



DISCLOSURE OF THE TAX STRATEGY IMPLEMENTED

by CD PROJEKT S.A. in the fiscal year 2022

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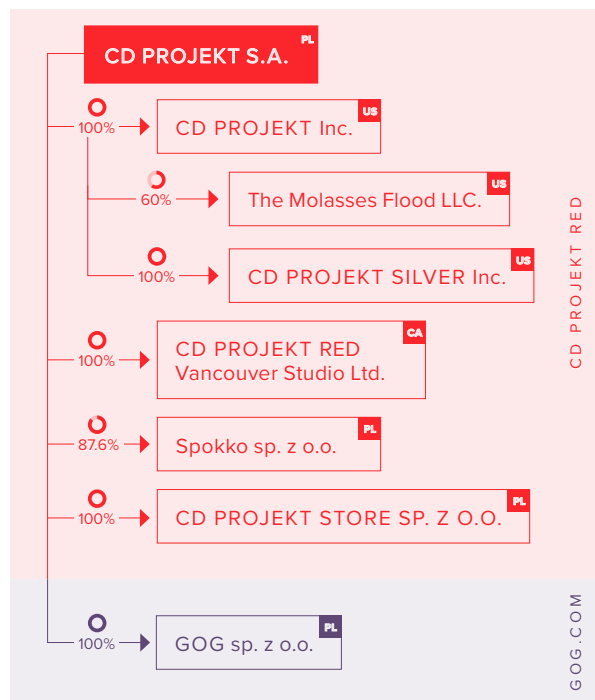
Introduction to the tax strategy implemented in the fiscal year 2022



I. Basic information about the Group

The CD PROJEKT Group (hereinafter referred to as the Group or the CD PROJEKT Group) conducts business activity in the dynamically developing video game industry. CD PROJEKT (hereinafter referred to as the Company) is the parent company of the CD PROJEKT Group, which, at the end of 2022, comprised eight entities:

Figure 1 CD PROJEKT Group activity segments and member companies (at yearend 2022)



The two basic activity segments of the Group are CD PROJEKT RED (development of videogames) and GOG.COM (videogame distribution activities).

The activities of the CD PROJEKT RED segment focus on developing and publishing games for personal computers and state-of-the-art gaming consoles. Videogame development is carried out by the CD PROJEKT RED studio, which operates in the framework of the CD PROJEKT Group. The Studio is globally renowned for its acclaimed The Witcher videogame series, as well as for *Cyberpunk 2077*, released in December 2020. Sales and distribution of games directly to end-user devices, carried out via the proprietary platform at GOG.COM and the GOG Galaxy application, take place within the GOG.COM segment.

The year 2022 at CD PROJEKT was marked by intensive development work on *Cyberpunk 2077*, resulting in further patches and the next-gen console edition of the game. Owing to the effort of the entire project team, popular sentiment surrounding the game improved markedly in the wake of the Patch 1.5, released in February 2022. Another highlight of the past year – with regard to the *Cyberpunk* universe – was the September premiere of *Cyberpunk: EDGERUNNERS*; an anime series co-developed with the Japanese Studio Trigger. The series enjoyed great popularity on the Netflix platform, raking – for four weeks in a row – among the platform's top 10 most frequently watched non-English works. It also received a series of accolades, including the grand prize for





the best anime of 2022 at Crunchyroll Anime Awards 2023. The successful debut of *Cyberpunk: EDGERUNNERS* also rekindled interest in *Cyberpunk 2077* among gamers around the world, confirming the strength and growth potential of the franchise.

In October 2022 the Management Board of CD PROJEKT unveiled an update of the Group's business strategy, together with an ambitious publishing plan for the coming years. Furthermore, in order to be able to work on new projects, the Company announced the creation of a new dev studio – CD PROJEKT RED North America – with hubs located in Boston and Vancouver. In its strategy update the Company also highlighted continued development of CD PROJEKT's franchises and expansion of the studio's future games with multiplayer elements.

