

12



CD PROJEKT®

MANAGEMENT BOARD REPORT ON
CD PROJEKT CAPITAL GROUP
AND CD PROJEKT S.A.
ACTIVITIES IN 2016

Disclaimers

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.

This Management Board report on CD PROJEKT Capital Group activities includes elements of the separate financial statement of CD PROJEKT S.A. Due to the fact that both the activities and separate results of CD PROJEKT S.A. are intimately tied to the activities and consolidated results of the entire CD PROJEKT Capital Group, information presented in other parts of this report will refer solely to the consolidated financial results of the Group, which also comprise the separate activities and results of CD PROJEKT S.A.

Esteemed Shareholders,



The financial results we reveal today, founded upon the continuing streak of excellent sales data associated with The Witcher games, should be regarded as solid validation of our business philosophy.

We believe that uncompromising dedication to quality and the consequent focus on a small number of core projects is the best path ahead. We do not take shortcuts and we do not rest on our laurels – rather, we continue to devote ourselves to ambitious undertakings aimed at a global audience.

After fifteen years spent on developing games in accordance with our business credo, we are proud of what we've been able to accomplish. Two aspects in particular make us very happy: first, the ongoing good sales of The Witcher and The Witcher 2 prove that betting on mature story-driven RPGs yields long-term rewards. Second, with each videogame released thus far we've been able to raise the bar in terms of technical complexity and sales volume.

I feel delighted to announce that by the end of 2016 we have sold more than 25 million copies of games from The Witcher series.

From the strategic viewpoint, the most important event of 2016 was the launch of GWENT: The Witcher Card Game, which represents our first foray into a new market segment: online games with optional micro-transactions. The closed beta campaign, initiated last year, is merely the beginning – in the coming months gamers can expect additional cards, additional gameplay modes and a set of single-player campaigns created in cooperation with The Witcher 3 development team. We believe that GWENT is the right choice for our initial offering on the promising Chinese market, which we are now entering in partnership with GAEA.



Regarding our other area of activity – GOG.com – we have taken a step which is not readily visible when looking at our bottom line, but has major impact on our business strategy. I'm referring to GOG Galaxy, which is much more than simply an end-user client for GWENT. Indeed, Galaxy represents a state-of-the-art backend solution enabling seamless gameplay for millions of players around the world. From a company traditionally focused on single-player content, we are now extending our reach to the multiplayer world.

It's full speed ahead at CD PROJEKT – we continue to work on GWENT, which brings us closer to the goal of stabilizing our revenue stream in between major releases. GOG Galaxy creates new, exciting multiplayer gaming opportunities. We are also busily developing our next triple-A game – Cyberpunk 2077, which is already the largest project in our history in terms of the number of developers involved.

The coming years will be a very exciting time for CD PROJEKT!

ADAM KICIŃSKI

Table of Contents



7	CD PROJEKT Capital Group – introduction
8	Significant achievements of the Capital Group in 2016
10	Overview of the CD PROJEKT Capital Group
11	Activity profile
19	Implementation of the Capital Group strategy for 2016-2021 in 2016
20	CD PROJEKT Capital Group growth outlook
21	CD PROJEKT S.A. on the capital market
23	CD PROJEKT Capital Group activity profile
24	Market environment – global videogame industry
27	CD PROJEKT Capital Group – organizational structure
29	Disclosure of business segments, products, services, outlets, suppliers and customers
41	Disclosure of external and internal factors affecting the CD PROJEKT Capital Group
43	Disclosure of significant achievements in the scope of research and development activities
44	Disclosure of significant agreements
45	Risk management at the Capital Group
52	Financial status of the CD PROJEKT Capital Group – overview
53	Overview of key economic and financial indicators disclosed in the consolidated and separate financial statement
72	Corporate governance
73	Disclosure of entities charged with audits and attestation of financial statements
73	Disclosure of shareholders who control at least 5% of the total number of votes at the General Meeting
75	Agreements which may result in changes in the proportions of shares held by shareholders and bondholders
75	Information regarding the purchase of own shares
75	Information regarding the control system of employee share programs
76	Company shares held by members of the Management Board and Supervisory Board
78	Composition of the Management Board and Supervisory Board of CD PROJEKT S.A.
81	Gross compensation of members of the Management Board and Supervisory Board of CD PROJEKT S.A.
85	Changes in basic management practices at the Company and its Capital Group
85	Corporate governance policies
86	Disclosure of significant ongoing legal proceedings



> 25M copies sold

The Witcher,
The Witcher 2: Assassins of Kings,
The Witcher 3: Wild Hunt
in 2007-2016



583.9M PLN

consolidated sales revenues*

42.9%

net profitability of the
CD PROJEKT Capital Group*

250.5M PLN

consolidated net profit*



> 1B PLN

sales revenues
The Witcher 3: Wild Hunt,
Hearts of Stone and Blood and Wine
till the end of 2016



**Over
60 awards**

for Blood and Wine
globally

*data as of the end of 2016



As of the publication date of this statement
GWENT: The Witcher Card Game
contains 300 cards

**including nearly
50 premium cards**



96%
of CD PROJEKT S.A.
sales revenues
generated by exports*

7B PLN

market capitalization
of CD PROJEKT S.A.**



GOG.com carries
games from nearly

440 suppliers

The CD PROJEKT Capital Group
employs citizens of

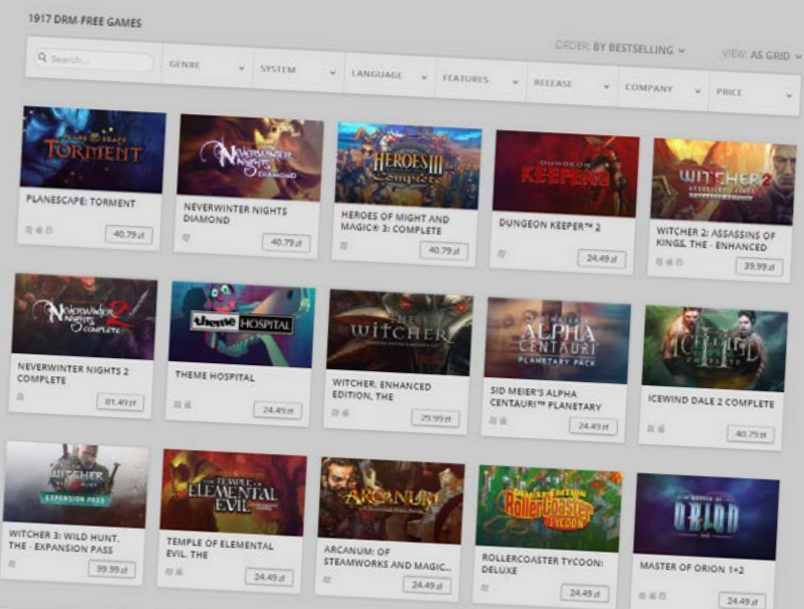
27 countries

including Poland, USA, UK,
France, Ukraine and Russia

Players can choose from

over 1900 games

in the GOG.com catalogue



*data as of the end of 2016
**as of the end of 29.03.2016

**CD PROJEKT
Capital Group –
introduction**



Significant achievements of the Capital Group in 2016



CD PROJEKT RED

On 31 May 2016 the Company published **the second expansion pack for The Witcher 3: Wild Hunt – Blood and Wine**. The game was released simultaneously for the PC, Xbox One and PlayStation 4 as a digital download and limited box edition.

Blood and Wine has since garnered over 60 global awards, including Best Role-Playing Game at The Game Awards 2016 and three Golden Joystick trophies – for Best Story Telling, Best Visual Design and Best Gaming Performance, in addition to CD PROJEKT RED's Studio of the Year award.

On 14 June 2016 **CD PROJEKT announced GWENT: The Witcher Card Game**. GWENT is a free-to-play videogame with online multiplayer support and paid single-player campaigns.

In July 2016 CD PROJEKT signed a partnership agreement with GAEA, one of the fastest-growing digital entertainment suppliers in China. The goal of this cooperation is to **bring GWENT to the promising Chinese market**.

Closed beta tests of GWENT for the PC and Xbox One commenced on 25 October 2016. An update published in December introduced several dozen new cards, including animated premium cards, in addition to player rankings and a new progression ladder.

GWENT is a collective undertaking, bringing together the experience, knowledge and resources of CD PROJEKT S.A. and GOG Poland Sp. z o.o. in the framework of a project consortium.

Sales of The Witcher 3: Wild Hunt remained high throughout 2016. Its new release as the Game of the Year Edition took place on 30 August 2016.

By the end of 2016 clients have purchased over **25 million copies of games** from The Witcher trilogy – The Witcher, The Witcher 2: Assassins of Kings and The Witcher 3: Wild Hunt.¹

¹ This figure does not include sales of expansion packs for The Witcher 3 – Hearts of Stone and Blood and Wine.

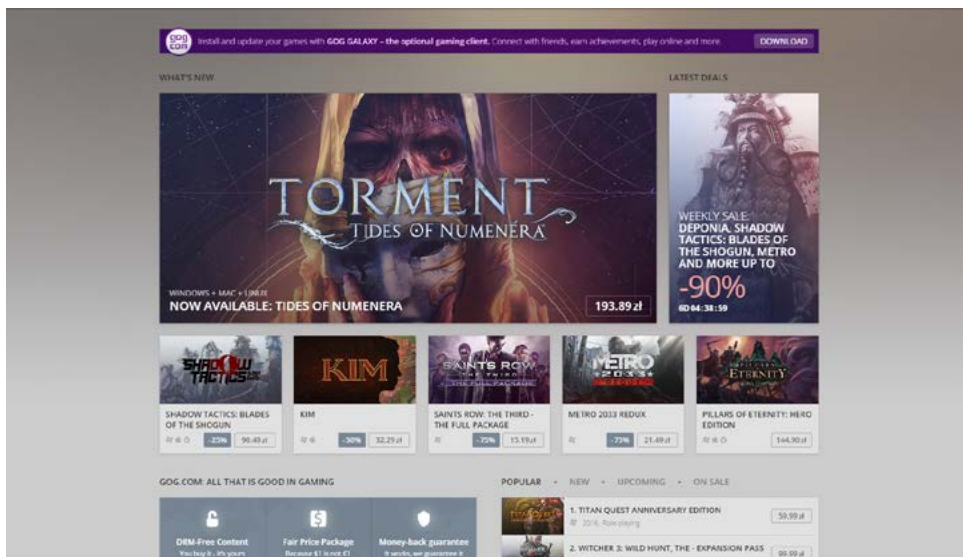
GOG.com

On 5 May 2016 **GOG.com** introduced support for payments in six additional currencies – Canadian Dollar, Swiss Franc, Norwegian Krone, Swedish Krona, Danish Krone and Polish Zloty. This brings the total number of currencies supported by GOG.com to 11.

The most important **GOG.com** release of 2016 was that of the second expansion pack for **The Witcher 3: Wild Hunt – Blood and Wine**. Other notable GOG.com releases included games by independent developers such as No Man's Sky, Stardew Valley, Firewatch, Samorost 3, Grim Dawn and Batman – The Telltale Series.

GOG Galaxy, which is responsible for the multiplayer features of GWENT: The Witcher Card Game cleared important technological hurdles by passing the “Kill the Servers” stress test and ensuring continued operation of the game’s closed beta release.

GOG.com currently distributes over 1900 games from nearly 440 suppliers.



Other market events

On 28 April 2016 the National Center for Research and Development (NCBiR) launched the **GameINN** sectoral program which aims to support the R&D activities of Polish videogame developers.

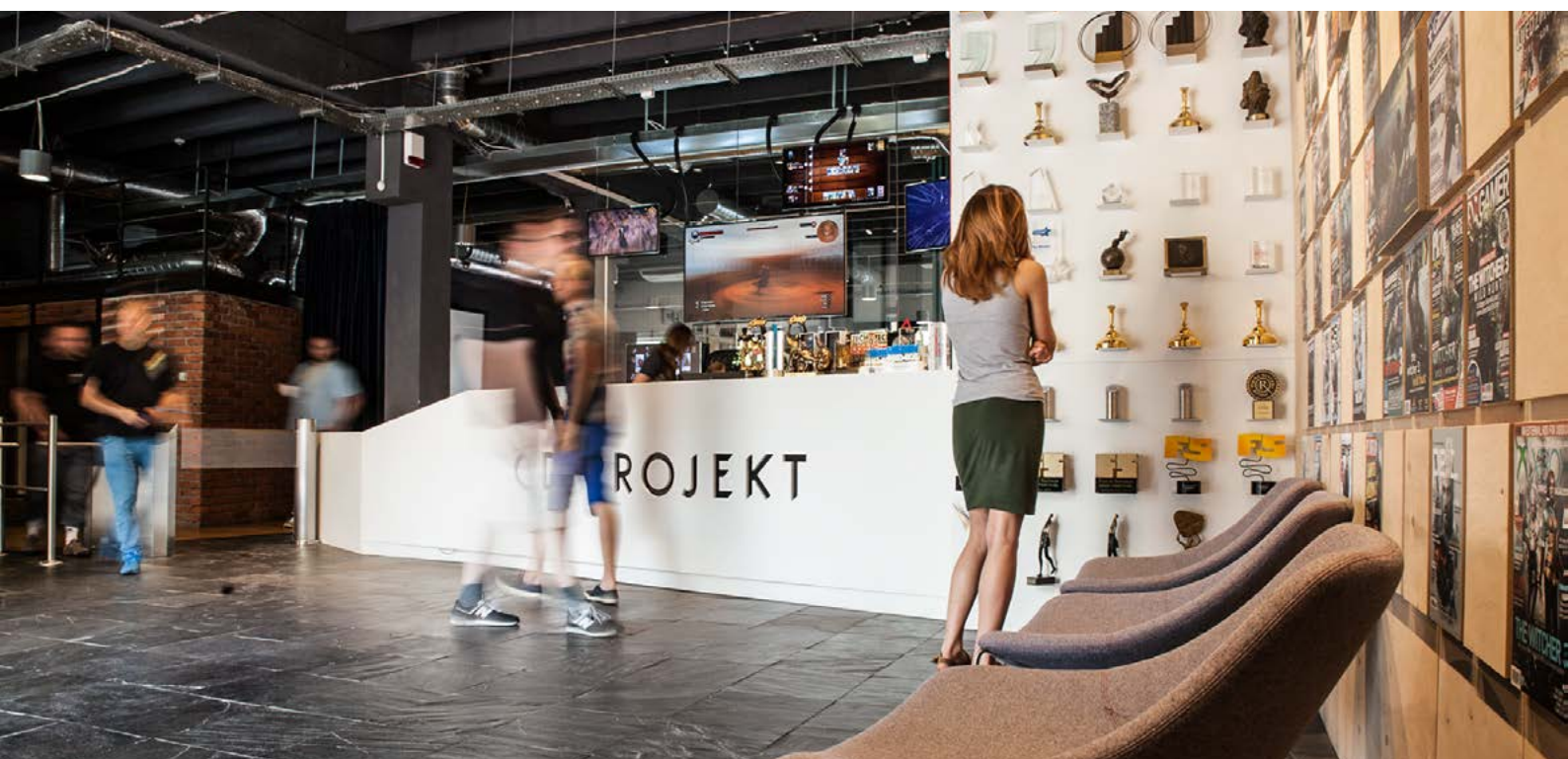
The program’s initial call attracted proposals with an aggregate value of 291 million PLN. The total value of approved grants was 116 million PLN. The program is expected to enhance the innovative character and international competitiveness of the Polish videogame industry. All four proposals submitted by CD PROJEKT S.A. as well as the proposal submitted by GOG.com, have been approved.

