffeisen Bank Polska S.A. had again been increased. According to the amended agreement the limit for associated transactions was set at 50 million PLN and the Company issued a blank promissory note together with a corresponding promissory note declaration to the bank as collateral for liabilities emerging under the agreement.

Risk management in the Capital Group

Risks associated with customers

In the videogame development segment the pool of customers consists of distributors and publishers who purchase licenses to publish and distribute Company products. Efficient cooperation with customers is dependent upon a number of factors, including the appeal of the product, customers' own publishing plans, customers' preferences in specific countries and the financial terms offered by each customer. CD PROJEKT S.A. makes every effort to ensure high quality of its products, rendering them more desirable to final customers and increasing licensee and distributor retention. Additionally, the Company strives to cooperate with the most reputable business partners, with a proven record of financial stability. In selected cases Company products are distributed on the basis of advance fees.

In the scope of products and services offered by the Group the final customers are natural persons with access to the retail market. Demand for products and services may fluctuate depending on market trends or sudden changes in perception among key demographics. Internet discussion forums and other social media provide customers with the ability to easily communicate with one another and influence one another's opinions. Unforeseen changes in perception among final customers and trendsetters are beyond the Group's control. Group members strive to maintain open channels of communication with final customers (this includes social media activity and in-house customer support). In line with the Group's philosophy, 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

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.

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

Risks associated with technical malfunctions and data loss

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

The Group works to ensure proper maintenance and continuously upgrade its critical IT infrastructure. The system is subject to live monitoring and technical updates are regularly introduced.

In order to facilitate uninterrupted operation of its technical infrastructure and mitigate the associated risks the Group has deployed a range of safeguards and backup systems ensuring constant supply of electrical power. All devices hosted in the Group's main server room are backed by UPS to protect against power surges and outages. Additionally, the Group has purchased a diesel generator to supply power to its critical systems in the event of a

blackout. The main server room is equipped with an automatic fire suppression system and many key operations are performed using redundant systems, enabling automatic failover and uninterrupted operation in the event of a technical malfunction.

Risk of incorrectly estimating demand and future sales

Developing, publishing and distributing products, whether proprietary or licensed, requires that their sales volume be estimated before the given product is released. In practice, individual products differ greatly with respect to their revenue generation potential. Group members draw upon their experience to determine the commercial potential of each product they release, however the risk of incorrectly estimating demand and sales volume cannot be entirely eliminated.

Risks associated with major shareholders' actions

As of the date of preparation of this report CD PROJEKT S.A. has several major shareholders listed elsewhere in this report. Owing to their share in the Company share capital and the total number of votes at the General Meeting the major shareholders, when acting in concert, exercise effective control over the Company. They may use their majority at the General Meeting to effect significant decisions – for example introduce changes in the Company Articles of Association, 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 and 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 of delays in videogame development

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

With respect to products purchased by GOG Ltd. Group members have no control over delays arising on the supplier side. With respect to development of proprietary products by CD PROJEKT S.A. the company actively manages its development schedule in order to minimize the likelihood of delays. Acting to further improve the effectiveness of videogame development the Company has deployed a standardized and semiautomatic production management system, which enforces best practices in the area of detailed control over the range and course of ongoing development work.

Risks associated with development of videogames for “closed” platforms

Development of games for “closed” platforms, such as gaming consoles or iOS devices, requires direct cooperation with the proprietors of each hardware platform. Before a game can be released on the open market it must first undergo certification. This requirement also applies to new versions of any game, as well as to expansion packs. Termination of cooperation between the developer and the platform proprietor is a significant risk, as are delays in the certification process or denial of certification. Each of those events may adversely impact the revenue stream for a given game. CD PROJEKT S.A. devotes substantial effort to meeting its contractual obligations due to platform proprietors and consistently prioritizes the quality of its products.

Risk associated with intellectual property management and illegal distribution of CD PROJEKT Capital Group products

Effective acquisition, licensing and protection of intellectual property rights (including trademarks) held by the Group is an important aspect of the Group's activities. Unenforceable contractual provisions or infringement of Company rights by third parties may significantly impact the Group's revenue stream and reputation. 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 possible, Group members try to attract customers by releasing products in various price

brackets, published in an appealing manner and therefore providing good value for money – both via services operated by GOG Ltd. and with regard to the Group's own products marketed domestically and globally. The Group also takes action to combat infringement of intellectual property rights – among others, by monitoring online auction portals and distribution platforms in Europe, the United States and Asia.

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

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

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

Risks associated with employee retention

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

Risk of insolvency and credit risks

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

In order to minimize the risk of customer insolvency the 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%.

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

As of the publication date of this report CD PROJEKT is not in debt due to any credit or loan agreements, and has set aside provisions in cash. Cash management on the level of the Group is performed in such a way that excess cash in one subsidiary may be loaned to other subsidiaries or invested in low-risk financial instruments deposited in banks which cooperate with the Group. The Group relies on this mechanism to perform daily management of its liquid assets, ensure sufficient liquidity, meet any liabilities arising from its ordinary activities and permit unhindered continuation of videogame development projects.

Risks associated with credit agreements and interest rate risks

In order to carry out their activities Group members may, in the future, require access to sources of financing, including bank credit agreements, third-party loans, lease agreements or bonds. In 2015 no Group member had any outstanding liabilities due to bank credit agreements, third-party loans or bonds. Several vehicle lease agreements were in force; however, their aggregate value was much lower than the Group's positive cash account balance.

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

Risks associated with sureties

Credit agreements, selected trade agreements and cash-pooling agreements concluded within the CD PROJEKT Capital Group involve CD PROJEKT S.A., GOG Ltd., GOG Poland sp. z o.o., cdp.pl sp. z o.o., Brand Projekt sp. z o.o. (liquidated on 31 December 2015), CD PROJEKT Brankds S.A. and CD PROJEKT Inc. acting as guarantors. These provisions may potentially compel each guarantor to cover the liabilities of other parties to whom guarantees have

been contractually pledged. Detailed information regarding the scope of guarantees granted by each member of the CD PROJEKT Capital Group can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2015, in the section titled “Conditional liabilities from guarantees and collateral pledged”.

Asset impairment tests

Acting in compliance with the International Financial Reporting Standards the Company performs asset impairment tests. Positive results of future tests cannot be guaranteed.

Risks associated with PLN strengthening against USD and EUR

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

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

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

Risks associated with changes in macroeconomic conditions

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

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

Risks associated with the emergence of new technologies

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

The eighth generation of gaming consoles was unveiled in late 2013, approximately 8 years after the debut of the preceding generation. The latest version of the Company's proprietary technology – REDengine 3 – used in the development of the Witcher 3: Wild Hunt, supports PCs and the newest generation of consoles. Developing games for new consoles carries clear advantages – as evidenced by sales of The Witcher 3: Wild Hunt – but also introduces certain risks due to vendor lock-in in a dynamically changing market environment.