The next-gen edition of *The Witcher 3: Wild Hunt* was released throughout the world in December 2022, along with a large patch for the game's PC version. This release represents another step in the Company's plan to support long-term sales of the game.

The parent entity of the CD PROJEKT Group is CD PROJEKT S.A., a company traded on the Main Market of the Warsaw Stock Exchange. The company is part of the WIG20 index which aggregates twenty of the largest and most liquid stocks on the Warsaw market.

At yearend 2022 the Group employed a total of 1,292 employees and collaborators.



II. Tax strategy in the context of sustainable business development



The CD PROJEKT Group regards discharge of fiscal obligations as an important component of social responsibility in countries where it conducts business activities.

An expression of the core principles in force at CD PROJEKT can be found in [Rules of the Game. Business and Ethics Standards at the CD PROJEKT Group](#), formally adopted by the Management

Board in 2021 and subsequently updated in 2022. In this document the Company pledges to abide by the highest ethics standards, all applicable legislation as well as internal by-laws at each member company of the CD PROJEKT Group. The Group's commitments expressed in the aforementioned declaration encompass compliance with national and international laws, which includes import duties, trade and fiscal regulations.

Guided by the principles of fiscal security and social responsibility, the Group takes no action to avoid taxation through so-called tax optimization or the use of any solutions inconsistent with the legislators' intent or the spirit of the law (tax integrity principle), both in the local context as well as in international settings. The Group does not carry out activities in countries which engage in harmful tax competition. All member companies of the Group are properly incorporated in a way which enables them to engage in their declared business activity.

According to information published in the annual consolidated financial statement for 2022 (note 40), intragroup transactions are carried out on market terms by applying the arm's length principle, and are subject to regular screening based on OECD guidelines¹ as well as national legislation. Applying such guidelines enables the Group to avoid tax base erosion and profit shifting.

The Group's member companies discharge their fiscal obligations with due diligence, through transparent tax reporting and timely remittance of public-law liabilities, as well as ongoing communication with national and regional authorities, including tax authorities.

¹ OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD, 2022)

III. Effective tax rate

The following table presents consolidated financial data and the effective tax rate for CD PROJEKT S.A. in 2022 (all figures in PLN thousands).

Item	Company	Consolidated figure
Sales revenues	772 500	952 576
Cost of products, services, goods and materials sold	118 275	243 974
Gross profit/(loss) from sales	654 225	708 602
Gross operating profit/(loss)	370 998	377 348
Pre-tax profit/(loss)	384 892	393 185
Income tax	43 820	46 092
Effective tax rate	11%	12%

The Company posted a net profit of 341.1 million PLN at the end of 2022. According to its financial statement for 2022, the effective tax rate – calculated as the ratio of CIT to pre-tax profit – was 11%. The nominal tax rate in Poland is 19%.

The Company's activity profile is broadly based on development of video games and technologies, and therefore aligned with the aims of a Polish program to support innovation. Consequently, the Company benefits from R&D tax relief. In addition, profits obtained by the Company from licensing video games, following fulfillment of formal criteria

and conditions under the income tax law, are subject to a preferential income tax rate of 5%.

Having confirmed fulfillment of criteria set forth in Art. 19 of the act of 30 May 2008 on certain forms of promoting innovative activity, on 11 August 2022 the Minister for Economic Development and Technology issued decision no. DNP-V.4241.16.2022 upholding the Company's status as an R&D center previously assigned to it by decision 4/CBR/18 of 19 June 2018. This status enables the Company to take advantage of R&D tax relief with an expanded directory

of eligible costs and a doubling of the percentage limit for deductions of certain eligible costs from the income tax base.

The Company furthermore enjoys tax benefits under amendments to the corporate income tax law which came into force on 1 January 2022 and concern simultaneous application of R&D tax relief and the preferential 5% income tax rate. As a result, given the available tax incentives, the Company's effective tax rate is lower than the 19% base rate applied in Poland.