Overview of the CD PROJEKT Capital Group

Activity profile



CD PROJEKT S.A. (hereafter referred to as CD PROJEKT or the Company), headquartered in Warsaw, conducts business activities in the dynamically developing global digital entertainment segment. These activities have been ongoing for over 20 years and originally focused on the Polish market. The Company – then called CD PROJEKT – began by distributing foreign games in Poland (note that the corresponding activity segment, handled by the Group's CDP.pl subsidiary, was disaggregated in 2014). A pivotal moment in the Group's history came in 2002 with the establishment of the CD PROJEKT RED development studio, which initiated work on the Company's first major RPG² – The Witcher.



The CD PROJEKT Group currently conducts operating activities in two key business segments: CD PROJEKT RED (formerly referred to as “videogame development”) and GOG.com (formerly referred to as “global digital distribution”).

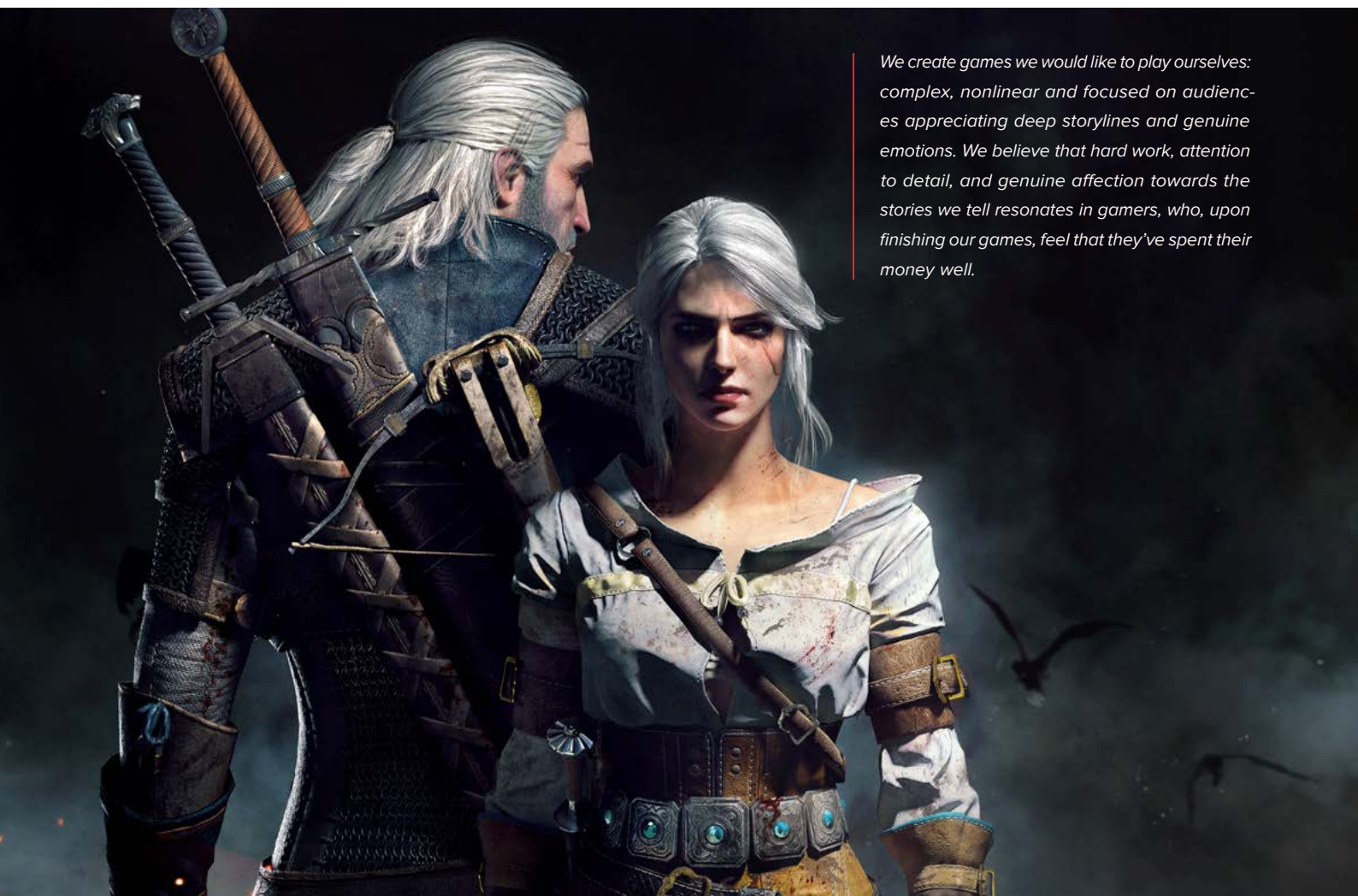


² Role Playing Game – a storyline-driven game based on a consistent narrative.

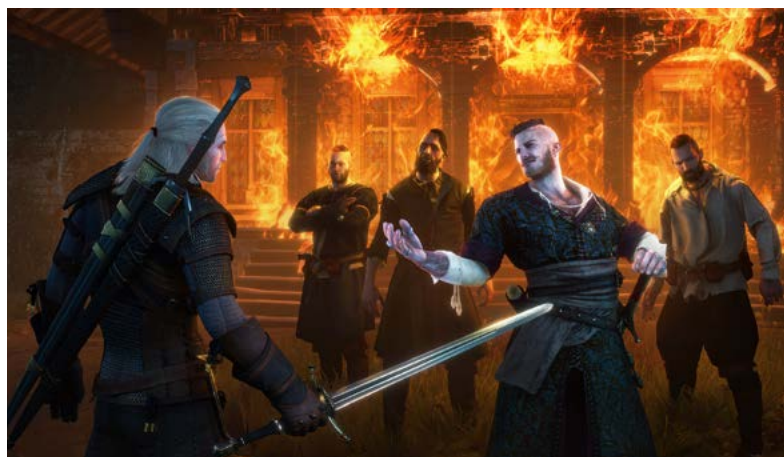
Development and publication of the Group's own top-quality videogames is handled by CD PROJEKT RED, a development studio made famous by the globally acclaimed The Witcher series – games based upon Andrzej Sapkowski's fantasy novels.



The newest instalment in the series – The Witcher 3: Wild Hunt – debuted on 19 May 2015. On 13 October 2015 the Studio published the first expansion pack for The Witcher 3 – Hearts of Stone, with the second expansion pack wrapping up the saga (Blood and Wine) following on 31 May 2016.



We create games we would like to play ourselves: complex, nonlinear and focused on audiences appreciating deep storylines and genuine emotions. 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.



CD PROJEKT RED has formed a consortium with GOG.com to carry out work, among others, on GWENT: The Witcher Card Game. Originally announced in June 2016 at the industry's largest trade fair – E3 in Los Angeles – GWENT is a free-to-play online game with support for micro-transactions, providing both multiplayer and single-player gameplay. Closed beta tests of the game's PC and Xbox One versions commenced on 25 October 2016. In July CD PROJEKT S.A. announced that it had signed a partnership agreement with GAEA, one of the fastest-growing digital entertainment suppliers in China. The goal of this cooperation is to bring GWENT to the promising Chinese market. In the spring of 2017 the Company intends to finalize the closed beta stage and proceed with public tests of GWENT. More information regarding the game can be found at www.playgwent.com.



The second major development project currently underway at CD PROJEKT RED is the previously announced Cyberpunk 2077.

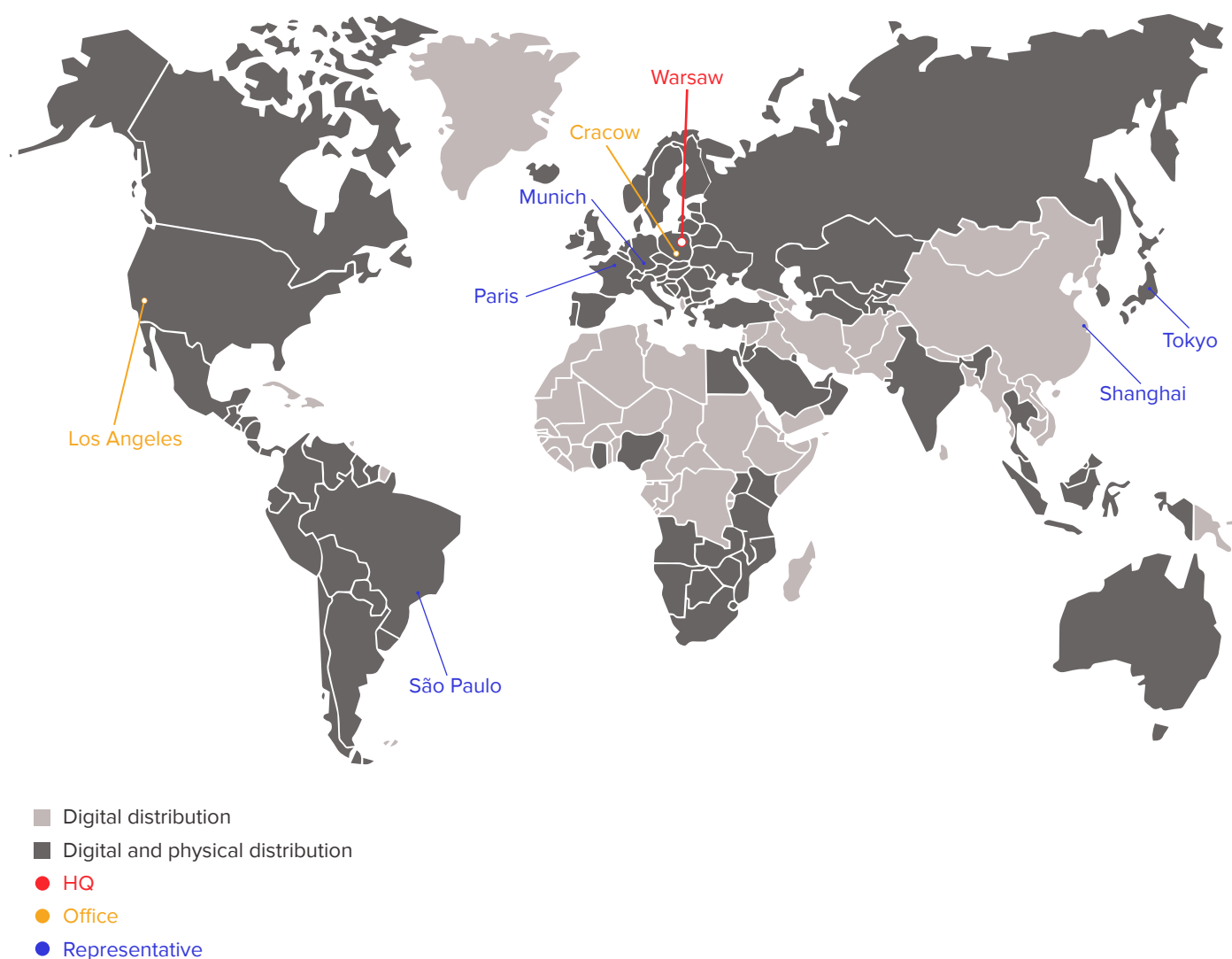




In 2016 over 96% of CD PROJEKT S.A. sales revenues were generated by exports. At present the Company markets box versions of its games in collaboration with 23 distributors covering 109 countries around the world. The US market accounts for 55% of sales, with the EU in second place at 27%.

Digital editions of CD PROJEKT games are carried globally by major online distribution platforms, including GOG.com, Steam, Origin, App Store, Google Store, PlayStation Store and Xbox Games Store.

Map 1 Global availability of CD PROJEKT RED videogames and presence of CD PROJEKT Capital Group representatives.