Group members monitor technological changes which may affect development and distribution of games, and take steps to adapt their strategies to such changes.

Risks associated with legislative changes and conflicts of jurisdiction

Legal regulations, both 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 and technologies used in the videogame development process. Large portions of sale, purchase and licensing agreements concluded with foreign parties are governed by foreign law. This creates the risk of incorrect interpretations 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 influence upon the legislative process in Poland or abroad.

Risks associated with competitors' actions

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

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 acquirer, 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.



CD PROJEKT

Financial Status of the CD PROJEKT Capital Group – Overview

4

Overview of key economic and financial indicators disclosed in the Group's financial statement

Description and assessment of factors and unusual circumstances affecting the Group's financial result in 2015

The major factor affecting the Group's financial result in 2015, both in the videogame development segment and in the global digital distribution segment was the global release of The Witcher 3: Wild Hunt, discussed at length in this report.

In 2015 the Group did not report any unusual circumstances which would affect its financial result.

Consolidated profit and loss account

Table 4 Consolidated profit and loss account

PLN thousands	Note	01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014*
Sales revenues	1,2	798 014	96 194
Revenues from sales of products	-	630 856	21 513
Revenues from sales of services	-	129	1 156
Revenues from sales of goods and materials	-	167 029	73 525
Cost of products, goods and materials sold	3	210 621	60 631
Cost of products and services sold	-	101 816	11 973
Value of goods and materials sold	-	108 805	48 658
Gross profit (loss) from sales	-	587 393	35 563
Other operating revenues	4	1 933	4 570
Selling costs	3	62 108	18 553
General and administrative costs	3	60 789	11 283
Other operating expenses	4	42 236	1 287
Operating profit (loss)	-	424 193	9 010
Financial revenues	5	8 399	2 882
Financial expenses	5	11 007	2 552
Profit (loss) before tax	-	421 585	9 340
Income tax	6	79 155	(177)
Net profit (loss) from continuing operations	-	342 430	9 517
Net profit (loss) from discontinued operations	-	-	(4 838)
Net profit (loss)	-	342 430	4 679
Net profit (loss) attributable to minority interests	-	-	(533)
Net profit (loss) attributable to equity holders of parent entity	-	342 430	5 212
Net earnings per share (in PLN)			
Basic for the reporting period	8	3.61	0.05
Diluted for the reporting period	8	3.61	0.05
Net earnings per share from continuing operations (in PLN)			
Basic for the reporting period	8	3.61	0.10
Diluted for the reporting period	8	3.61	0.10
Net earnings per share from discontinued operations (in PLN)			
Basic for the reporting period	8	-	(0.05)
Diluted for the reporting period	8	-	(0.05)

* following presentation adjustments

Consolidated statement of comprehensive income

Table 5 Consolidated statement of comprehensive income

PLN thousands	Note	01.01.2015 – 31.12.2015	01.01.201 – 31.12.2014*
Net profit (loss)	10	342 430	4 679
Other comprehensive income which will be entered as profit (loss) following fulfillment of specific criteria	-	1 589	1 714
Exchange rate differences on valuation of foreign entities	-	1 590	1 714
Differences from rounding to PLN thousands	-	(1)	-
Other comprehensive income which will not be entered as profit (loss)	-	-	-
Total comprehensive income	-	344 019	6 393
Total comprehensive income attributable to minority interests	-	-	(533)
Total comprehensive income attributable to equity holders of parent entity	-	344 019	6 926

* adjusted

In 2015 sales revenues were reported at 798 014 thousand PLN and increased in comparison to 2014 sales revenues by a factor of 8.3.

The bulk of the Group's sales revenues was from the videogame development segment, which reported 697 033 thousand PLN in revenues. Of this figure 644 924 thousand PLN represents sales of products (including 14 128 thousand PLN in intragroup sales) – mostly license fees concerning The Witcher 3: Wild Hunt – while 51 237 thousand PLN corresponds to sales of goods and services (especially physical components of The Witcher 3: Wild Hunt box sets).

In line with the Company's estimates based on the available licensing reports for the period ending on 31 December 2015, the Company's distributors, acting in accordance with previously concluded licensing agreements, have created provisions for potential future returns or discounts on Company products. The aggregate value of these provisions, which represent a portion of the license fees owed to the Company, does not exceed 39 million PLN. These provisions reduce the revenues reported by the Company's videogame development segment in the current fiscal year. Under the applicable agreements, said provisions will be accounted for in future reporting periods. Approximately 36 million PLN in provisions will be accounted for in the first quarter of 2016. The portion of provisions used up or dissolved by Company distributors will depend on actual sales, potential returns and discounts on Company product offered by its distributors in future reporting periods.

The global digital videogame distribution segment reported 115 823 thousand PLN in 2015 revenues from sales to external clients (81% more than in 2014). This year the most important release marketed via GOG.com was the Group's own product – The Witcher 3: Wild Hunt.

A detailed breakdown of revenues into segments and categories can be found later on in this report.

Regarding costs, the most significant line item is the cost of products, goods and materials sold – 210 621 thousand PLN. This figure consists chiefly of the cost of products and services sold in the videogame development segment (101 842 thousand PLN), the cost of goods and materials sold in the videogame development segment (46 796 thousand PLN) and the cost of goods and materials sold in the global digital videogame distribution segment (76 120 thousand PLN, including 14 128 thousand PLN in intragroup purchases).

Owing to the successful debut of the Company's newest release, the relation between gross profit from sales and the Group's consolidated sales revenues increased from 37% in 2014 to 74% at the end of 2015. The major factor responsible for this growth was the increase in profitability of the videogame development segment (currently reported at 79%), in addition to the videogame development segment's proportionally greater contribution to the Group's revenue stream.

In 2015 the Group's gross profit from sales was 587 393 thousand PLN, compared to 35 563 thousand PLN the year before. The most significant reason behind this change was the release of The Witcher 3: Wild Hunt.

Selling costs comprise the costs of advertising and promotional activities incurred in each activity segment as well as the costs of other bought-in services related to sales of products. These costs were reported as 62 108 thousand PLN

(235% year-over-year increase). The bulk of this figure is attributable to the videogame development segment (40 051 thousand PLN) and the global digital videogame distribution segment (21 240 thousand PLN).

General and administrative costs were reported at 60 789 thousand PLN. This figure includes employee compensation, provisions for conditional compensation dependent on the Group's financial result, and costs of bought-in services. In relation to the preceding year general and administrative costs increased by 49 506 thousand PLN.

Other operating expenses of the CD PROJEKT Capital Group were reported at 42 236 thousand PLN, the bulk of which is attributable to the videogame development segment and represents provisions for future liabilities, including conditional compensation dependent on the Group's financial result.

