

CD PROJEKT S.A.

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

I. GENERAL NOTES

1. Background

CD PROJEKT S.A. (hereinafter 'the 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 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 Company is the holding company of the CD PROJEKT S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 16 and 44 of the supplementary information – additional notes and explanations ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2016.

The principal activities of the Company are as follows:

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

As at 31 December 2016, the Company's issued share capital amounted to 96 120 thousand zlotys. Equity as at that date amounted to 757 576 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 and CD PROJEKT S.A. activities in 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 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 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
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Closing balance	96 120	96 120
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As at 30 March 2017, the 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 Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

2.1 Auditors' opinion and audit of 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 the Supervisory Board of the Company on 1 June 2016 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor 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 Company's Management Board, we have audited the financial statements for the year ended 31 December 2016.

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

We have audited the accompanying financial statements for the year ended 31 December 2016 of CD PROJEKT S.A. (‘the Company’) located in Warsaw at ul. Jagiellońska 74 which comprise the statement of financial position as at 31 December 2016, the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the 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 to the standalone financial statements (‘the accompanying financial statements’).

Responsibilities of the Management Board and members of the Supervisory Board for the 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 based on properly maintained accounting records of the 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 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 financial statements meet the requirements of the Accounting Act.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on accompanying 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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 financial statements:

- give a true and fair view of the financial position of the Company 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;
- have been prepared based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of 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 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 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 financial statements. Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the 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 financial statements reconciles with the Directors' Report. Based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the 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 financial statements.

Other matters

The Company's 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 financial statements dated 10 March 2016."

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

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truthful¹ presentation of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 30 March 2017, confirming that:

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

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

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

2.3 Financial statements for prior financial year

The Company's financial statements 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 financial statements for the year ended 31 December 2016. The Company's financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 24 May 2016, and the shareholders resolved to appropriate the 2015 net profit as follows:

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

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Cover losses from previous years	65 353
Reserve capital	270 847

	336 200
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The financial statements for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 2 June 2016 with the National Court Register.

The closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

3. Analytical Review

3.1 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 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 financial statements for the year ended 31 December 2016.

	2016	2015	2014
Total assets	828 529	604 332	208 818
Shareholders' equity	757 576	480 087	142 264
Net profit/ loss	249 702	336 200	- 12 407
Return on assets (%)	30,1%	55,6%	-5,9%
<hr/> $\frac{\text{Net profit/ loss} \times 100\%}{\text{Total assets}}$			
Return on equity (%)	52,0%	236,2%	-8,0%
<hr/> $\frac{\text{Net profit/ loss} \times 100\%}{\text{Equity at the beginning of the period}}$			
Profit margin (%)	52,4%	48,1%	-36,0%
<hr/> $\frac{\text{Net profit/ loss} \times 100\%}{\text{Sales revenues}}$			
Liquidity I	10,6	4,0	2,0
<hr/> $\frac{\text{Current assets}}{\text{Short-term liabilities}}$			
Liquidity III	8,4	2,7	0,2
<hr/> $\frac{\text{Cash and cash equivalents}}{\text{Short-term liabilities}}$			
Debtors days	56 days	46 days	57 days
<hr/> $\frac{\text{Trade receivables} \times 365}{\text{Sales revenues}}$			

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	2016	2015	2014
Creditors days	15 days	6 days	87 days
Trade liabilities x 365 Operating costs			
Stability of financing (%)	92,5%	80,2%	69,3%
(Equity + long-term provisions and liabilities) x 100% Total equity and liabilities			
Debt ratio (%)	8,6%	20,6%	31,9%
(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%

3.2 Comments

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

- Return on assets ratio amounted to 30,1% in 2016 and decreased comparing to 55,6% in 2015. Return on assets ratio in 2014 amounted to -5,9%.
- Return on equity ratio amounted to 52,0% in 2016 and decreased comparing to 236,2% in 2015. Return on equity ratio in 2014 amounted to -8,0%.
- Profit margin ratio amounted to 52,4% in 2016 and increased comparing to 48,1% in 2015 and -36,0% in 2014.
- Liquidity I ratio as at 31 December 2016 amounted to 10,6 and increased comparing to 4,0 as at 31 December 2015 and 2,0 as at 31 December 2014.
- Liquidity III ratio as at 31 December 2016 amounted to 8,4 and increased comparing to 2,7 as at 31 December 2015 and 0,2 as at 31 December 2014.
- Debtor days ratio amounted to 56 days in 2016 and decreased comparing to 46 days in 2015. Debtor days ratio in 2014 amounted to 57 days.
- Creditor days ratio amounted to 15 days in 2016 and increased comparing to 6 days in 2015. Creditor days ratio in 2014 amounted to 87 days.
- Stability of financing ratio amounted to 92,5% as at 31 December 2016 and increased comparing to 80,2% as at 31 December 2015 and 69,3% as at 31 December 2014.
- Debt ratio amounted to 8,6% as at 31 December 2016 and decreased comparing to 20,6% as at 31 December 2015 and 31,9% as at 31 December 2014.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the 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.

In section Basis of preparation and accounting policies of the additional notes and explanations to the audited financial statements for the year ended 31 December 2016, the Management Board has stated

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that the financial statements were prepared on the assumption that the Company 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. Accounting System

The Company's accounts are kept using the IFS computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2016.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2016.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the 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.

4. Directors' Report

We have read the Management Board report on CD PROJEKT Capital Group and CD PROJEKT S.A. activities in 2016 ('Directors' Report') and the basis for preparation of annual financial statements and concluded that the information contained in it take into account the provisions of Art. 49 para 2 of the Accounting Act and the relevant provisions of 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. 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. 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 financial statements.

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's 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.
Rondo ONZ 1, 00-124 Warsaw
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