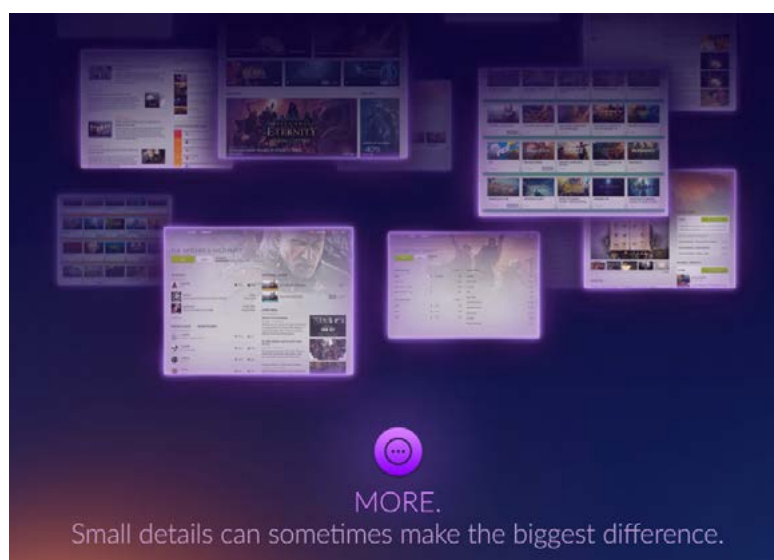
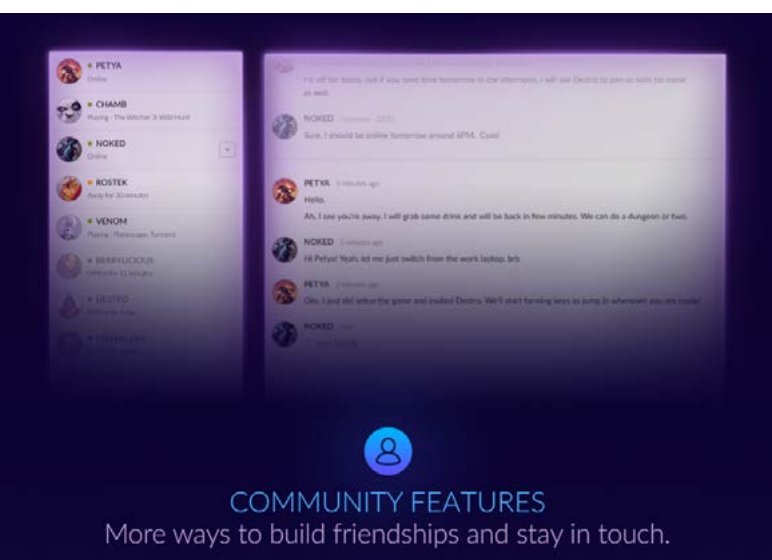
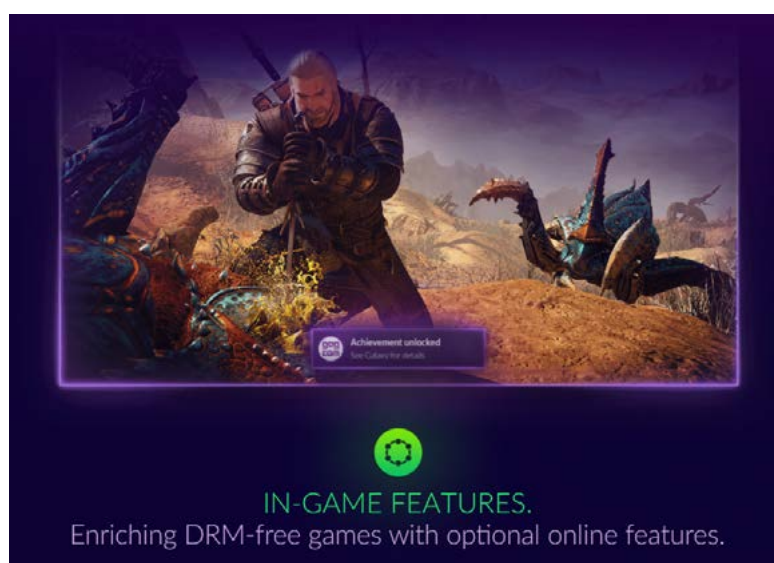
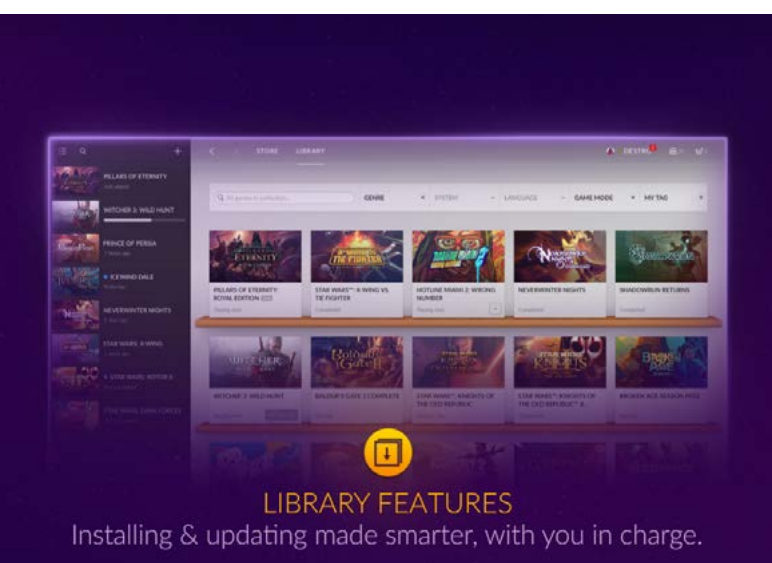


Source: Company data



The activities of the GOG.com segment focus on sales and delivery of games directly to the customer's digital devices through the proprietary GOG.com platform and the GOG Galaxy application. GOG.com is among the world's foremost digital distribution platforms, carrying over 1900 handpicked games from nearly 440 developers and publishers. All games are distributed without cumbersome DRM³ restrictions. The GOG.com platform is available in five languages: English, German, French, Russian, and – starting on 24 August 2016 – Portuguese (Brazilian edition). Customers may remit payment in 11 currencies (including the Polish Zloty) and choose from several convenient electronic payment methods, depending on their country of residence.

3 Digital Rights Management – restrictions intended to enforce intellectual property rights.



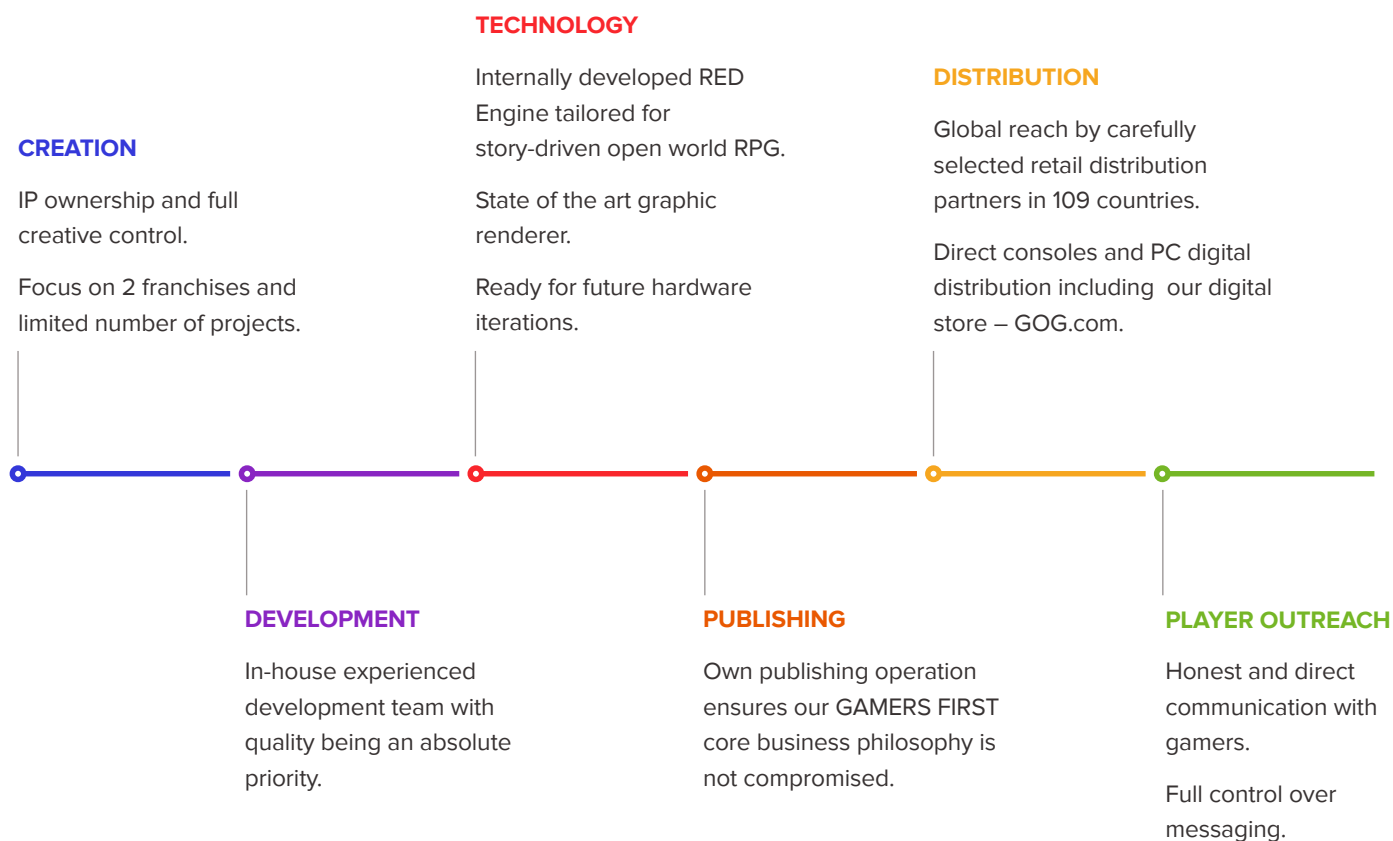


Business philosophy

The business philosophy of the CD PROJEKT Capital Group rests upon two pillars: uncompromising dedication to quality in the videogame development process and retention of financial and creative independence (itself necessary to facilitate the former goal). The Group regards these two factors as decisive in ensuring success on the competitive global digital entertainment market.

The CD PROJEKT Group stands apart from other major videogame developers and publishers in that it emphasizes control over every stage of the game development and marketing process – from initial design, through work on technological solutions, publishing activities, promotion and distribution, all the way to player relations. This model is implemented by operating a proprietary digital distribution and online gaming platform – part of a broad user-friendly and player-centric ecosystem.

Scheme 1 CD PROJEKT Capital Group business model.



Source: Company data

CD PROJEKT RED attaches great weight to direct and honest communications with the global gaming community (“Gamers first” approach). Player relations are carried out primarily through social media.



Scheme 2 Popularity of The Witcher social media profile managed by CD PROJEKT RED.



Source: Company data

CD PROJEKT RED's Facebook, Twitter, YouTube and Instagram profiles, along with the Group's dedicated investor relations profile on Twitter, enjoy popularity among fans of the Studio and sympathizers of the Capital Group.

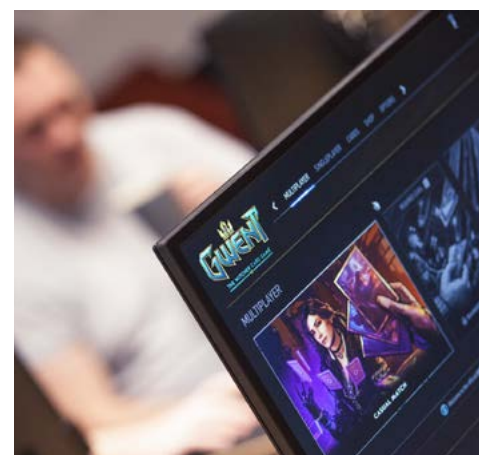


The Warsaw-based headquarters of CD PROJEKT S.A. are equipped, among others, with a full-fledged motion capture studio⁴, three sound recording studios and an in-house canteen.



CD PROJEKT also operates an office in Kraków, staffed by an independent development team, as well as a Los Angeles branch tasked with coordinating marketing and sales activities throughout the United States. In addition, the Company employs representatives in Germany, China, Japan, France and Brazil.

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"





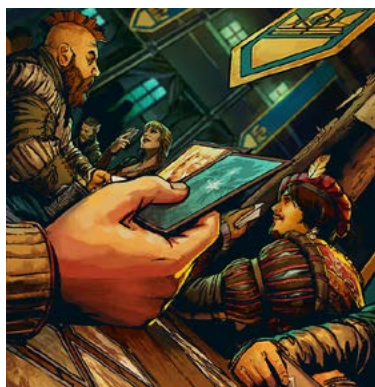
Implementation of the Capital Group strategy for 2016-2021 in 2016

Cele CD PROJEKT RED – 2016 goals

Release of the second expansion pack for The Witcher 3: Wild Hunt, titled Blood and Wine – achieved on 31 May 2016.

Carrying out a range of new promotional activities and active support for sales of The Witcher 3: Wild Hunt – ongoing, incl. through release of The Witcher 3: Wild Hunt – Game of the Year Edition on 30 August 2016.

Developing a game in a new format, previously unexplored by the Company – on 14 June 2016 at E3 Los Angeles the Company announced its newest product – GWENT: The Witcher Card Game. Closed beta tests of the game began on 25 October 2016.



Cele GOG.com – 2016 goals

Publication of a new AAA game (not developed by CD PROJEKT) concurrently with its global release date and with full support from GOG Galaxy – in 2016 GOG Galaxy provided support for a range of new games added to the GOG.com catalogue, including the eagerly anticipated and commercially successful No Man's Sky, which appeared on GOG.com on its global release date. Nevertheless, in the opinion of the CD PROJEKT S.A. Management Board, this goal has not yet been fully realized. As of the publication date of this report the goal stands and GOG.com is conducting business negotiations aimed at its implementation.