Financial revenues were reported at 8 399 thousand PLN, of which 6 403 thousand PLN is associated with forward currency transactions while 1 799 thousand PLN represents interest on short-term bank deposits.

Financial expenses, reported at 11 007 thousand PLN, consist chiefly of surplus negative exchange rate differences associated with operating activities in the videogame development segment and in the global digital videogame distribution segment (10 860 thousand PLN altogether).

The Group's pre-tax profit of 421 585 thousand PLN was subjected to taxation in the amount of 79 155 thousand PLN (75 932 thousand PLN in current income tax and 3 223 thousand PLN in deferred income tax).

In 2015 the CD PROJEKT Capital Group reported 342 430 thousand PLN in consolidated net profit. This figure is by far the best result in the Group's history.

Table 6 Breakdown of sales revenues, expenses and financial results into individual activity segments described in this report.

PLN thousands	Videogame development	Global digital videogame distribution	Other activities	Consolidation eliminations (incl. from business combinations)	Total
Sales revenues	697 033	115 823	6 972	(21 814)	798 014
Revenues from sales of products	644 924	60	-	(14 128)	630 856
Revenues from sales of services	872	-	6 943	(7 686)	129
Revenues from sales of goods and materials	51 237	115 763	29	-	167 029
Cost of products, goods and materials sold	148 638	76 131	683	(14 831)	210 621
Cost of products and services sold	101 842	11	666	(703)	101 816
Value of goods and materials sold	46 796	76 120	17	(14 128)	108 805
Gross profit (loss) from sales	548 395	39 692	6 289	(6 983)	587 393
Other operating revenues	1 680	200	264	(211)	1 933
Selling costs	40 051	21 240	1 720	(903)	62 108
General and administrative costs	21 442	5 194	40 219	(6 066)	60 789
Other operating expenses	42 165	97	187	(213)	42 236
Operating profit (loss)	446 417	13 361	(35 573)	(12)	424 193
Financial revenues	7 951	19	38 048	(37 619)	8 399
Financial expenses	9 816	1 335	91	(235)	11 007
Profit (loss) before taxation	444 552	12 045	2 384	(37 396)	421 585
Income tax	84 254	1 603	(5 921)	(781)	79 155
Acquiree financial result	(58)	-	-	58	-
Profit (loss) from continuing operations	360 240	10 442	8 305	(36 557)	342 430
Profit (loss) from discontinued operations	-	-	-	-	-
Net profit (loss)	360 240	10 442	8 305	(36 557)	342 430
Net profit (loss) attributable to noncontrolling interests	-	-	-	-	-
Net profit (loss) attributable to equity holders of the parent entity	360 240	10 442	8 305	(36 557)	342 430

In 2015 the Group's videogame development segment generated 360 240 thousand PLN in net profit, while the net profit reported by the global digital videogame distribution segment was 10 442 thousand PLN.

The most important factor affecting the Group's revenues and profits in 2015 was the global release of The Witcher 3: Wild Hunt, followed by the release of the game's first paid expansion – Hearts of Stone. The videogame development segment also obtained revenues from sales of its other products, i.e. The Witcher, The Witcher 2: Assassins of Kings, and a series of tie-in products released in the run-up to the global debut of The Witcher 3: Wild Hunt. Of note is the best-ever financial result (both in terms of sales revenues and net profit) of the global digital videogame distribution segment, underpinned by strong sales of games from the GOG.com catalogue, including The Witcher 3: Wild Hunt for the PC.

The financial result of the “other activities” segment comprises part of the separate profit of CD PROJEKT S.A. in the amount of 8 305 thousand PLN, which corresponds to the activities of its investment branch. The reported result is also inclusive of a dividend obtained by CD PROJEKT S.A. from its GOG Ltd. subsidiary in the amount of 7 337 thousand PLN (which is subject to consolidation exclusions), as well as of a portion of the net profit of the videogame development segment in the amount of 30 million PLN, which has been turned over to the “other activities” segment and reported in the same manner as the aforementioned dividend, while also being subject to consolidation exclusions.

Consolidated statement of financial position

Table 7 Consolidated statement of financial position

PLN thousands	Note	01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014*
FIXED ASSETS	-	119 187	93 254
Tangible assets	12	9 380	5 499
Intangible assets	13	47 857	39 602
Goodwill	14	46 417	46 417
Other financial assets	-	547	547
Deferred income tax assets	6	14 771	912
Other fixed assets	18	215	277
CURRENT ASSETS	-	554 759	155 691
Inventories	22	34 200	96 511
Trade receivables	24	87 704	6 397
Other receivables	25	26 530	10 989
Other financial assets	-	165	2 745
Prepaid expenses	26	12 523	4 654
Cash and cash equivalents	27	393 637	34 395
TOTAL ASSETS	-	673 946	248 945

* following presentation adjustments

PLN thousands	Note	01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014*
EQUITY	-	513 675	168 018
Equity attributable to shareholders of the parent company	-	513 675	168 018
Share capital	28	94 950	94 950
Supplementary capital, incl. sales of shares above nominal price	29	120 199	119 730
Other reserve capital	30	3 354	1 716
Exchange rate differences	-	2 514	924
Retained earnings	31	(49 772)	(54 514)
Net profit (loss) for the reporting period	-	342 430	5 212
Minority share capital	-	-	-
LONG-TERM LIABILITIES	-	18 414	2 137
Other financial liabilities	34,40	-	260
Deferred income tax liabilities	6	17 956	874
Deferred revenues	41	423	976
Provisions for employee benefits and similar liabilities	42	35	27
SHORT-TERM LIABILITIES	-	141 857	78 790
Credits and loans	33	-	4
Other financial liabilities	34	20 228	397
Trade liabilities	36	22 603	20 532
Liabilities from current income tax	-	7 524	655
Other liabilities	37,38	46 965	52 264
Deferred revenues	41	7 864	4 638
Provisions for employee benefits and similar liabilities	42	225	205
Other provisions	43	36 448	95
TOTAL LIABILITIES	-	673 946	248 945

* following presentation adjustments

Assets

The main component of the Company's fixed assets is its goodwill, valued at 46 417 thousand PLN. Goodwill is defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all identifiable assets and liabilities of the controlled entity on the date of acquisition. The reported figure results from the merger between the Group's controlling entity and the CDP Investment Capital Group (effective on 30 April 2010) and did not change throughout the reporting period.

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, valued at 8 284 thousand PLN.

Due to creation of a set of provisions for future liabilities (described in note 6 of the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2015) the Group's deferred income tax assets increased by 13 859 thousand PLN, reaching 14 771 thousand PLN at the end of 2015.

