

CAPITAL GROUP CD PROJEKT

**LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

I. GENERAL NOTES

1. Background

The holding company of the Capital Group CD PROJEKT (hereinafter 'the Group' or 'the Capital Group') is CD PROJEKT S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 15 January 2001. The Company's registered office is located in Warsaw at ul. Jagiellońska 74.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards and, based on the article 55.5 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005 and later.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000006865 on 6 April 2001.

The Company was issued with tax identification number (NIP) 7342867148 on 29 May 2001 and statistical number (REGON) 492707333 on 6 April 2001.

The principal activities of the holding company are as follows:

- software-related activities (in accordance with National Court Register) ;
- holding activities;
- game production.

The operations of the Group's subsidiaries, jointly controlled entities and associates include the following activities:

- software-related activities (in accordance with National Court Register) ;
- digital game distribution.

As at 31 December 2016, the Company's issued share capital amounted to 96 120 thousand zlotys. Equity as at that date amounted to 776 938 thousand zlotys.

In accordance with information presented by Management Board of the Company in section 'Disclosure of shareholders who control at least 5% of the total number of votes at the General Meeting' the Management Report on CD PROJEKT Capital Group for 2016 the, ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Marcin Iwiński	12 150	12 150	12 150	12,64%
Michał Kiciński	10 486	10 486	10 486	10,91%
Piotr Nielubowicz	6 135	6 135	6 135	6,38%
AVIVA OFE	4 940	4 940	4 940	5,14%
Remaining Shareholders	62 409	62 409	62 409	64,93%
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Total	96 120	96 120	96 120	100,00%
	=====	=====	=====	=====

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According to information included in statements given by the Company as at 30 March 2017, the following changes took place in the ownership structure of the holding company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- On 4 October 2016 PKO Towarzystwo Funduszy Inwestycyjnych S.A. reported that the involvement of investment funds managed by PKO Towarzystwo Funduszy Inwestycyjnych S.A. has jointly dropped below the 5% vote threshold in the Company's shared capital.
- On 26 October 2016 MetLife PTE S.A. reported that the involvement of its investment fund - MetLife Otwarty Fundusz Emerytalny in Company's shared capital has dropped below the 5% threshold in the Company's shared capital.

Movements in the issued share capital of the holding company in the financial year were as follows:

	Number of shares	Par value of shares
Opening balance	94 950	94 950
Increase of share capital (payment in own shares paid by cash – employee benefits program)	1 170	1 170
	-----	-----
Closing balance	96 120	96 120
	=====	=====

As at 30 March 2017, the holding company's Management Board was composed of:

Adam Kiciński	- President
Marcin Iwiński	- Vice President
Piotr Nielubowicz	- Vice President
Adam Badowski	- Member
Michał Nowakowski	- Member
Piotr Karwowski	- Member

There were no changes in the holding company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Group Structure

As at 31 December 2016, the Capital Group CD PROJEKT consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
CD PROJEKT S.A.	Fully consolidated	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
GOG Poland Sp. z o.o.	Fully consolidated	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016

This is a translation of a document originally issued in the Polish language.

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GOG Limited	Fully consolidated	audit in progress	Ernst & Young Cyprus Ltd	31 December 2016
CD PROJEKT Inc	Fully consolidated	No requirement to audit financial statements	No requirement to audit financial statements	31 December 2016

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in the basis of preparation and accounting policies and Note 43 of the supplementary information – additional notes and explanations (“the additional notes and explanations”) to the consolidated financial statements of the Group for the year ended 31 December 2016.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by Supervisory Board of the Company on 1 June 2016 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

Under the contract executed on 4 July 2016 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 30 March 2017, stating the following:

“To the General Shareholders Meeting and Supervisory Board CD PROJEKT S.A.

Report on the Audit of the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements for the year ended 31 December 2016 of CD PROJEKT Capital Group (‘the Group’), with parent's company CD PROJEKT S.A. (‘the Company’) registered office located in Warsaw at ul. Jagiellońska 74 which comprise the consolidated statement of financial position as at 31 December 2016, consolidated profit and loss account, consolidated statement of comprehensive income, statement of changes in consolidated equity, consolidated statement of cash flows for the year from 1 January 2016 to

31 December 2016, the basis of preparation and accounting policies, the supplementary information – additional notes and explanations ('the accompanying consolidated financial statements').

Responsibilities of the Management Board and members of the supervisory board for the consolidated financial statements

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act for the preparation of the consolidated financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and members of the supervisory board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to express an opinion on accompanying consolidated financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of a Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of consolidated financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and members of the supervisory board are obliged to state that the Management Board report on CD PROJEKT Capital Group for 2016 ('Directors' Report') meet the requirements of the Accounting Act.