Extending GOG Galaxy with networking features and technologies to provide support for a new game developed jointly with CD PROJEKT RED – GOG Galaxy now handles the multiplayer and networking aspects of GWENT: The Witcher Card Game, which has been undergoing closed beta tests since 25 October 2016.

Providing support for new price brackets and payment options, and rolling out new language versions of the GOG.com platform – in 2016 the Company launched the fifth, Portuguese edition of GOG.com (targeted at the Brazilian market) and added support for transactions in Canadian Dollars, Swiss Francs, Norwegian Krone, Swedish Krona, Danish Krone and Polish Zlotys.

Expanding support for the new “games in development” segment, introduced in early 2016 – as of the publication date of this report more than 20 “in development” games are available, including Divinity: Original Sin 2 and Man O' War.



CD PROJEKT Capital Group growth outlook

The growth outlook of the CD PROJEKT Capital Group is closely tied to the implementation of the CD PROJEKT Capital Group Strategy for the years 2016-2021, originally announced in March 2016. A detailed overview of the Company's corporate strategy can be found at: www.cdprojekt.com/en/capital-group/strategy.

On 24 May 2016 the General Meeting adopted resolution no. 20, which institutes an incentive program covering the 2016-2021 period. The resolution specifies two types of goals: the result goal and the market goal. Attainment of the result goal will enable entitled parties to claim 80% of the total number of subscription warrants issued under the program, as long as the following criteria are met:

- for the years 2016-2019 – net profit not lower than 618.4 million PLN (6.51 PLN per share), or
- for the years 2016-2020 – net profit not lower than 855.5 million PLN (9.01 PLN per share), or
- for the years 2016-2021 – net profit not lower than 1.09 billion PLN (11.51 PLN per share)⁵.

The market goal stipulates that the price change of CD PROJEKT S.A. stock on the Warsaw Stock Exchange must outperform the corresponding change in the WIG index by at least 100% during the period covered by the program. Attainment of this goal will enable entitled parties to claim 20% of the total number of subscription warrants issued under the program. The incentive program covers the years 2016-2021, but warrants may be assigned before the end of this period should both goals be met early.

The full text of resolution no. 20 can be found in [Current Report no. 18/2016](#).

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.

⁵ The result goal is based on the consolidated net profit of the Capital Group within a given period.

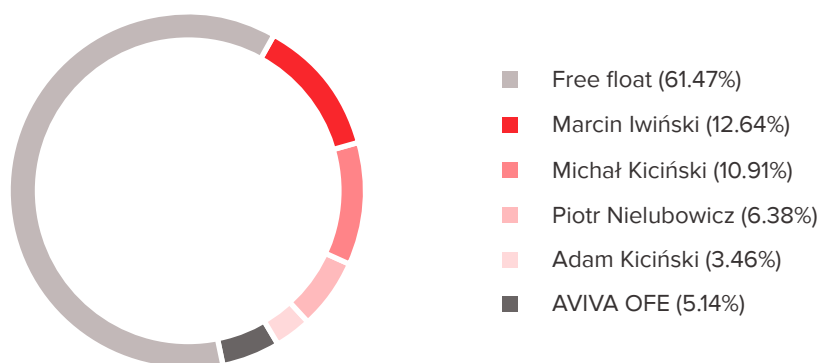


CD PROJEKT S.A. on the capital market

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.⁶ and Optimus S.A., along with their respective shareholders – Optimus purchased 100% of shares in CDP Investment while existing shareholders of CDP Investment acquired Optimus S.A. shares. The formal merger between both companies was carried out in December 2010.

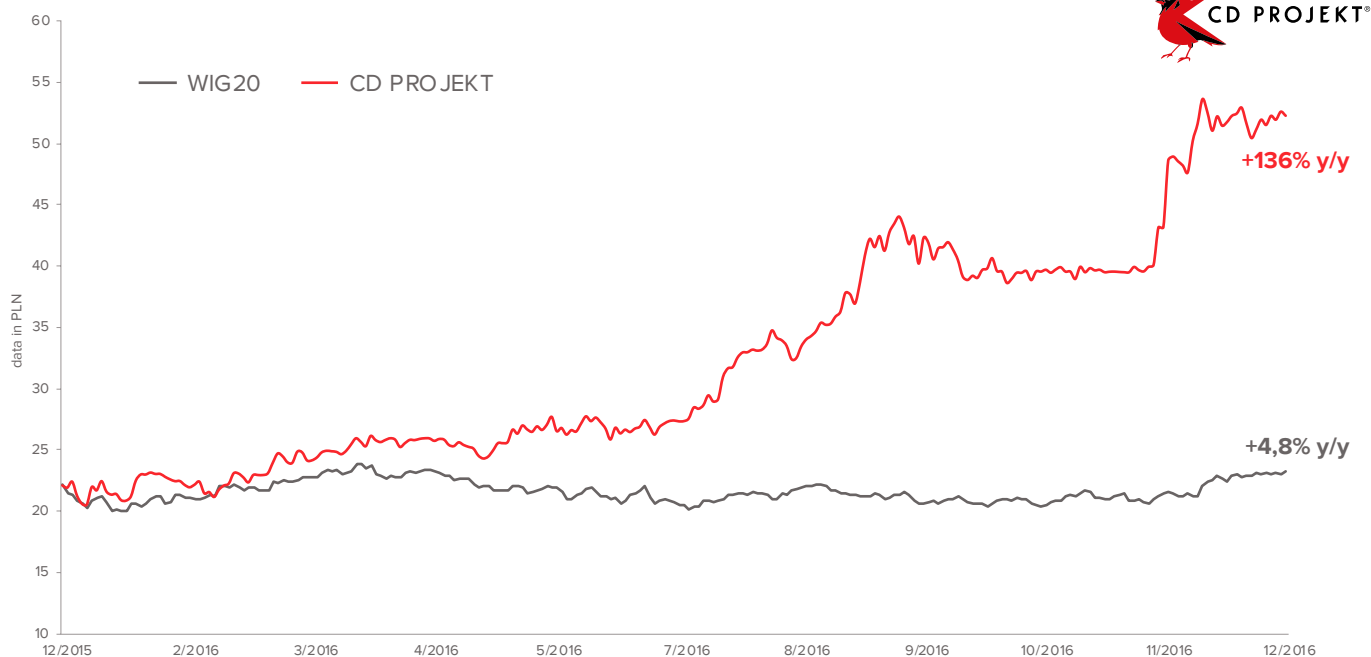
As of the publication date of this report 96 120 000 Company shares are traded on the Main Market of the Warsaw Stock Exchange under the continuous trading system. Key shareholders of CD PROJEKT S.A. are its co-founders – Michał Kiciński and Marcin Iwiński. Other major shareholders who are also members of the Company's Management Board are Adam Kiciński – President of the Board, and Piotr Nielubowicz – Vice President and CFO. Free float accounts for 61.47% of shares of CD PROJEKT S.A. stock.

Figure 1 Company shareholder structure as of the publication date of this report.



Throughout 2016 CD PROJEKT S.A. participated in the WIG30 and WIG40 indices, contributing 0.81% to the WIG30 index as of 31 December 2016. As announced by the Management of the Warsaw Stock Exchange on 2 March 2017, following the annual index revision procedure carried out on 17 March 2017 CD PROJEKT S.A. was ranked #1 on the WIG20 reserve list.

⁶ Former name of the “CD PROJEKT” group holding company.

Figure 2 CD PROJEKT S.A. stock price and WIG20 index in 2016.

Source: Company data

In 2016 the Company stock price fluctuated between 20.60 PLN (21 January 2016) and 53.68 PLN (5 December 2016). The y/y stock price increase was 136%, closing at 52.2 PLN on 30 December 2016. Over the same period the WIG20 index increased by 4.8%. As of the end of 29 March 2016, CD PROJEKT S.A. market capitalization accounted for 7 billion PLN.

Table 1 CD PROJEKT S.A. stock – 2016 highlights.

	2016	2015	Change
Net earnings per share from continuing operations (PLN)	2.63	3.61	-27.15%
Volume at end of year (thousands of shares)	96 120	94 950	–
Highest price realized during fiscal year (PLN)	53.68	27.74	93.51%
Lowest price realized during fiscal year (PLN)	20.60	15.85	29.97%
Stock price at beginning of period (PLN)	22.15	16.40	35.06%
Stock price at end of period (PLN)	52.20	22.15	135.67%
Average stock price during period (PLN)	32.53	22.61	43.89%
P/E at end of period	20.03	6.14	–
Market cap at end of period (PLN thousands)	5 017 464	2 103 143	138.57%
Average daily volume (PLN thousands)	7 962	6 105	30.42%
Average daily volume (shares)	235 292	259 677	-9.39%

Source: Company data

Six brokerage houses published recommendations concerning Company stock in 2016. Altogether, 13 such recommendations were issued (6 “buy”, 5 “hold” and 2 “sell” recommendations).

CD PROJEKT
Capital Group
activity profile

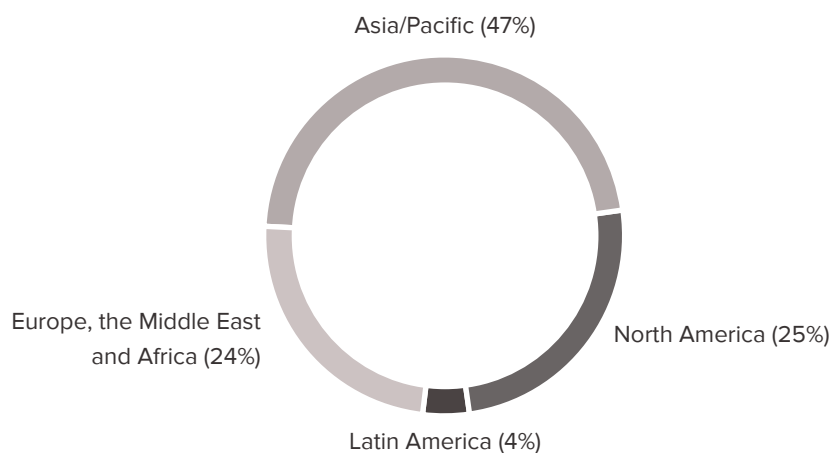


Market environment – global videogame industry

Newzoo market analysts⁷ estimate the volume of the global videogame market at 99.6 billion USD at the end of 2016, which represents an 8.6% increase compared to the 2015 year-end value (91.8 billion USD). The market is expected to continue growing at an annual rate of 6.6% over the next three years, reaching 118.6 billion USD in 2019.

According to Newzoo, in terms of territorial distribution, Asia and Pacific countries currently account for 46.6% of the total market (10.7% increase in 2016). The largest contribution to this figure is from China, with a market estimated at 24.4 billion USD. North America comes in second place, at 25.4 billion USD (4.1% y/y increase), of which 23.5 billion USD is attributable to the United States. Europe, the Middle East and Africa jointly represent 24% of the market, with a volume of 23.5 billion USD (7.3% increase).

Figure 3 2016 estimated global videogame market share by territory (in %):



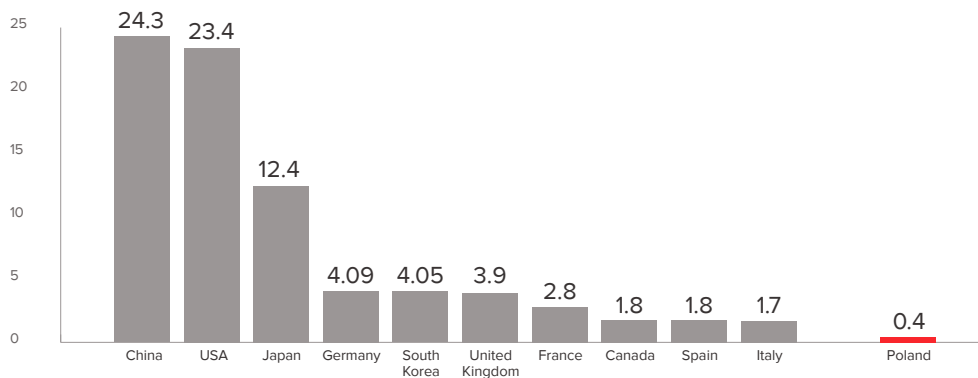
Source: Newzoo

No major changes have occurred at the top of the ranking: China continues to occupy the first place and increase its lead over the United States (0.9 billion USD compared to 0.2 billion USD in 2015). Further down the list are Japan (12.4 billion USD), Germany (4.09 billion USD) and South Korea (4.05 billion USD).

⁷ 2016 Global Games Market, Newzoo: www.newzoo.com/resources



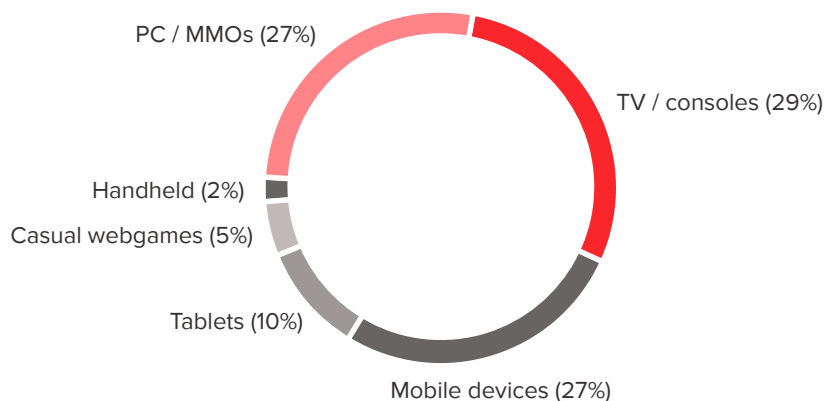
Figure 4 World's largest videogame markets in 2016 (USD billions).



Source: Newzoo

Poland comes 23rd in the ranking, with the domestic market valued at 431 million USD compared to 408 million USD in 2015. This represents 0.43% of the global market.