The total value of inventories at the close of 2015 was 34 200 thousand PLN, most of which was held by the parent entity. Due to finalization of development work on The Witcher 3: Wild Hunt and the corresponding reassignment of development expenses from half-finished products and production in progress to finished products, as well as due to receipt of revenues from the game's ongoing sales and the corresponding proportional transfer from assets into costs of products sold in proportion to the game's sales volume, the value of inventories decreased by 62 311 thousand PLN (65%) compared to 31 December 2014. As of the end of 2015 the largest contribution to the value of the Group's inventories was from half-finished products and production in progress (28 485 thousand PLN – chiefly expenses

borne in conjunction with yet-unpublished products, especially the Company's largest ongoing project – Cyberpunk 2077). The value of finished products, reported at 5 097 thousand PLN, comprised the portion of development costs of The Witcher 3: Wild Hunt and Hearts of Stone (expansion published in October 2015) which will be transferred from assets to costs of products sold in future reporting periods in proportion to the games' respective sales revenues.

Owing to strong sales of the Group's own products in the fourth quarter of 2015, the Group reported 87 704 thousand PLN in year-end trade receivables. The bulk of this figure was attributable to the videogame development segment (87 677 thousand PLN in trade receivables, most of which is associated with licensing reports collected after the close of the reporting period – 82 021 thousand PLN in Q4 receivables). Additionally, the Group's consolidated trade receivables include receivables reported in the global digital videogame distribution segment (2 166 thousand PLN).

The Group's other receivables were reported at 26 530 thousand PLN, of which 24 215 thousand PLN was due to tax liabilities (except corporate income tax). Most of this figure was associated with withholding tax deducted at source by Company licensees and accounted by the Company in its annual income tax statement. Altogether, other receivables increased by 15 541 thousand PLN (141% year-over-year increase).

The consolidated value of prepaid expenses, i.e. 12 523 thousand PLN, represents an increase by 7 869 thousand PLN compared to the end of the preceding year. The bulk of this item represents contractual minimum guarantees acquired by GOG Ltd. from suppliers and not reportable as 2015 costs (11 518 thousand PLN as of 31 December 2015).

On 31 December 2015 the Group held cash and cash equivalents valued at 393 637 thousand PLN, which is 359 242 thousand PLN more than at the close of the preceding year. The bulk of these assets (366 222 thousand PLN) was held by CD PROJEKT S.A. and GOG Ltd. (25 770 thousand PLN) in cash assets.

Throughout 2015 the Group's fixed assets increased in value by 25 933 thousand PLN (28% increase). Over the same period working assets increased in value by 399 068 thousand PLN (256% increase). At the end of 2015 fixed assets constituted 18% of the Group's total assets, while working assets made up the remainder.

Liabilities

76% of the total figure of Group's liabilities was represented by equity with the remaining 24% split between long- and short-term liabilities. At the end of 2014 the corresponding figures were 67% and 33% respectively. The reported increase in the Group's equity was chiefly due to net profit made during the reporting period.

Deferred income tax liabilities were estimated at 17 956 thousand PLN as of 31 December 2015. The bulk of this figure was associated with revenues obtained in the current reporting period but invoiced in future periods (81 936 thousand PLN). A detailed account of positive temporary differences requiring creation of deferred tax assets can be found in the Group's Consolidated Financial Statement for the period between 1 January and 31 December 2015.

Other financial liabilities increased significantly, from 397 thousand PLN at the end of 2014 to 20 228 at the end of 2015. This increase is mostly due to creation of provisions for settlement of forward contracts under the incentive program in force at the Group.

Trade liabilities, valued at 22 603 thousand PLN at the end of 2015, comprise liabilities incurred by the global digital videogame distribution segment (19 775 thousand PLN) and trade liabilities of the videogame development segment (4 609 thousand PLN). The total balance of consolidated trade liabilities did not change significantly in comparison with the end of 2014.

At the end of 2015 the Group's other liabilities were valued at 46 965 thousand PLN, which represents a 10% decrease (by 5 299 thousand PLN) compared to 31 December 2014. This decrease resulted from full discounting of The Witcher 3 license fees advanced to the Group in 2014 and reported in the Group's previous annual financial statement as other liabilities. The aggregate figure was increased by recognition of advance license fees collected by CD PROJEKT S.A. in conjunction with future sales of The Witcher 3 Expansion Pass (47 487 thousand PLN).

The value of other provisions was estimated at 36 448 thousand PLN and comprised provisions for future liabilities, as well as provisions for conditional compensation of Group employees dependent on the Group's financial result.

The segmented consolidated statement of financial position of the CD PROJEKT Capital Group is included in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2015.

Consolidated statement of cash flows

Table 8 Consolidated statement of cash flows

PLN thousands		01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014*
OPERATING ACTIVITIES			
Net profit (loss)		342 430	4 679
Total adjustments:		19 110	(7 195)
Depreciation		5 146	3 162
Interest and profit sharing		(1 752)	(652)
Profit (loss) on investment activities		(117)	(786)
Change in provisions		36 380	17
Change in inventories		62 311	(44 545)
Change in receivables		(96 789)	9 770
Change in liabilities excluding credits and loans		18 215	29 840
Change in other assets and liabilities		(5 241)	7 685
Other adjustments		957	(11 686)
Cash flow from continuing operations		361 540	(2 516)
Income tax on profit (loss) before taxation		79 155	(177)
Income tax (paid) / reimbursed		(69 077)	(538)
Net cash flow from operating activities		371 618	(3 231)
INVESTMENT ACTIVITIES			
Inflows		4 754	8 191
Liquidation of intangible and tangible fixed assets		177	6 635
Liquidation of financial assets		4 573	1 441
Other inflows from investment activities		4	115
Outflows		17 157	8 684
Purchases of intangible and tangible fixed assets		15 140	5 505
Purchases of financial assets		62	1 902
Other outflows from investment activities		1 955	1 277
Net cash flow from investment activities		(12 403)	(493)
FINANCIAL ACTIVITIES			
Inflows		404	2 010
Credits and loans		-	3
Other inflows from financial activities		404	2 007
Outflows		377	383
Repayments of credits and loans		4	-
Payments of liabilities under financial lease agreements		373	383
Net cash flows from financial activities		27	1 627
Total net cash flow		359 242	(2 097)
Change in cash and cash equivalents on balance sheet		359 242	(2 097)
Cash and cash equivalents at beginning of period		34 395	36 492
Cash and cash equivalents at end of period		393 637	34 395

* Following presentation adjustments

In the scope of its operating activities the CD PROJEKT Capital Group reported 371 618 thousand PLN in positive cash flows. This figure is mostly associated with the release and subsequent market success of The Witcher 3: Wild Hunt.