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to report, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying consolidated financial statements reconciles with the Directors' Report. Based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

Other matters

The Company's consolidated financial statements for the prior year ended 31 December 2015 were audited by the key certified auditor, acting on behalf of another entity authorized to audit financial statements, who issued an unqualified opinion on those consolidated financial statements dated 10 March 2016."

We conducted the audit of the consolidated financial statements during the period from 24 November 2016 to 30 March 2017. We were present at the holding company's head office from 24 November 2016 to 2 December 2016, from 13 February 2017 to 17 February 2017 and from 27 February 2017 to 17 March 2017.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility truthful¹ presentation of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 30 March 2017, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by Zbigniew Telega, key certified auditor no. 10935, acting on behalf of PKF Consult Spółka z ograniczoną odpowiedzialnością Sp. k., the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 477. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2015. The consolidated financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 24 May 2016.

The consolidated financial statements of the Group for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 2 June 2016 with the National Court Register.

¹ Translation of the following expression in Polish: "rzetelna"

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2014 - 2016. The ratios for the years ended 31 December 2015 and 31 December 2016 were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2016.

The ratios for the year ended 31 December 2014 were calculated on the basis of financial information included in the approved consolidated financial statements for the year ended 31 December 2015 audited by another auditor and without taking into consideration the presentation changes described in the additional notes and explanations to the consolidated financial statements for the year ended 31 December 2016.

	2016	2015	2014
Total assets	874 960	659 175	248 945
Shareholders' equity	776 938	513 675	168 018
Net profit/ loss	250 514	342 430	4 679
Return on assets (%)	28,6%	51,9%	1,9%
$\frac{\text{Net profit/ loss} \times 100\%}{\text{Total assets}}$			
Return on equity (%)	48,8%	203,8%	2,8%
$\frac{\text{Net profit/ loss} \times 100\%}{\text{Equity at the beginning of the period}}$			
Profit margin (%)	42,9%	42,9%	4,9%
$\frac{\text{Net profit/ loss} \times 100\%}{\text{Sales revenues}}$			
Liquidity I	7,8	3,7	2,0
$\frac{\text{Current assets}}{\text{Short-term liabilities}}$			
Liquidity III	6,2	2,5	0,4
$\frac{\text{Cash and cash equivalents}}{\text{Short-term liabilities}}$			
Debtors days	45 days	40 days	24 days
$\frac{\text{Trade receivables} \times 365}{\text{Sales revenues}}$			

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	2016	2015	2014
Creditors days	37 days	22 days	83 days
Trade liabilities x 365			
Operating costs			
Stability of financing (%)	89,7%	78,5%	68,4%
(Equity + long-term provisions and liabilities) x 100%			
Total equity and liabilities			
Debt ratio (%)	11,2%	22,1%	32,5%
(Total liabilities and provisions) x 100%			
Total assets			
Rate of inflation:			
Yearly average	-0,60%	-0,90%	0,00%
December to December	0,80%	-0,50%	-1,00%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets ratio amounted to 28,6% in 2016 and decreased comparing to 51,9% in 2015. Return on assets ratio in 2014 amounted to 1,9%.
- Return on equity ratio amounted to 48,8% in 2016 and decreased comparing to 203,8% in 2015. Return on equity ratio in 2014 amounted to 2,8%.
- Profit margin ratio amounted to 42,9% in 2016 and has not change comparing to 2015. Profit margin ratio in 2014 amounted to 4,9%.
- Liquidity I ratio as at 31 December 2016 amounted to 7,8 and increased comparing to 3,7 as at 31 December 2015 and 2,0 as at 31 December 2014.
- Liquidity III ratio as at 31 December 2016 amounted to 6,2 and increased comparing to 2,5 as at 31 December 2015 and 0,4 as at 31 December 2014.
- Debtor days ratio amounted to 45 days in 2016 and increased comparing to 40 days in 2015 and 24 days in 2014.
- Creditor days ratio amounted to 37 days in 2016 and increased comparing to 22 days in 2015. Creditor days ratio in 2014 amounted to 83 days.
- Stability of financing ratio amounted to 89,7% as at 31 December 2016 and increased comparing to 78,5% as at 31 December 2015 and 68,4% as at 31 December 2014.
- Debt ratio amounted to 11,2% as at 31 December 2016 and decreased comparing to 22,1% as at 31 December 2015 and 32,5% as at 31 December 2014.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

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In section Basis of preparation and accounting policies of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2016, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in section Basis of preparation and accounting policies of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2016.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2016.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in section Basis of preparation and accounting policies of the additional notes and note 13 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 0 thousand zlotys as at 31 December 2016. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 27 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2016 and include the financial data for the period from 1 January 2016 to 31 December 2016.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2016.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the Management Board report on CD PROJEKT Capital Group for 2016 ('the Directors' Report') and the rules of preparation of annual statements' and concluded that the information contained in it take into account the provisions of 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states and they are consistent with the information contained in the accompanying financial statements. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report of the Capital Group. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

Warsaw, 30 March 2017

Acting on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
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