IV. Managing tax risks

In accordance with the Management Board's officially adopted approach to undertaking decisions which carry fiscal consequences, the Company is highly averse to tax risks. Final decisions related to tax matters are based on thorough analyses and recommendations issued by specialists at the Company's internal legal and tax departments.

Tax matters are handled by a team of qualified professionals who possess the required skills and expertise, and

participate in regular training to improve their awareness of tax-related matters. At the end of 2022 the Company's tax and legal departments employed a total of 33 specialists responsible for monitoring, identifying and mitigating legal and fiscal risks related to the Group's business activities.

Oversight of financial and accounting activities, including tax-related activities, is the responsibility of the Vice President for Financial Affairs who coordinates the financial/accounting

branches of the Company and supervises discharge of tax disclosure obligations. Such oversight is carried out in close collaboration with all business units, to ensure that potential fiscal consequences are acknowledged in the business decision-making process. The Management Board receives reports on the Company's current tax status, as well as on any new draft legislation or requirements related to fiscal obligations.

The Company furthermore exercises prudence and due diligence by soliciting advice from external experts, both domestic and foreign, thus making use of their knowledge and experience. The Company regularly commissions external tax audits for its domestic and foreign subsidiaries, including in 2022, when a companywide review of corporate income tax was carried out. In case of any ambiguities related to the applicable tax law, the Company solicits individual interpretations from tax authorities.

In addition to the above, internal by-laws are in force, as mandated by the Management Board, with the aim to identify and mitigate tax risks. In order to minimize the risk of noncompliance, internal tax and legal teams monitor legislative processes and introduce suitable procedures in order to maintain a comprehensive internal framework and ensure that the Company properly discharges its legal and fiscal obligations.



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Disclosure of the tax strategy implemented by CD PROJEKT S.A. in the fiscal year 2022

Pursuant to Art. 27c of the CIT act, CD PROJEKT S.A. provides information on the tax strategy which it applied in the fiscal year beginning on 1 January 2022 and ending on 31 December 2022.



I. Disclosure of processes and procedures applied by the Company to manage discharge of obligations arising under tax law, and ensure that such obligations are appropriately discharged

A range of process and procedures are in force at the Company to ensure proper and timely discharge of tax obligations. These procedures also aim to support transparent decision-making, appropriate risk assessment, verification of the applicability and observance of regulations, and evaluation of the tax effects of business decisions. The following policies and procedures, among others, were in force in the fiscal year 2022:

- Expenditure settlement policy at member companies of the CD PROJEKT Group;
- Withholding tax policy at the CD PROJEKT Group;
- Transfer price policy at the CD PROJEKT Group;
- Procedure concerning discharge of disclosure obligations in the scope of tax schemes at the CD PROJEKT Group;
- Manual and verification tool for business partner details (VAT);
- Split payment (MPP) policy at the CD PROJEKT Group;
- Procedure and verification tool for whitelisted bank account numbers;
- Internal regulations concerning verification of changes in bank account numbers;
- Donations policy;
- Technical manual concerning use of the Uniform Control File;
- Internal regulations concerning circulation of promotional content;
- Internal regulations concerning issuance of correction notes;
- General guidelines concerning conduct in the event of an inspection.

All procedures are subject to regular verification with regard to their alignment with the applicable laws, case law and interpretations issued by tax authorities and administrative courts.





II. Disclosure of voluntary forms of cooperation, by the Company, with National Tax Administration bodies in 2022

In 2022 the Company did not engage in voluntary cooperation with National Tax Administration bodies in the sense of Art. 20s of the Tax Ordinance Act of 29 August 1997 (JL 2020.1325, consolidated text; hereinafter referred to as “TO”) (cooperation agreement), Art. 83 section 2 of the act of 16 October 2019 on resolving disputes concerning double taxation and advance pricing agreements (JL 2019.2200) (advance pricing agreement) and Art. 26b of the Corporate Income Tax Act (opinion regarding applicability of exemptions from flat-rate income tax).