The greatest adjustment in the Group's cash flows from operating activities was due to an increase in the Group's receivables (96 789 thousand PLN – mostly trade receivables appertaining to the Group as of 31 December 2015 in accordance with licensing reports which have been collected after the close of the reporting period).

The decrease in the value of the Group's inventories associated with realized sales of The Witcher 3: Wild Hunt prompted another significant adjustment in the corresponding category of cash flows (by 62 311 thousand PLN).

Other notable adjustments concerned changes in provisions (36 380 thousand PLN) and changes in liabilities except credits and loans (18 215 thousand PLN). The reasons behind these adjustments, as well as their scope, are described in the commentary section attached to the statement of financial position of the CD PROJEKT Capital Group.

Investment activities carried out by the CD PROJEKT Capital Group generated negative cash flows in the amount of 12 403 thousand PLN. This result is mostly associated with purchases of intangible and tangible assets valued at 15 140 thousand PLN, which includes computer software and licenses purchased within each of the Group's activity segments, investment expenses borne in conjunction with deployment of ERP and BI systems in the "other activities" segment as well as the GOG Galaxy project currently underway in the global digital videogame distribution segment.

The net consolidated positive cash flows from financial activities were reported at 27 thousand PLN.

At the end of 2015 the Group held cash assets valued at 393 637 thousand PLN and had no outstanding debt under credit and loan agreements. In relation to the end of the preceding year the value of the Group's cash assets increased by 359 242 thousand PLN.

Feasibility of investment plans – summary

As of 31 December 2015, having paid back all of its outstanding loans and having closed its open credit lines, the Company held cash and cash equivalents valued at 393 637 thousand PLN.

The Group intends to finance its future activities with its own resources and positive cash flows. The development of new videogames may also be partly financed with advance fees collected from distributors and publishers in accordance with licensing and distribution agreements.

As of the publication date of this report the Group does not anticipate any difficulties in securing adequate financing for its foreseeable investment plans.

Disclosure of credits and loans in 2015

As of 31 December 2015 the CD PROJEKT Capital Group had no outstanding liabilities under credit or loan agreements.

It should be emphasized that, despite incurring significant development expenses in 2014 and 2015, the Group was able to finance its activities with its own financial resources and with advance license fees collected from external distributors, without having to draw upon any available sources of credit. Securing sufficient liquidity is a key factor in the Group's growth strategy, permitting unhindered continuation of videogame development projects.

In **Current Report no. 4/2015** of 13 March 2015 the Company announced that it had concluded an amendment to its revolving credit agreement with mBank S.A., signed on 23 May 2013. As specified in the amendment the period during which the Company is entitled to draw upon the revolving credit facility was extended until 2 June 2016. Any outstanding credit must be fully repaid by 30 September 2016.

In **Current Report no. 18/2015** of 4 September 2015 the Company announced that its revolving and renewable credit agreements with mBank S.A. had been dissolved.

In **Current Report no. 24/2015** of 21 October 2015 the Management Board of the Company announced that the overdraft facility agreement between the Company, cdp.pl sp. z o.o. and mBank S.A. would be dissolved on 22 October 2015.

Disclosure of loans granted in the 2015 fiscal year

In 2015 no member of the CD PROJEKT Capital Group granted any loans to external parties. Capital Group members consolidate their bank accounts under a cash pooling agreement in order to maximize the efficiency of cash management.

Disclosure of guarantees and sureties granted in the 2015 fiscal year, and other off-balance sheet items

A presentation of guarantees and sureties granted in the 2015 fiscal year, and other off-balance sheet items is included in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2015.

Disclosure of the current economic and financial standing of the Capital Group and assessment of its financial management processes

Owing to the global success of The Witcher 3: Wild Hunt, a qualitative leap was observed in the revenues, net profit and positive cash flows, both with respect to the videogame development segment and the entire CD PROJEKT Capital Group. The reporting period was also marked by continued growth of the global digital distribution segment, resulting in ever greater revenues and profits. In summary, 2015 was a record year for the CD PROJEKT Capital Group. The current economic and financial condition of the Group is stable.

throughout 2015 the Capital Group's equity increased by 345 657 thousand PLN, which corresponds to a 206% increase compared to the end of 2014. The aggregate value of long- and short-term liabilities increased by 79 344 thousand PLN (98% increase compared to the end of 2014).

As of 31 December 2015 the Group had no outstanding liabilities under credit and loan agreements.

At the end of 2015 the Group held cash assets valued at 393 637 thousand PLN, which is 1044% more than at the end of the preceding year.

Surplus cash assets are made available to other Capital Group member companies under a cash pooling agreement. Unused surplus cash is typically invested in overnight and longer-term bank deposits.

At the end of 2015 the Group's trade receivables were 81 307 thousand PLN higher than at the end of 2014 (1271% increase). Trade receivables consist mostly of receivables associated with Q4 licensing reports received after the close of the reporting period (82 021 thousand PLN). Consequently, the observed growth can be primarily attributed to strong sales of CD PROJEKT products in the fourth quarter of 2015.

Disclosure of Capital Group economic and financial projections

The enormously positive reception of The Witcher 3: Wild Hunt on the part of gamers and professional media, evidenced by over 250 game of the year awards received in late 2015 and early 2016, should reinforce the game's long-term market potential and its ability to generate further revenues for the Company and the CD PROJEKT Capital Group.

Future economic and financial standing should also be positively affected by the release of the second paid expansion pack for The Witcher 3 – Blood and Wine, scheduled for the first half of 2016.

The Group anticipates further expansion of its global digital videogame distribution segment.

Implementation of business plans described elsewhere in this report will require substantial expenses in future reporting periods, however as of the publication date of this report the Management Board perceives no liquidity threats which might impact the Group's growth strategy or jeopardize its solvency.

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 GOG Ltd. and CD PROJEKT Brands S.A. as required by its business profile,
- groupwide consolidation of bank accounts under a cash pooling agreements,
- procurement of accounting, HR, legal, financial, administrative and managerial services from CD PROJEKT S.A. by its subsidiaries,
- subletting of office space,
- procurement of GOG Poland sp. z o.o. services by GOG Ltd. in the scope of maintenance of the GOG.com platform,
- sales of CD PROJEKT Inc. services to CD PROJEKT S.A. and GOG Ltd. in the scope of coordination of publishing and marketing activities in North America,
- other minor transactions associated with day-to-day activities (e.g. re-invoicing joint expenses).

Transactions between affiliates are concluded on market terms as required by the business profiles of each member of the CD PROJEKT Capital Group. A detailed description of procedures which govern transactions between affiliates is included in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2015.

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

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

At the end of 2015 the largest contribution to the Group's asset pool was from cash and cash equivalents. Throughout 2015 surplus cash was mostly invested in bank deposits. The total value of cash assets on 31 December 2015 was 393 637 thousand PLN.