Figure 5 2016 global videogame market by platform.



Source: Newzoo

Console games currently represent the plurality of the global market (29%). The share of games for mobile and tablet devices has increased significantly – from 12.7% four years ago to 37% in 2016 (36.9 billion USD). Analysts anticipate that this share will continue to increase, reaching 45% in 2019.⁸ The volume of the console and PC game market is also expected to steadily increase until 2019.

Dynamic growth is also evident in the global market for digital collective card games (CCG). According to a report published by Superdata analysts, the volume of this segment will reach 1.4 billion USD in 2017⁹, with a particularly significant contribution from PC and smartphone games. In 2015 there were 37 million CCG players globally, mostly in Asia (10.9 million), North America (9.3 million) and Europe (8.7 million).

⁸ The global games market reaches \$99.6 billion in 2016, mobile generating 37%, Newzoo: www.newzoo.com/insights/articles/global-games-market-reaches-99-6-billion-2016-mobile-generating-37

⁹ Digital Collectible Card Games Report, Superdata: www.superdataresearch.com/market-data/digital-card-games



Further growth is also forecast for digital distribution of PC and console games. According to the PwC report titled Global entertainment and media outlook 2014-2019¹⁰ consumers continue to migrate to digital distribution channels.

Global videogame industry – selected highlights

Major console manufacturers rolled out enhanced versions of their flagship consoles in 2016 – Xbox One S from Microsoft and PS4 Slim/PS4 Pro from Sony. The year was also marked by popularization of VR platforms, including Oculus Rift from Facebook, PlayStationVR from Sony, HTC Vive from HTC and Valve and DayDream View from Google.

2016 was also replete with significant capital market events, with the aggregate volume of transactions estimated at 30.3 billion USD – mostly mergers and takeovers (28.4 billion USD). This represents a 77% increase compared to 2014. Digi-Capital analysts estimate the volume of an average videogame market transaction at 300 million USD¹¹.

Polish videogame industry

The domestic videogame industry continues to expand at a rapid pace – according to Newzoo the market volume is expected to grow by 5.4% annually until 2018. Altogether, 13.4 million Poles play videogames (the corresponding global figure is 1.7 billion, including 155 million Americans¹²).

Approximately 200 videogame developers currently operate in Poland, employing around 6 thousand people. Given the current market growth dynamics, the videogame industry is well on its way to becoming the flagship of the Polish creative market and a globally recognizable economic success story¹³.

¹⁰ Outlook insights: an analysis of the Global entertainment and media outlook 2015–2019, PwC: www.pwc.com/gx/en/global-entertainment-media-outlook/assets/2015/video-games-key-insights-3-shift-to-digital.pdf

¹¹ Digi-Capital's Games Report 2017: www.gamesindustry.biz/articles/2017-01-26-two-speed-market-drove-over-usd30-billion-in-games-deals-in-2016

¹² Essential facts about the computer and video game industry in 2015, www.theesa.com/wp-content/uploads/2015/04/ESA-Essential-Facts-2015.pdf

¹³ Kondycja polskiej branży gier wideo 2015 ("Condition of the Polish videogame market 2015"), Krakowski Park Technologiczny: www.kpt.krakow.pl/wp-content/uploads/2015/09/Raport_A4_Web.pdf



CD PROJEKT Capital Group – organizational structure

As of 31 December 2016 the CD PROJEKT Capital Group consists of the parent entity – CD PROJEKT S.A. and three subsidiaries – GOG Ltd., GOG Poland sp. z o.o. and CD PROJEKT Inc.

Figure 6 CD PROJEKT Capital Group.



On 29 November 2016 the Extraordinary General Meeting of Shareholders approved a merger plan for CD PROJEKT S.A. (the Acquirer) and CD PROJEKT Brands S.A. (the Acquiree; wholly owned by CD PROJEKT S.A.), previously disclosed in Current Report no. 33/2016.

The merger, which was registered in the National Court Registry on 30 December 2016, proceeded without increasing the Acquirer's share capital and without converting Acquiree shares into Acquirer shares as the Acquirer had previously held 100% of Acquiree shares. The goal of the merger was to aggregate production and publishing capabilities within a single entity with direct control over existing (The Witcher) and emerging (GWENT) trademarks, previously managed by a separate entity wholly owned by the Issuer. This should serve to streamline business processes and simplify formal aspects of the Capital Group's activities with regard to ownership of resources used in the development and publishing of videogames, as well as promoting trademarks owned by the Group.

Table 2 Summary of business activities of the parent company and other members of the CD PROJEKT Capital Group as of 31 December 2016.



Company	Activity 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 binaries to their personal devices. To this end the company owns and maintains the global digital distribution platform at 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. Additionally, the company has established a targeted consortium with CD PROJEKT S.A. to provide development and maintenance services for GWENT: The Witcher Card Game, focusing on its networking features.
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 data

As of 31 December 2016, all existing member companies of the CD PROJEKT Capital Group are subject to full consolidation. Details can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2016.

Following the decision to expand the Company's operating activities by planning for the publication of GWENT: The Witcher Card Game in the People's Republic of China (as previously disclosed in Current Report no. 25/2016 of 8 July 2016), following an analysis of the Chinese market and the potential need to secure a direct presence in China, the Management Board decided to establish a Chinese subsidiary, based in Shanghai, by the end of 2017. The goal of this action is to set up a local office and dedicated team which will coordinate the Company's promotional and publishing activities within the People's Republic of China – including, in particular, the run-up to the publication of GWENT. As of the publication date of this report the establishment of the Chinese office is underway and has not yet been completed.



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

In 2016 the Capital Group conducted business activities in two business segments:

- CD PROJEKT RED,
- GOG.com

as well as in a separate technical segment named “Other activities” which provides coordination and support for both business segments.

As a result of a material change in the Group’s activity profile, including the disaggregation of the activities of cdp.pl sp. z o.o. and subsequent sale of the control share in this entity, as well as major upscaling of CD PROJEKT RED activities, a range of business processes previously included in the “Other activities” segment have, in the recent quarters, been effectively integrated with the common organizational structures of CD PROJEKT S.A., whose to-date business activities were subsumed under the CD PROJEKT RED segment. Consequently, the Management Board decided to discontinue separate presentation of “Other activities”, effective on 1 January 2017. Starting with 1 January 2017, all activities of the CD PROJEKT Capital Group will be carried out and reported within two distinct segments – CD PROJEKT and GOG.com. Together, these segments will represent the entirety of the Group’s activities.

CD PROJEKT RED

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 and publication of videogames, licensing the associated distribution rights and manufacturing tie-in products which exploit the commercial appeal of brands owned by the Company.

Sales of CD PROJEKT RED games 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 2016 the Company obtained revenues from sales of The Witcher, The Witcher 2 and The Witcher 3, together with the game’s two expansion packs – Hearts of Stone and Blood and Wine – as well as from sales of various tie-in products.

On 25 October 2016 the Company launched closed beta tests of GWENT: The Witcher Card Game, envisioned as a “game as a service” offering. GWENT is a multiplayer online F2P game

with support for microtransactions. Revenues come primarily from sales of additional card sets (barrels) and – in the future – sales of vanity items (such as animated versions of existing cards) and single-player campaigns providing multiple hours of gameplay.



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.

In addition to both aforementioned games, the Company's portfolio also includes The Witcher 3: Wild Hunt, which launched on 19 May 2015, along with two expansion packs – Hearts of Stone (released on 13 October 2015) and Blood and Wine (released on 31 May 2016). In June 2016 the Company publicly announced an upcoming videogame set in The Witcher universe – GWENT, an online multiplayer card game with microtransaction support. Closed beta tests of GWENT commenced on 25 October 2016. In the spring of 2017 the Company intends to finalize the closed beta stage and proceed with public tests of GWENT.

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, a book titled The Witcher Universe: Compendium, two sets of collectible figurines and numerous Witcher-themed gadgets and apparel distributed internationally by www.witcherstore.com. Soundtracks from all three games, as well as from GWENT, are available on Spotify, Apple Music, Google Play Music and other distribution platforms.



Key sources of revenue

Throughout 2016 the bulk of revenues in the videogame development segment was generated by sales of *The Witcher 3: Wild Hunt*, along with its Game of the Year Edition released in August. This includes sales of box sets and receipt of license fees from external distributors. Further significant revenues were generated by sales of the new *Blood and Wine* expansion pack (released in May), along with the previous *Hearts of Stone* expansion pack. Both packs are primarily sold through digital distribution channels.

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 gamer interest (see Figures 9 and 10 below for details).

Figure 7 Revenues from sales of *The Witcher* and *The Witcher 2: Assassins of Kings* in the 2007-2016 period.

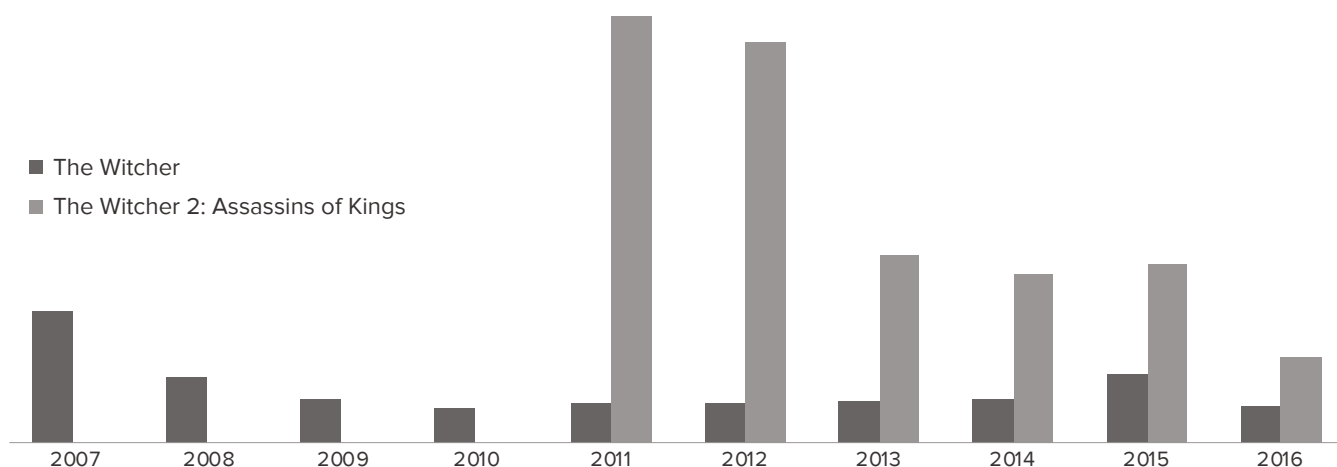
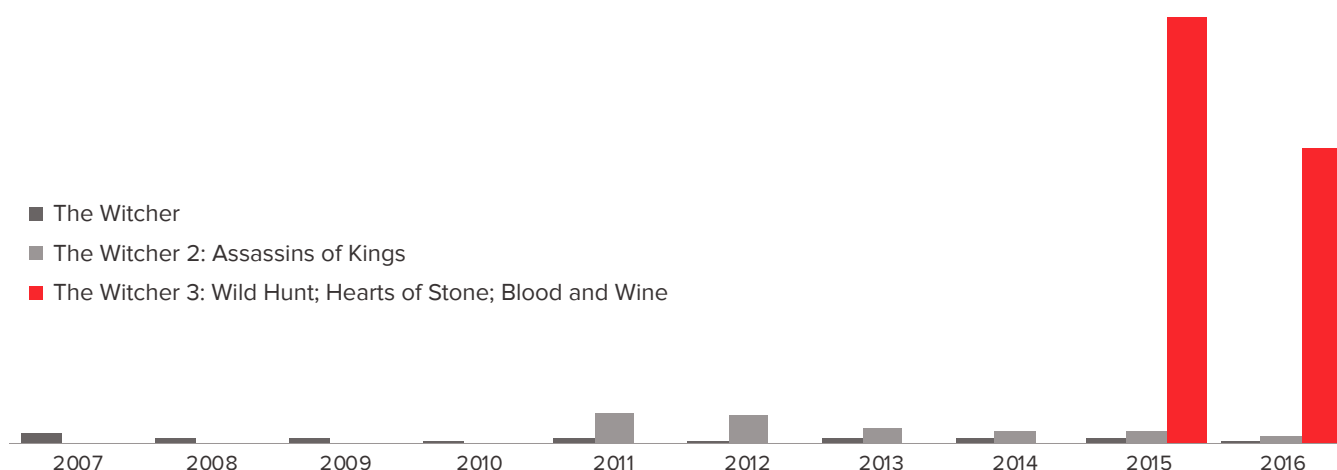


Figure 8 Revenues from sales of *The Witcher*, *The Witcher 2: Assassins of Kings* and *The Witcher 3: Wild Hunt* (including expansion packs) in the 2007-2016 period.