The Company engages in active cooperation with National Tax Administration bodies whenever it faces official inquiries on the part of these bodies. Replies provided by the Company contain the required clarifications, to the best of the Company’s knowledge, and are prepared in accordance with the applicable laws.

III. Disclosure of discharge, by the Company, of tax liabilities on the territory of the Republic of Poland

In the fiscal year 2022 the Company discharged the following tax liabilities:

- Corporate income tax, including withholding tax;
- Personal income tax, including withholding tax;
- Value added tax,
- Civil law transaction tax,
- Excise tax,
- Real estate tax.

The Company exercises due diligence through timely discharge of its tax liabilities and submitting the required declaration and tax information within the timeframe specified by tax law. Any deviations from the foregoing are reported to the appropriate authorities, as well as being immediately rectified.

IV. Disclosure of the scope of information provided to the Director of the National Tax Administration concerning tax schemes specified in Art. 86a § 1 item 10 of TO, by type of applicable tax

The Company discharges its duties with regard to providing the Director of the National Tax Administration with information concerning tax schemes (in the context of MDR), thus exercising due diligence. The Company has instituted an appropriate procedure to facilitate this process, and has carried out training concerning tax scheme reporting obligations. Discharge of such obligations, and supervision thereof, is the responsibility of the Company's internal tax team.

In 2022 the Company provided the Director of the National Tax Administration with one notification concerning tax schemes with regard to corporate income tax (MDR-3) and one notification concerning tax schemes with regard to personal income tax (MDR-3).



V. Disclosure of transactions with affiliates in the sense of Art. 11a section 1 item 4 of the CIT Act, whose value exceeds 5% of the total value of assets, as reported on the balance sheet in accordance with accounting regulations, in the most recent approved financial statement of the Company, including with entities which are not tax residents of the Republic of Poland

The aggregate value of transactions with affiliates in the sense of Art. 11a section 1 item 4 of the CIT Act did not exceed 5% of the total value of the Company's assets as reported on its balance sheet in the financial statement for 2022.





VI. Disclosure of restructuring activities planned or undertaken by the Company which may have an effect on the tax liabilities of the Company or its affiliates as defined in Art. 11a section 1 item 4 of the CIT Act

In 2022 the Company was not engaged in any of the above-mentioned restructuring activities.¹

VII. Disclosure of petitions submitted by Company requesting issuance of a) general tax interpretations as specified in Art. 14a §1 of TO, b) interpretations of tax law as specified in Art. 14b of TA, c) binding information on tax rates as specified in Art. 42a of the Value Added Tax Act of 11 march 2004 (JL 2020.106, consolidated text), d) binding excise information as specified in Art. 7d section 1 of the Excise Tax Act of 6 December 2008 (JL 2020, items 722 and 1747)

In 2022 the Company submitted twelve petitions requesting issuance of individual interpretations of tax law as specified in Art. 14b of TO, including:

- Seven petitions concerning corporate income tax;
- Three petitions concerning value added tax;
- One petition concerning personal income tax;
- One petition concerning real estate tax.

² For the purposes of this report, restructuring activities are understood as activities which meet the definition of restructuring provided in the Finance Minister's Ordinance of 21 December 2018 on transfer prices in the scope of corporate income tax.

VIII. Disclosure of tax settlements carried out by the Company on territories or in countries which engage in harmful tax competition, as listed in the implementing acts issued on the basis of Art. 11j section 2 of the Corporate Income Tax Act and Art. 23v section 2 of the Personal Income Tax Act of 26 July 1991 (JL 2020.1426, consolidated text), and in ordinances issued by the minister appropriate for public finances as defined in Art. 86a §10 of TO

In 2022 the Company did not carry out any tax settlements on territories or in countries which engage in harmful tax competition, and was not a registered taxpayer in any such territory or country.