Significant fixed assets reported in the Statement of Financial Position of the CD PROJEKT Capital Group for 31 December 2015 are aggregated in the "Intangible and legal assets" line item and valued at 47 857 thousand PLN. This figure includes, among others, the value of the CD PROJEKT brand name and The Witcher trademark. The Group's goodwill – 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 entity on the date of acquisition – is valued at 46 417 thousand PLN.

As of 31 December 2015 the Group held tangible fixed assets valued at 9 380 thousand PLN. The largest contribution to this figure is from machinery and equipment, valued at 4 958 thousand PLN (mostly computers, servers and the ancillary technical infrastructure utilized by the Group). Expenses associated with adaptation of office space are aggregated in the "buildings and structures" line item, with a net book value of 2 415 thousand PLN.

Most long-term development expenses incurred by the Group in 2015 and up until the publication date of this report were associated with ongoing development of videogames. These expenses, reported as inventories in the videogame development segment, comprised half-finished goods, production in progress and finished products. As of 31 December 2015 videogame development segment inventories were valued at 34 092 thousand PLN. This figure includes finished products, valued at 5 097 thousand PLN (most of which corresponds to The Witcher 3: Wild Hunt and Hearts of Stone development costs, which are discounted in proportion to the games' sales volume) and half-finished goods and production in progress, valued at 28 390 thousand PLN (chiefly expenses incurred in association with ongoing development of the Company's future releases: Cyberpunk 2077 and the second expansion pack for The Witcher 3 – Blood and Wine).

In 2015 CD PROJEKT Capital Group member companies financed their activities and investments with their own resources and with advance license fees collected from business partners.

The CD PROJEKT Capital Group fully owns two foreign entities: GOG Ltd. and CD PROJEKT Inc., the latter of which was incorporated on 4 August 2014 under US law in Venice, California. Domestic entities fully owned by the Group include GOG Poland sp. z o.o. and CD PROJEKT Brands S.A. CD PROJEKT S.A. also holds 8.29% of shares in cdp.pl sp. z o.o.



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

The CD PROJEKT Capital Group did not publish any projections regarding the 2015 fiscal year. Consequently, no explanation of differences between its financial results and the corresponding projections is required.

Disclosure of the appropriation of revenues obtained by the Company from issuance of securities up until the publication date of the financial statement

CD PROJEKT S.A. did not issue any securities between 1 January and 31 December 2015 and up until the publication date of this report.



CD PROJEKT

Corporate Governance

5

Disclosure of entities charged with audits and attestation of financial statements

Following Management Board recommendation, on 28 May 2015 the Supervisory Board of the Company selected PKF Consult sp. z o.o. (currently operating under the name PKF Consult Spółka z ograniczoną odpowiedzialnością sp. k.) as the entity responsible for reviewing the Company's and its capital Group's semiannual financial statement and auditing the Company's and its Capital Group's financial statement for 2015. The corresponding agreement was signed on 1 July 2015. PKF Consult is listed in the register of licensed auditors under ID 477 (as PKF Consult).

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

Detailed information concerning the remuneration of the entity charged with audits and attestation of the Company's financial statements for the 2015 fiscal year is provided in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2015, in note no. 60: "Disclosure of transactions with entities charged with performing audits of financial statements".

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

The Company's share capital is 94 950 000 PLN, divided into 94 950 000 shares with a nominal value of 1 PLN per share.

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

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

	No. of shares	% share in share capital	No. of votes at the GM	% share in total no. of votes at the GM
Michał Kiciński ¹	12 281 616	12.93%	12 281 616	12.93%
Marcin Iwiński	12 000 000	12.64%	12 000 000	12.64%
Piotr Nielubowicz	5 985 197	6.30%	5 985 197	6.30%
PKO TFI S.A. ²	9 000 000	9.48%	9 000 000	9.48%
AVIVA OFE ³	4 940 000	5.20%	4 940 000	5.20%
Amplico PTE S.A. ⁴	5 003 719	5.27%	5 003 719	5.27%
Pozostały akcjonariat	45 739 468	48.18%	45 739 468	48.18%

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

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

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

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

The percentage share in the Company's share capital and in the total number of votes at the General Meeting is calculated on the basis of the most recent notices received from Company shareholders as of the publication date of this report.

In **Current Report no. 2/2015** of 23 February 2015 the Company disclosed that it had received notice from Mr. Piotr Nielubowicz, acting on behalf of himself as well as the remaining parties to the agreement disclosed in Current Report No. 54/2010 of 2 September 2010, namely Mr. Marcin Iwiński, Mr. Michał Kiciński and Mr. Adam Kiciński, to the effect that the agreement existing between the parties and concerning joint purchases of Company shares and acting in concert at General Meetings of Shareholders of the Company had been dissolved on 23 February 2015. As stated by parties to the dissolved agreement, the agreement itself was a consequence of the merger between the CDP Investment Capital Group and OPTIMUS S.A. carried out in 2009-2010, whereas the current overriding

concern of those parties who retain executive positions at the Company is to jointly act in the best interests of the Company and its Capital Group by discharging their executive duties.

In **Current Report no. 21/2015** of 8 October 2015 the Management Board of CD PROJEKT S.A. announced that Mr. Marcin Iwiński – Vice President of the Board had sold 607 501 Company shares on the regulated market of the Warsaw Stock Exchange.

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

The Capital Group has instituted an incentive program for its key employees and collaborators, described elsewhere in this report.

Implementation of the incentive program is expected to result in changes in the proportion of shares held by Company shareholders. As of 31 December 2015 warrants have been granted to program participants entitling them to claim 1 450 000 Company shares.

Information regarding the purchase of own shares

The Company has never held its own shares.

Information regarding the control system of employee share programs

The incentive program under which Company shares may be awarded, covering the years 2012-2015, 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 supervised by the Supervisory Board and Management Board of CD PROJEKT S.A. As of the publication date of this report the Company has not yet instituted any further incentive programs under which Company shares may be awarded.

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

Table 10 Quantity of shares held by members of the Company's managerial and supervisory bodies

Name	Position	as of 01.01.2015	as of 31.12.2015	as of 10.03.2016
Adam Kiciński	President of the Board	3 122 481	3 122 481	3 122 481
Marcin Iwiński	Vice President of the Board	12 607 501	12 000 000	12 000 000
Piotr Nielubowicz	Vice President of the Board	5 985 197	5 985 197	5 985 197
Michał Nowakowski	Board Member	1 149	1 149	1 149
Katarzyna Szwarc	Chairman of the Supervisory Board	10	10 010	10 010

In **Current Report no. 5/2015** of 27 April 2015 the Management Board of the Company announced that it had received written notice from a member of the issuer's Supervisory Board, namely Ms. Katarzyna Szwarc – Chairwoman of the Supervisory Board – to the effect that Ms. Szwarc had purchased 10 000 shares of Company stock on the Warsaw Stock Exchange.