Source: Company data

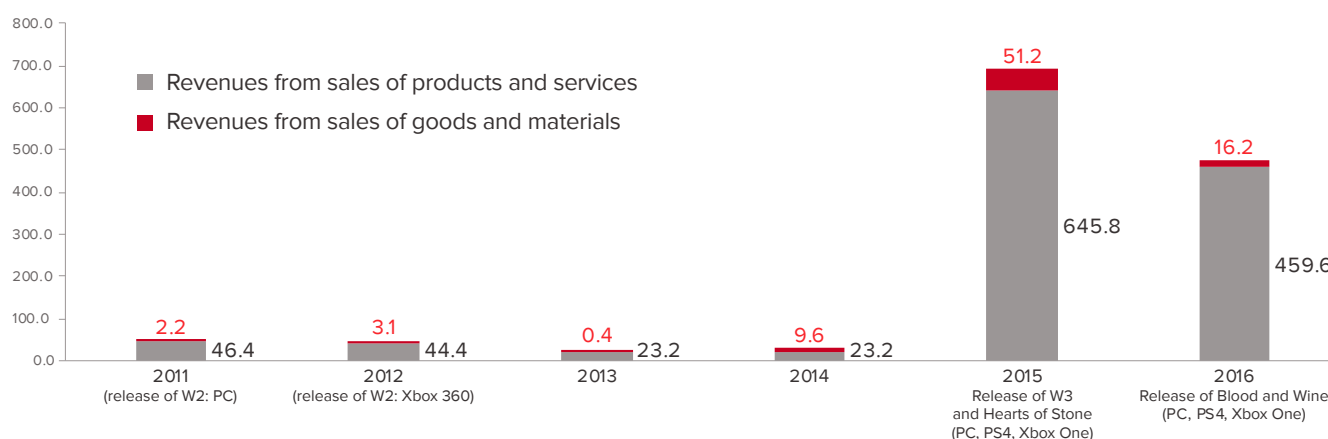
Sales of CD PROJEKT S.A. products are governed by several dozen long-term licensing and distribution agreements concluded with publishers and distributors, both global (e.g. Warner Bros. Home Entertainment, VALVE Corporation, GOG Ltd., BANDAI NAMCO Entertainment Europe S.A.S.) and domestic (including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



Following the launch of the GWENT closed beta testing campaign (in October 2016) the Company began collecting revenues from microtransactions, i.e. purchases of card sets. In the future, the Company expects to obtain additional revenues from sales of single-player GWENT campaigns.

In 2016 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, strategy guides, collectible figurines, apparel and assorted gadgets.

Figure 9 Revenues in the CD PROJEKT RED segment in 2011-2016 (PLN millions).



Key suppliers and clients

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

In 2016 CD PROJEKT RED reported the following key clients:

- Client I – 149 708 thousand PLN, which represents 25.6% of the consolidated sales revenues of the Capital Group. Client I is not affiliated with CD PROJEKT S.A. or its subsidiaries.
- Client II – 61 886 thousand PLN, which represents 10.6% of the consolidated sales revenues of the Capital Group. Client II is not affiliated with CD PROJEKT S.A. or its subsidiaries.
- Client III – 59 000 thousand PLN, which represents 10.1% of the consolidated sales revenues of the Capital Group. Client III 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. No supplier accounted for more than 10% of the consolidated revenues of the Capital Group.



Key product and marketing events

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

From the point of view of marketing activities, CD PROJEKT RED devoted much effort to the marketing campaign accompanying the release of the second expansion pack for The Witcher 3: Wild Hunt – Blood and Wine. The Company began accepting preorders on 10 May and released the expansion pack on 31 May. The release was marked by a gala concert – Video Game Show: The Witcher 3: Wild Hunt, which also served as the finale of the 9th edition of the Film Music Festival, held in Kraków.

Blood and Wine was widely praised by critics and journalists alike. Current Metacritic ratings are 92/100 for the PC edition, 91/100 for the PlayStation 4 edition and 94/100 for the Xbox One edition. Blood and Wine photo stills were featured on the covers of several renowned gaming magazines from around the world, including LEVEL, Reboot, PC Guru and PSX Extreme.

PR and marketing activities supporting the release of Blood and Wine spanned all key markets, including the United States, the United Kingdom, Germany, Russia, Poland, Australia, Japan, Brazil, Italy and Spain. The expansion pack was also promoted in key digital distribution channels, including Steam, Xbox Store, PlayStation Store and CD PROJEKT's own GOG.com platform. In selected markets the Company also promoted sales of a limited physical edition of the game, available in large retail outlets, including GameStop and Media Markt.

Blood and Wine has since received over 60 awards globally, including 10 Game of the Year awards. At the Golden Joystick Awards in November 2016 the game carried three prestigious categories: Best Story Telling, Best Visual Design and Best Gaming Performance, while CD PROJEKT RED took home the Studio of the Year trophy. One month later, at The Game Awards, Blood and Wine was named Best Role-Playing Game of 2016.

Events associated with GWENT: The Witcher Card Game

In June 2016, on the eve of the world's largest gaming fair – E3 in Los Angeles, USA – at the Xbox One conference detailing the most important upcoming releases for that platform, CD PROJEKT officially announced its new project: GWENT: The Witcher Card Game. An official website was also launched (at www.playgwent.com) and the Company began accepting applications for participation in closed beta tests, which began on 25 October 2016.

In subsequent months the PR and marketing activities of CD PROJEKT RED focused on spreading awareness of the GWENT brand in key markets, including the United States, Germany, Russia, Poland, the United Kingdom, Brazil, Canada, France and Australia, and encouraging players to sign up for the closed beta. The campaign made heavy use of social media channels and was punctuated by appearances at various trade fairs where CD PROJEKT RED representatives showcased GWENT to gamers and journalists from around the world.

Between 22 and 26 August 2016 CD PROJEKT RED presented GWENT: The Witcher Card Game at Europe's largest gaming fair – gamescom 2016 in Cologne. The game was showcased at the Company's business stand as well as in the fair's public area. Together, both GWENT stands attracted nearly 10 thousand visitors. GWENT was also presented at Brasil Game Show 2016 in Sao Paulo and at Igromir 2016 in Moscow, attracting approximately 25 thousand visitors. In October the Company brought the game to the domestic Warsaw Games Week fair.

An important highlight of 2016 was the cooperation agreement signed between CD PROJEKT RED and GAEEA, one of the fastest-growing digital entertainment providers in China. The goal of this cooperation is to introduce GWENT to Chinese gamers. In partnership with GAEEA, CD PROJEKT RED intends to undertake wide-ranging publishing, localization, promotional and sales activities on the vast Chinese market which the Company had not previously targeted.



Although GWENT remains in closed beta, it has already received over 20 awards and nominations, including “Best of E3 2016” recognitions from such notable media as PC Gamer, GamesRadar and jeuxvideo.com.

In a media announcement issued on 16 March 2017, the Company announced that the first official tournament of GWENT: The Witcher Card Game would be organized in conjunction with ESL (Electronic Sports League), with 512 players participating in the qualifications. The top four contestants will face off against world-famous professionals: Trump (Jeffrey Shih), Lifecoach (Adrian Koy), Noxious (Kacem Kjlaji) and ppd (Peter Dager). The prize pool is 100 thousand dollars and qualifications are set to begin on 8 April 2017.

Support for sales of The Witcher 3: Wild Hunt

In total, The Witcher 3: Wild Hunt won over 800 awards and accolades, including more than 250 Game of the Year awards, some of which were awarded in 2016. In January the game was named 2015 RPG of the Year and 2015 Game of the Year by Game Informer – the world’s most widely circulated gaming monthly. The game also won four Best of 2015 awards presented by IGN – the most popular online gaming portal in the world. On the domestic stage, at the prestigious Paszporty Polityki gala awards ceremony, the CD PROJEKT RED studio team received the “Kreator Kultury” (Culture Creator) award. In the accompanying laudation the Studio was praised for “creative use of Andrzej Sapkowski’s prose and turning ‘The Witcher’ into a global brand”, “proving that a Polish studio can be a global powerhouse on this dynamically growing market” and “making a profound impact on the development of a wholly new branch of Polish culture”. On 19 March at the SXSW festival in Austin, TX, The Witcher 3 was named Video Game of the Year and also claimed two other awards (for Excellence in Technical Achievement and Excellence in Narrative). Additionally, the game received the Game Developers Choice Award for Best Technology and the Game of the Year award at the largest annual event organized by videogame developers – Game Developers Conference in San Francisco.

On 21 January 2016 The Witcher 2: Assassins of Kings was released for the Xbox One as a means of providing backwards compatibility with Xbox 360.

The Witcher 3: Wild Hunt – Game of the Year Edition

In terms of marketing and publishing activities, an important highlight of 2016 was the release of The Witcher 3: Wild Hunt – Game of the Year Edition, which includes the base game, all DLC content and both expansion packs – Hearts of Stone and Blood and Wine. A special GOTY trailer accompanied the release, which took place on 30 August 2016 to the tune of a global marketing campaign. The game was released as a box set (stocked by large retail chains) as well as a digital download available on popular distribution platforms, including GOG.com, Steam, PlayStation Store and Xbox Store. Sales of the Game of the Year Edition dominated the Company’s revenue stream in the 2016 holiday period.

Other achievements

By the end of 2016 more than 25 million copies of The Witcher games (The Witcher, The Witcher 2: Assassins of Kings and The Witcher 3: Wild Hunt) had been sold.¹⁴

On 6 December 2016 the popular Spotify digital music service announced that the Polish artist most popular among the platform’s foreign users in 2016 was Marcin Przybyłowicz – composer of the original score for The Witcher 3, the game’s two expansion packs and GWENT: The Witcher Card Game.

¹⁴ This figure does not include expansion packs for The Witcher 3 – Hearts of Stone and Blood and Wine.

GOG.com



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

Payments collected by GOG Ltd. from customers are split with the Company's suppliers as agreed upon in distribution contracts. Typical contracts require the Company 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 permitted 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 September 2008. The initial mission of GOG.com was to revitalize major PC cult classics and offer them for sale to international clients with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. In addition to English, the platform is now offered in French, German, Russian and Portuguese (Brazilian edition) – this includes full game localizations as well as dedicated customer support and integration with locally popular payment channels (accepting payments in eleven currencies, including – since 2016 – Polish Zlotys). Since 2012 GOG.com carries games for Apple computers while in 2014 its catalogue was expanded with releases for the Linux OS.

Key products

As of the publication date the GOG.com catalogue comprises over 1900 products from nearly 440 publishers and producers of videogames, including such well-known brands as Activision, Bethesda, 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. 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 expansion packs – Hearts of Stone and Blood and Wine, also offered as a Game of the Year Edition) and The Witcher Adventure Game. Owing to GOG Galaxy support for GWENT networking features, distribution of GWENT to PC users can take advantage of the sales and payment mechanisms offered by GOG.com.

Key sources of revenue

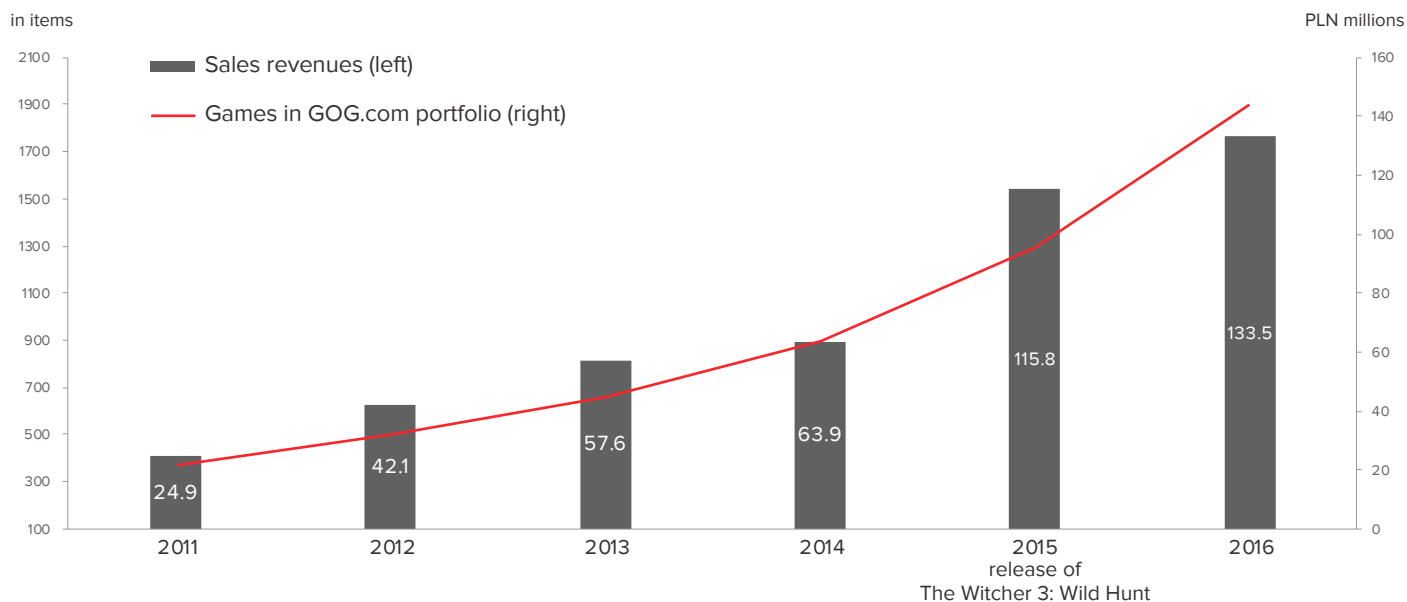
Revenues obtained in the GOG.com segment are directly dependent on the popularity of the offered games and their respective sales volumes. The Company continuously expands the scope of its cooperation with suppliers and seeks access to new, attractive products. GOG.com is also home to seasonal and one-off sales campaigns, including summer, fall and Christmas

bargain packages as well as other events which introduce new means of attracting gamers.

In 2015 GOG.com revenues were significantly affected by the release of The Witcher 3: Wild Hunt while in 2016 – by the launch of Blood and Wine.