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

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

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

Management Board of CD PROJEKT S.A.

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

Management Board members represent the Company and its Management Board. Management Board members cooperate with one another, share information regarding important matters affecting the Company, jointly manage the Company and jointly bear the associated responsibility. The Management Board, acting as a collective body, formulates the Company's development strategies, develops its financial plans and manages the Company in such a way as to ensure implementation of these strategies and plans. The Management Board has embraced the concept of collective management in order to enhance its own capabilities for strategic thinking, build upon its positive energy and uphold the belief that nothing is truly impossible.

Deep mutual trust, coupled with a shared set of core beliefs and ethics, enable the Management Board to discharge its duties efficiently and without undue bureaucracy.

In addition to the above, individual members of the Management Board focus on selected areas of activity:

President of the Management Board – Adam Kiciński

- oversees formulation of the Company's and its Capital Group's business strategies and supports their practical implementation,
- coordinates Company activities in the scope of investor relations;

Vice President for International Affairs – Marcin Iwiński

- coordinates the Company's international activities and the corresponding policies,
- takes part in supervising and managing the Company's foreign subsidiaries;

Vice President for Financial Affairs – Piotr Nielubowicz

- coordinates the Company's financial and accounting branches; ensures that the Company meets its financial reporting obligations,
- participates in investor relations;

Board Member – Adam Badowski

- heads the CD PROJEKT RED development studio which is owned by the Company,
- coordinates the Company's game development activities;

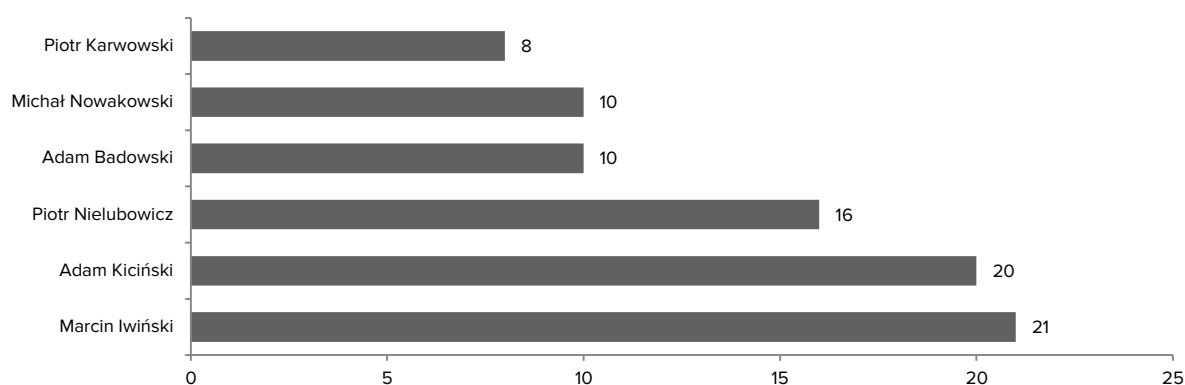
Board Member – Michał Nowakowski

- oversees formulation and implementation of the Company's sales policies,
- participates in shaping the Company's international activities and policies;

Board Member – Piotr Karwowski¹⁸

- takes responsibility for the Company's and its Capital Group's activities in the scope of digital distribution,
- manages the Global Digital Videogame Distribution activity segment.

Figure 10 Tenure of current members of the Management Board as holders of managerial positions within the CD PROJEKT Capital Group (in years).



¹⁸ Board member since 1 November 2015

Changes in Management Board composition

In **Current Report no. 22/2015** of 21 October 2015 the Company announced that the Supervisory Board had appointed Mr. Piotr Karwowski to the Management Board of the Company, effective on 1 November 2015.

Supervisory Board of CD PROJEKT S.A.

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

Changes in Supervisory Board composition

In **Current Report no. 8/2015** of 6 May 2015 the Management Board announced that Mr. Cezary Iwański had tendered his resignation as member of the Supervisory Board, effective on 7 May 2015. The reason for the resignation, as stated in the formal notice, was the potential conflict of interest which might have arisen due to Mr. Cezary Iwański's appointment as Chairman of the Management Board of BPS TFI S.A.

As announced in **Current Report no. 13/2015** of 28 May 2015 the Ordinary General Meeting of Shareholders reappointed the following members of the Supervisory Board for a new term:

- Ms. Katarzyna Szwarc,
- Mr. Grzegorz Kujawski,
- Mr. Maciej Majewski,
- Mr. Piotr Pągowski

Additionally, the General Meeting appointed a new member of the Supervisory Board – Mr. Krzysztof Kilian.

Gross compensation, bonuses and other benefits received by members of the Management Board and Supervisory Board from the Issuer and its subsidiaries

Adam Kiciński, President of the Board

The President's direct compensation paid out by CD PROJEKT S.A. in 2014 was 420 thousand PLN, all of which represents the fixed part of the President's remuneration. In 2015 this fixed part remained unchanged at 420 thousand PLN. The variable part, resulting from the incentive program in force at the Company, depended on the aggregate net profit of the Capital Group between 2012 and 2015. As the eligibility threshold specified by the incentive program was attained, the aforementioned variable part of the President's remuneration was calculated at 11 100 thousand PLN, which corresponds to 2 775 thousand PLN for the reporting period covered by the financial statement.

Marcin Iwiński, Vice President of the Board

The Vice President's direct compensation paid out by CD PROJEKT S.A. in 2014 was 312 thousand PLN, all of which represents the fixed part of the Vice President's remuneration. In 2015 this fixed part remained unchanged at 312 thousand PLN. The variable part, resulting from the incentive program in force at the Company, depended on the aggregate net profit of the Capital Group in the years 2012-2015. As the eligibility threshold specified by the incentive program was attained, the aforementioned variable part of the Vice President's remuneration was

calculated at 11 100 thousand PLN, which corresponds to 2 775 thousand PLN for the reporting period covered by the financial statement.

Piotr Nielubowicz, Vice President of the Board

The Vice President's direct compensation paid out by CD PROJEKT S.A. in 2014 was 312 thousand PLN, all of which represents the fixed part of the Vice President's remuneration. In 2015 this fixed part remained unchanged at 312 thousand PLN. The variable part, resulting from the incentive program in force at the Company, depended on the aggregate net profit of the Capital Group in the years 2012-2015. As the eligibility threshold specified by the incentive program was attained, the aforementioned variable part of the Vice President's remuneration was calculated at 11 100 thousand PLN, which corresponds to 2 775 thousand PLN for the reporting period covered by the financial statement.

Adam Badowski, Board Member

The Board Member's direct compensation paid out by CD PROJEKT S.A. in 2014 was 572 thousand PLN, of which 396 thousand PLN represents the fixed part of the Board Member's remuneration, while the remaining 176 thousand PLN constitutes a bonus. In 2015 the fixed part remained unchanged at 396 thousand PLN. The variable part, resulting from the incentive program in force at the Company, depended on the net profit of the videogame development segment in the years 2014-2015. As the eligibility threshold specified by the incentive program was attained, the aforementioned variable part of the Board Member's remuneration was calculated at 5 303 thousand PLN, which corresponds to 2 652 thousand PLN for the reporting period covered by the financial statement.

Michał Nowakowski, Board Member

The Board Member's direct compensation paid out by CD PROJEKT S.A. in 2014 was 536 thousand PLN, of which 360 thousand PLN represents the fixed part of the Board Member's remuneration, while the remaining 176 thousand PLN constitutes a bonus. In 2015 the fixed part remained unchanged at 360 thousand PLN. The variable part, resulting from the incentive program in force at the Company, depended on the net profit of the videogame development segment in the years 2014-2015. As the eligibility threshold specified by the incentive program was attained, the aforementioned variable part of the Board Member's remuneration was calculated at 5 303 thousand PLN, which corresponds to 2 652 thousand PLN for the reporting period covered by the financial statement.

Piotr Karwowski, Board Member (since 1 November 2015)

The Board Member's direct compensation paid out by CD PROJEKT S.A. for the period between the Board Member's appointment and 31 December 2015 was 10 thousand PLN.

Table 11 Compensation paid out (in thousand PLN) to members of the Management Board and Supervisory Board of CD PROJEKT S.A. by CD PROJEKT S.A. subsidiaries in 2015 (gross)

Name	01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014
Marcin Iwiński	24	26
Piotr Nielubowicz	24	22
Michał Nowakowski	4	1
Piotr Karwowski (between 01.11.2015 and 31.12.2015)	48	-

An incentive program under which Company stock options may be awarded was approved by the Extraordinary General Meeting on 16 December 2011. The list of entitled parties comprises key employees and collaborators of the Company and other Capital Group member companies, as well as other individuals deemed as having significant influence on the development and financial standing of the Company and other Capital Group member companies. Detailed provisions are contained in the terms and conditions document, adopted by Extraordinary General Meeting resolutions of 16 December 2011 and the corresponding resolutions of the Company's Supervisory Board and Management Board. The value and quantity of warrants granted under the incentive program to members of the Management Board is listed in the following table.

Table 12 Quantity of warrants and value of potential benefits resulting from participation in the incentive program by members of the Management Board (in thousand PLN)

Name	Position	Warrants granted (quantity)	Value of potential benefits	
			01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014
Adam Kiciński	President of the Board	200 000	93	93
Piotr Nielubowicz	Vice President of the Board	150 000	69	69
Marcin Iwiński	Vice President of the Board	150 000	905	-
Adam Badowski	Board Member	150 000	69	69
Michał Nowakowski	Board Member	100 000	46	46
Piotr Karwowski	Board Member	100 000	46	46

The value of warrants listed in the above table, granted to members of the Management Board under the incentive program is computed in accordance with the fair value of the corresponding entitlements, as determined by a licensed actuary. These values concern the 2015 fiscal year and are reported in the Company's financial statements as costs (in the same way as in 2014).

As of the publication date of this report the market goal, specified as an increase in Company stock price exceeding the corresponding increase in the WIG index for the period between 16 December 2011 – 30 December 2015 by more than 100%, has been met. The market goal governs the assignment of 20% of the total number of warrants under the incentive program. Given the attainment of this goal, as of the publication date of this report, all members of the Company's Management Board have received warrants entitling them to claim Company shares issued by way of a conditional increase in Company share capital. These shares have not yet been issued or claimed by the entitled parties.

The aggregate consolidated net earnings per share of the Capital Group for the years 2012-2015 exceeded the threshold specified in the terms and conditions of the incentive program (set at 2.436 PLN per share). Formal verification of the attainment of this result goal will occur after the date of the Ordinary General Meeting of the Company convened to approve the Group's consolidated financial statement for the year 2015.

Rules governing the assignment of bonuses to Management Board members

The variable portion of the Board Members' remuneration is calculated on the basis of the incentive and reward scheme in force at the Group, which closely reflect the Group's financial standing and the financial result of each of its activity segments. Disbursement of bonuses is subject to Supervisory Board approval.

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 2015 and as of the preparation date of this report all members of the Company's managing and supervisory bodies discharged their duties on the basis of General Meeting appointments and there were no provisions in existence regulating compensation in the event of their resignation or dismissal.

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

In 2015 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.

Changes in basic management policies affecting the Company and its Capital Group

No significant changes in basic management policies affecting the Company and its Capital Group occurred in 2015.

Disclosure of significant ongoing legal proceedings

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

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

- CD PROJEKT S.A. (formerly Optimus S.A.) vs. State Treasury

On 15 February 2006 the Management Board of Optimus S.A. filed a complaint in the District Court for the City of Kraków, 1st Civil Department seeking monetary damages from the State Treasury in the amount of 35 650.6 thousand PLN in relation to decisions issued by the Inspector of Treasury Control concerning VAT liabilities allegedly incurred by the Company's legal predecessor. On 24 November 2003 the Supreme Administrative Court in Warsaw vacated these decisions as unlawful.

On 9 December 2008 the District Court for the City of Kraków issued an interlocutory judgment holding the Optimus claim valid in rem. This judgment concerned the validity of the Company's claim for monetary damages. On 19 May 2009 this judgment was vacated by the Appellate Court for the City of Kraków, 1st Civil Department, which remanded the case to the District Court for further proceedings.

On 1 August 2014 the District Court for the City of Kraków issued a final judgment closing the proceedings in the court of first instance. The District Court's judgment awarded the Company 1,090.5 thousand PLN plus statutory interest for the period between 15 November 2005 and the remittance date, dismissing the lawsuit on all other counts.

On 9 October 2014 the Company filed an appeal against the District Court's judgment with regard to those sections in which the District Court dismissed the Company's claims, and also the section concerning the cost of legal proceedings associated with the case. A parallel appeal against the section in which the District Court affirms the Company's claims was filed by the State Treasury. On 7 December 2015 the Appellate Court in Kraków decided to petition the Supreme Court for resolution of a legal issue which, in the Appellate Court's opinion, gives rise to significant legal controversies, and to adjourn the proceeding until such time as a resolution is obtained. The Supreme Court has not yet scheduled a hearing in this matter.

- 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. This case has been suspended until a resolution is obtained in case no. XVIII K 126/09 (described below).

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 publication date of this statement several hearings have been held, testimony has been obtained from the defendants and from witnesses, and opinions have been filed by court-appointed experts.

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

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



CD PROJEKT