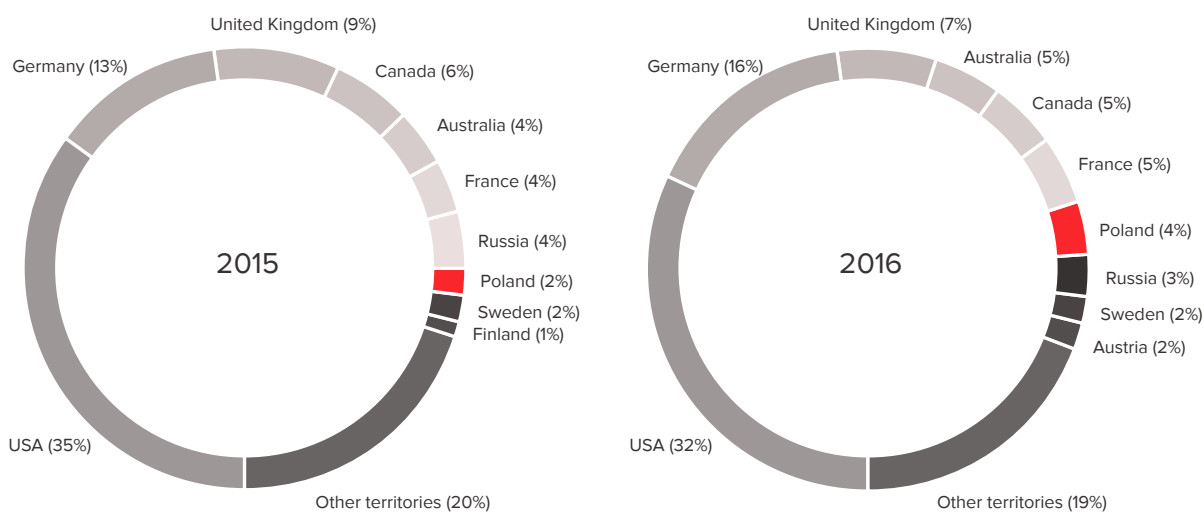
Figure 10 GOG.com sales revenues and number of games in GOG.com portfolio.



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 online channels directly to millions of individual users worldwide. As such, the Company does not have key clients in the usual sense of the term.

Figure 11 GOG.com sales revenues in 2015 and 2016 by territory.





Similarly to 2015, in 2016 the majority of GOG.com purchases were made by customers from the United States (32%), although this percentage shrank by 3 percentage points compared to 2015. Further down the list were Germany (increase from 13% in 2015 to 16% in 2016), the United Kingdom (decrease from 9% to 7%) and Australia (increase from 4% to 5%). An increase in the share of Polish customers (from 2% to 4%) was also observed. The growing share of non-English-speaking markets in the overall sales volume is attributable to the rollout of national language versions of the GOG.com platform, complete with local marketing events and native customer support.

At the end of 2016 GOG Ltd. distributed games from nearly 440 publishers. No single publisher accounted for more than 10% of the consolidated revenues obtained by the Capital Group.

Key product and marketing events

New undertakings

In January 2016 GOG.com entered the growing “games in development” market – an initiative which was well received by gamers and media representatives. As of the preparation date of this report, GOG.com carries over 20 “in development” games, including Divinity: Original Sin II, Factorio, We Happy Few and Everspace. Several games – such as Starbound, Curious Expeditions, Ashes of the Singularity or Solus Project – have already concluded their involvement in the program and been released as full-fledged titles.

On 1 June 2016 the “GOG Connect” initiative was officially launched. Players who had previously purchased games on Steam could add them to their GOG.com collection free of charge over a period of five days. The offer applied to over 20 games, including The Witcher: Enhanced Edition, Saints Row 2 and Mount & Blade. GOG Connect was very warmly received by GOG.com users and the gaming media alike, prompting a continuation of the program in subsequent months.

On 5 May GOG Ltd. added support for six additional currencies: Canadian Dollar, Swiss Franc, Norwegian Krone, Swedish Krona, Danish Krone and Polish Zloty. This brings the total number of currencies supported by GOG.com to eleven.

On 24 August GOG.com successfully launched the Portuguese version of its online platform targeted at the Brazilian market, with support for locally popular payment channels, native customer support and pricing schemes adjusted to the specific nature of the Brazilian market.

In the third quarter of 2016, in order to enhance client satisfaction and reduce transaction costs the set of payment options supported by GOG.com was expanded with a new feature called GOG Wallet. Users can now transfer money directly to their GOG.com account and use the established credit to make purchases.

In the final quarter of the year GOG.com tightened its cooperation with celebrated YouTube and Twitch streamers. The goal of this cooperation is to promote GOG.com brand name recognition and thereby attract new users.

On 22 March 2017 GOG.com announced that GOG Galaxy – an optional application enabling purchases and patching of videogames, and facilitating online multiplayer cross-platform gaming – has completed its beta tests and received its biggest update yet. The newest version (1.2) introduces, among others, cloud save features and a range of client customization options. The application's CPU and memory footprint has been reduced thanks to the new hibernation functionality; in addition, numerous additional features, prompted by player requests, have been added.



Key publishing events in 2016

Regarding new releases, the most important event of 2016 was the debut of the second and last expansion pack for The Witcher 3: Wild Hunt – Blood and Wine, which earned excellent reviews from professional journalists and gamers worldwide.

In the third quarter 2016, GOG.com participated in the global release of one of the most hotly anticipated games of the season – No Man's Sky. Another important event was the preorder campaign preceding a second major release – Shadow Warrior 2. The game's networking aspects are based on GOG Galaxy, with full support for the Crossplay feature enabling users of GOG.com and Steam to compete with one another.

In the final quarter of the year GOG released such eagerly expected games as Shadow Warrior 2 (Devolver Digital), Tyranny (Paradox Interactive) and Shadow Tactics: Blades of the Shogun (Daedalic Entertainment). The "Games in Development" segment was expanded with Divinity: Original Sin 2 – a sequel to the well-received RPG title by Larian Studios.

Work on GWENT: The Witcher Card Game

In 2016 GOG Poland sp. z o.o. established a consortium with CD PROJEKT RED to develop GWENT: The Witcher Card Game. GOG Poland sp. z o.o. committed to operating the game's online platform and handle all of its networking and online aspects. Both companies will jointly provide customer support following the game's release, while CD PROJEKT RED is responsible for design, implementation and expansion of gameplay features, in-game transactions and marketing activities.

Active sales support

In addition to new initiatives, GOG.com also sought to bolster sales by organizing new editions of its periodic sales events. In order to entice players to participate in promotional activities, the Company uses a gamification approach – players can amass "experience points" and redeem them for free games. This idea was praised by gamers and gaming media as an interesting alternative to sales carried out by other platforms, which are devoid of similar features. GOG.com also used its seasonal sales to reactivate the "GOG Connect" initiative.

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, HR, legal advice (particularly concerning taxation) and investor relations.

On the basis of an agreement concluded on 19 November 2014 between the Company, members of the management board of cdp.pl sp. z o.o. and cdp.pl itself, as disclosed in Current Report no. 19/2014 of 26 November 2014, on 15 September 2016 CD PROJEKT S.A. sold 29 of its shares in cdp.pl back to cdp.pl for redemption. In parallel, on 15 September 2016, an Extraordinary General Meeting of Shareholders of cdp.pl voted to redeem shares purchased from CD PROJEKT S.A., thereby lowering the company's share capital once the required notification of creditors has taken place. CD PROJEKT S.A. currently holds 16 cdp.pl shares, which, following redemption of the aforementioned 29 shares, constitutes 3.11% of the cdp.pl share capital.



Events following the balance sheet date

On 16 March 2017 the Company announced GWENT Challenger, the first official GWENT tournament, held in cooperation with ESL (Electronic Sports League). Details can be found in a separate section titled “Events associated with GWENT: The Witcher Card Game”, elsewhere in this report.

Following the expansion of the Company’s operating activities by planning for the publication of GWENT: The Witcher Card Game in the People’s Republic of China (as previously disclosed in Current Report no. 25/2016 of 8 July 2016) the Management Board decided to establish a Chinese subsidiary, based in Shanghai, by the end of 2017. The goal of this action is to set up a local office and dedicated team which will coordinate the Company’s promotional and publishing activities within the People’s Republic of China – including, in particular, the run-up to the publication of GWENT. As of the publication date of this report the establishment of the Chinese office is underway and has not yet been completed.

On 20 March 2017, Polish capital market specialists named CD PROJEKT S.A. Company of the Year 2016 in a prestigious annual ranking organized by the national business daily Puls Biznesu. Notably, CD PROJEKT claimed this trophy for the second time in a row. The Company also took first place in two additional categories: “Innovativeness” and “Growth prospects”, and came in second in a further three categories: “Management competence”, “Investor relations” and “Success in the past year”. CD PROJEKT S.A. was also voted WSE Champion of 2016 by users of two business portals – pb.pl and bankier.pl.

On 22 March 2017 GOG.com announced that GOG Galaxy – an optional application enabling purchases and patching of videogames, and facilitating online multiplayer cross-platform gaming – has completed its beta tests and received its biggest update yet. The newest version (1.2) introduces, among others, cloud save features and a range of client customization options. The application’s CPU and memory footprint has been reduced thanks to the new hibernation functionality; in addition, numerous additional features, prompted by player requests, have been added. More information can be found at www.gog.com/galaxy.

Along with the publication of The Management Board Report on CD PROJEKT Capital Group and CD PROJEKT S.A. Activities in 2016 a technical beta test of GWENT: The Witcher Card Game for PlayStation 4 will be announced. Testing will begin on 31 March and last until 4 April. This will be the first opportunity for PlayStation 4 users to try their hand at the Witcher-themed card game.

On 24 January 2017 the District Court for the City of Warsaw, 13th Commercial Department – National Court Registry registered a change in the Company Articles of Association in line with the relevant resolution of the Extraordinary General Meeting of 5 December 2016, previously disclosed in Current Report no. 46/2016 of the same day. The change introduces a voting cap which applies when a shareholder (or group of shareholders) controls more than 20% of the total number of votes. A detailed justification of this change is provided in Current Report no. 36/2016 of 26 October 2016.

Disclosure of seasonal or cyclical activities

CD PROJEKT RED

CD PROJEKT RED usually takes between 2 and 4 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released. The Witcher 2 debuted on the PC in May 2011 while the Xbox 360 edition was released on 17 April 2012. The release of CD PROJEKT RED’s newest game – The Witcher 3: Wild Hunt – took place on 19 May 2015. Sales of the base game were bolstered by two expansion packs: Hearts of Stone and Blood and Wine (both released within twelve months of the original launch)

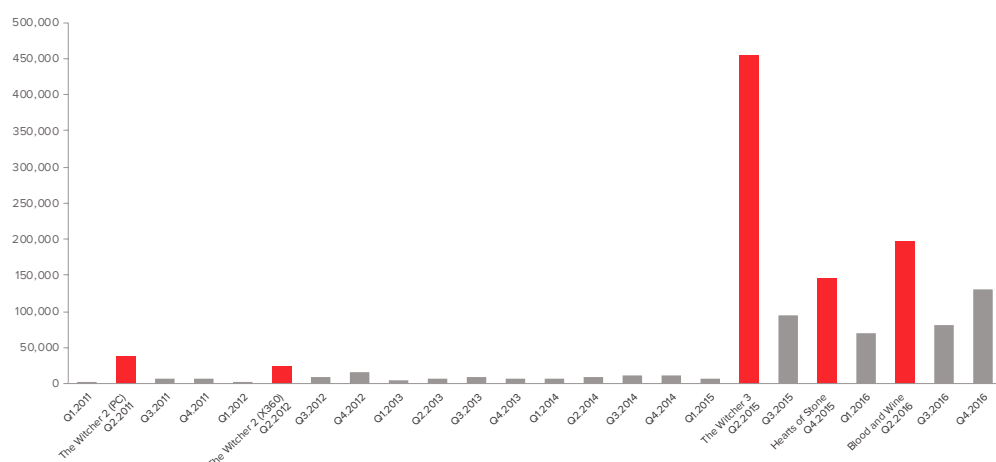


as well as by The Witcher 3: Wild Hunt – Game of the Year Edition, released in August 2016.

GWENT – The Witcher Card Game (currently under development) is conceived as a “game as a service” where the scope of development, resources committed to the project and future sales revenues depend on the popularity of the service. The game will be offered under a “free to play” license, with optional paid single-player campaigns.

CD PROJEKT RED is also continuing with its work on Cyberpunk 2077 – the largest development project in the Company’s history.

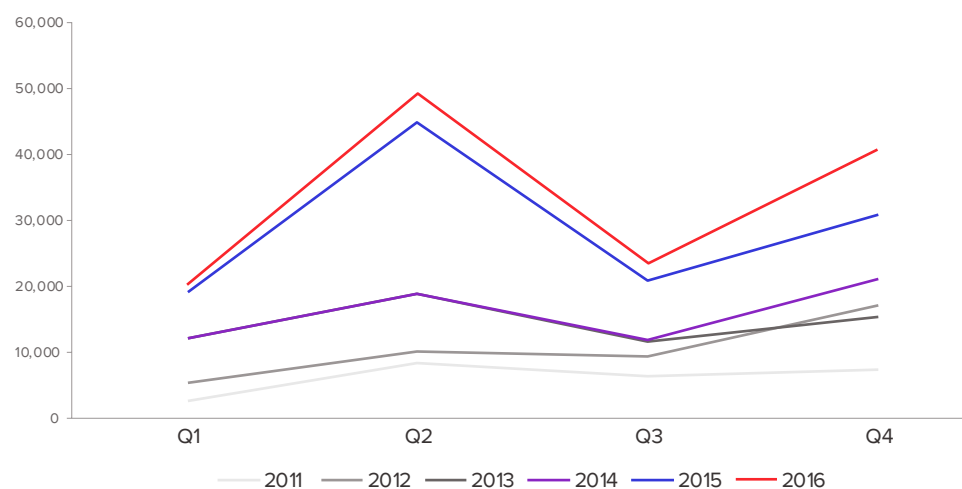
Figure 12 CD PROJEKT RED release quarters – sales volume in 2011-2016 (PLN thousands).



GOG.com

The digital videogame distribution market, which is the main area of activity of GOG.com, is characterized by seasonal fluctuations in revenues. On an annual basis, the highest revenues are typically obtained in the second and fourth quarters while the lowest revenues correspond to the first and third quarters. Sales in Q2 and Q4 are boosted by promotional activities organized in these periods. Ultimately, however, sales volume is primarily dependent on the release schedule.

Figure 13 Revenues from GOG.com sales to external clients, by quarter (2011-2016; PLN thousands).



GOG.com sales revenues in the second quarter of 2015 were primarily affected by revenues associated with the release of The Witcher 3: Wild Hunt. The most important new release of the second quarter 2016 was that of Blood and Wine – the second expansion pack for The Witcher 3.



Disclosure of external and internal factors affecting the CD PROJEKT Capital Group

The activities of CD PROJEKT Capital Group member companies 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 the risk assessment section, elsewhere in this report.

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

With regard to the first and further quarters of 2017, the CD PROJEKT Capital Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.com. A description of further growth plans can be found in the Strategy of the CD PROJEKT Capital Group for the years 2016-2021, announced in March 2016. The full text of this document is available on the Company's corporate website at www.cdprojekt.com/en/capital-group/strategy

Key factors which will determine activities in the CD PROJEKT RED segment include ongoing projects, the scale of development work associated with those projects and their perceived popularity among players. Accordingly, the Group's further growth is dependent on progress on the recently announced project – GWENT: The Witcher Card Game – as well as on the game's reception among players and gaming media. In this scope, enriching the game with new content and gameplay elements maximizing player retention should be regarded as an important goal.

Favorable reception of GWENT by the international media and gaming community is important from the point of view of future sales, the series' overall recognition and stabilization of the Group's revenue stream. The latter effect is facilitated by turning to a previously unexplored business model – F2P and “game as a service”. By the publication date of this report GWENT has already received over 20 global awards, including “Best Social / Online Game” at gamescom 2016.

In an attempt to attract as many potential customers as possible, the Company has initiated cooperation with a Chinese partner. The agreement with GAEA will enable CD PROJEKT RED to undertake wide-ranging publishing, localization, promotional and sales-related activities. This marks the Company's official entry into the vast Chinese market, where its products had not previously been directly distributed.

The market success of the Company's future releases is important from the point of view of the overall commercial appeal of The Witcher series, as well as that of existing tie-in products and other games currently under development at CD PROJEKT RED.

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 channels with the global gaming community. Managing two separate major franchises (The Witcher and Cyberpunk), in addition to several other independent development teams, enables the Company to conduct parallel work on several projects and smoothens its long-term publishing schedule. This migration towards a two-franchise model supported by



several independent product lines also permits optimization of manufacturing and financial activities, 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 both a risk factor and an opportunity for continued growth of the CD PROJEKT Capital Group.

In the GOG.com segment which handles global digital distribution, 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. offers access to beta versions of GOG Galaxy, which enables (among others) unhindered online multiplayer gaming. GOG Galaxy permits the Company to begin distributing games which rely on online features and could not previously have been distributed by GOG.com.

As a step towards addressing the demands of international customers, GOG.com is now available in five language versions: English, German, French, Russian and (since 24 August 2016) Portuguese (Brazilian edition). Each version provides a fully localized web portal and dedicated customer support, along with support for locally popular payment channels. The platform currently accepts payments in 11 distinct currencies, including the Polish Zloty.

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, 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.

Further growth of activities in the GOG.com segment, including the potential to acquire unique know-how and experience, and to fully exploit the Company's technological expertise, will be influenced by the Company's involvement in the GWENT project, where GOG.com is responsible for networking and user support. GWENT's market success should translate into better market recognition of GOG.com, allowing the Company to reach new potential customers around the world.

Activities grouped in the "Other activities" 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 activities" segment. An external factor which may positively affect the Group's activities in both of its key segments (CD PROJEKT RED and GOG.com) is the launch of the GameINN sectoral development program, which extends support to Polish videogame developers pursuing R&D projects. 116 million PLN in funding was awarded in the first GameINN call for proposals, with over 23 million going to the CD PROJEKT Capital Group.



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

Given the nature and scope of CD PROJEKT Capital Group activities – with regard to videogame development, digital distribution and work on GOG Galaxy – the ongoing search for new solutions and more effective use of existing technologies constitute an immanent aspect of the Group's business profile.

Since 2008 CD PROJEKT RED has carried out work on its proprietary game engine named REDengine, created to support development of next-generation RPGs for the PC, Mac and gaming consoles. The engine provides a specialized set of tools and supports state-of-the-art visuals along 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 and 2015 work focused on further iterative optimization of the engine's core modules, including DLC and expansion pack management systems supporting three distinct hardware platforms – PC, Sony PlayStation 4 and Xbox One. The Studio is currently working on the fourth iteration of REDengine, pushing the envelope in terms of the features of modern AAA games. The innovative potential of REDengine 4 and other supporting technologies created by CD PROJEKT RED has been acknowledged by international experts evaluating proposals in the GameINN Sectoral Programme – as a result, all four R&D projects proposed by the Studio were approved. These proposals concern important technological aspects of cutting-edge RPGs, including the construction of a massive-scale open, “living” world, improvements in the efficiency of designing and implementing complex facial and body animations, achieving cinematic quality of in-game cutscenes and providing unique multiplayer gameplay options. The outcome of this work will be used in future AAA games developed by the Studio, including *Cyberpunk 2077*. Overall, CD PROJEKT S.A. has qualified for approximately 22.2 million PLN in R&D funding under the GameINN programme¹⁵.

In parallel, the Studio employs a separate development team which works on *GWENT*. To ensure top quality of its product, the team has implemented a number of proprietary enhancements for the licensed Unity engine on which the game is based. Examples include a card editor, localization tools, an in-game purchase manager, an UI manager and proprietary multiplayer middleware.

The Studio has carried out a number of organizational improvements to adapt to facilitate recruitment of additional staff. The project management software, rolled out in 2016, was extended with custom components and features, maintained by a dedicated team.

The Warsaw-based headquarters of CD PROJEKT S.A. are equipped with a full-fledged motion capture studio¹⁶ with 34 state-of-the-art 16 megapixel cameras, enabling simultaneous recording of up to 6 actors. The system is deployed in a large, customized hall, which enables complex scenes to be recorded in one go without having to piece together multiple short sequences. This accelerates the cutscene production process. The studio is also equipped with devices

¹⁵ On 31 December 2016 the CD PROJEKT Capital Group ceased to be regarded as an SME. Accordingly, the maximum funding obtainable by the Group's member companies decreased from the originally reported 29.6 million to 23.5 million, of which 22.2 is attributable to CD PROJEKT S.A.

¹⁶ 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”.



enabling advanced acrobatics and stuntwork, as well as with a prop workshop to further improve the quality of the resulting animations.

In addition to technological innovations rolled out in 2016, CD PROJEKT S.A. also streamlined the data flow between the motion capture studio and animation teams, providing – among others – automated integration with the JIRA project management software.

In 2016 GOG.com deployed an automated tool for publishing and updating GOG Galaxy games, which improves the maintenance process. Additional optimizations have been performed in the context of patching games, reducing bandwidth requirements by a factor of (approximately) 10 while improving the stability of GOG Galaxy connections.

In the first edition of the GameINN programme GOG Poland sp. z o.o. secured 1.2 million PLN in R&D grants (maximum obtainable amount) for its generic cross-platform multiplayer gameplay systems supporting the leading gaming consoles and popular PC operating systems. The project was officially launched in September 2016.

Throughout 2016 GOG Poland sp. z o.o. took an active part in the development of GWENT: The Witcher Card Game, mostly as a provider of various multiplayer gameplay and networking solutions.

Work on expansion of the GOG.com financial reporting system carried on, including easier access to financial data for Company affiliates and additional data analysis options (e.g. tracking the activities of platform users).

Disclosure of significant agreements

In 2016 the Group did not conclude any agreements which could be regarded as significant.



Risk management at the Capital Group

Risks associated with customers

In the CD PROJEKT RED 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 and customers' preferences in specific countries. 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 CD PROJEKT RED segment the Company 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.



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 up 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. Critical data is automatically backed up to an offsite facility and many key operations are performed using redundant systems, enabling automatic failover and uninterrupted operation in the event of a technical malfunction.

The Group works to ensure proper maintenance of its critical IT infrastructure, with continuous monitoring and periodic upgrades to improve the operation of servers and other systems. Nevertheless, despite the Group's best efforts, risks associated with hardware malfunctions and data loss cannot be entirely eliminated.

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 entering a new market segment – i.e. free-to-play (F2P) games with optional microtransactions

By undertaking development of GWENT: The Witcher Card Game, the CD PROJEKT Capital Group has entered a new market segment: free-to-play (F2P) games with optional microtransactions. GWENT is a multiplayer online card game which will ultimately include single-player content (add-on campaigns offering multiple hours of gameplay). The business model and lifecycle of F2P games differs from CD PROJEKT RED's to-date experience with RPGs. The Company is currently acquiring experience with development and marketing of "games as a service" including optional microtransactions. The expected release of GWENT in China represents another first for the Company. The Chinese market is, in many respects, unlike other markets where CD PROJEKT has previously conducted business activities. A theoretical inability to ensure market success in China may translate into lower-than-expected financial results, both within the CD PROJEKT RED segment and the GOG.com segment (GWENT is co-developed by both companies as a collaborative undertaking).

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 infringement of intellectual property rights, patents and trademarks

Effective acquisition, licensing and protection of intellectual property rights (including trademarks) held by the Group is an important aspect of the Group’s activities.

Group member companies acquire copyrights (e.g. in the videogame development process) on the basis of contracts concluded with employees, affiliates and external suppliers. Despite introduction of suitable contractual provisions regulating copyright management, situations may arise where copyright has not been effectively transferred to the Group. The Group performs continuous analysis of such risks and works to adapt the material content of its service contracts to minimize the aforementioned risk.

Due to the global reach of CD PROJEKT Capital Group products and services, it is natural to offer such products and services in local languages and using national alphabets. This, however, involves the risk that a brand name or trademark held by the Company may conflict with an existing trademark, giving rise to copyright infringement claims. In addition, the Group may be unable to locally register some of its trademarks due to their resemblance to trademarks which have already been registered. The Group actively monitors trademark claims filed by third parties and conducts analysis of existing trademarks before deciding on names for its own products.

Some jurisdictions permit patenting of software, information technology concepts or elements of videogames. Group member companies attempt to monitor the situation in this regard; however due to the nonuniform nature of applicable laws, some of which extend far-reaching protection to patent holders, patent infringement claims against the Company cannot be ruled out.

It should be noted that any claim filed against the company in conjunction with potential infringement of intellectual property rights, patents or trademarks may negatively affect the Group’s reputation and growth prospects, even before such claims have been adjudicated.

Group revenues are also 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 continuously revises the legal safeguards present in third-party contracts, and registers its trademarks throughout the European Union and elsewhere. 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 risk

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 2016 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., CD PROJEKT Brankds S.A. (liquidated on 31 December 2016) 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 2016, in the section titled "Conditional liabilities from guarantees and collateral pledged".

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, PLN 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. With regard to future gaming platforms, the Group believes that the market is entering an era of more frequent releases, based on evolutionary – rather than revolutionary – technological changes (examples include PS4 Pro and Microsoft's recently-announced Project Scorpio). This shortening of the console generation lifecycle may require videogame developers to adapt their existing standards and technologies, as well as existing games, to new platforms more frequently than has historically been the case. 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 or its interpretation 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).

The CD PROJEKT Capital Group has no influence upon the legislative process in Poland or abroad.

On 16 July 2016 a General Anti-Avoidance Rule (GAAR) entered into force in Poland. This rule comprises a series of regulations preventing actions, which – while otherwise legal – are deemed by tax authorities to serve primarily as a means of avoiding taxation. Under GAAR, authorities can interpret the fiscal consequences of activities (or sets of activities) in such a way as to disregard the tax benefits which would otherwise have accrued to the taxable entity. This also applies to fiscal settlements based on individual tax interpretations previously obtained by



taxpayers. In summary, GAAR represents a legal tool which authorities can employ to question the fiscal effects of transactions otherwise consistent with the applicable law but carried out in such a way as to avoid – again, in the authorities’ opinion – the intended fiscal consequences. Given that the rule is a new addition to Polish law and has only been in force for several months it is currently difficult to reliably estimate the consequences of its introduction.

To mitigate the likelihood of fiscal settlements being questioned by national authorities, domestic member companies of the CD PROJEKT Capital Group attempt to obtain official interpretations concerning the applicable fiscal policies, and also employ the services of legal experts specializing in the relevant fields.

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 of foreign law or of the provisions of contracts governed by foreign law. Such exposure to multiple legal systems also carries the risk of potential inadvertent breaches of foreign law. In order to mitigate this risk, Group members employ the services of foreign legal consultants who specialize in the relevant fields.

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.

Financial status of the CD PROJEKT Capital Group – overview



Overview of key economic and financial indicators disclosed in the consolidated and separate financial statement

Description and assessment of factors and unusual circumstances affecting the Group's financial result in 2016

The major factors affecting the Group's financial result in 2016, both in the CD PROJEKT RED segment and in the GOG.com segment were the ongoing sales of The Witcher 3: Wild Hunt, the game's two expansion packs and the Game of the Year Edition, discussed at length in this report.

In 2016 the Group did not report any unusual circumstances which would affect its financial result.



Consolidated financial statement – selected highlights

Table 3 Consolidated profit and loss account – selected highlights (PLN thousands).

	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015*	y/y change (%)
Sales revenues	583 903	798 014	-26.8%
Revenues from sales of products and services	438 855	630 985	
Revenues from sales of goods and materials	145 048	167 029	
Cost of products, goods and materials sold	113 957	210 621	-45.9%
Cost of products and services sold	33 879	101 816	
Value of goods and materials sold	80 078	108 805	
Gross profit (loss) from sales	469 946	587 393	-20.0%
Selling costs	141 784	146 581	
General and administrative costs	21 344	14 520	1.9%
Other operating expenses less revenues	3 191	2 099	
Operating profit / (loss)	303 627	424 193	-28.4%
Financial revenues less expenses	8 311	-2 608	
Pre-tax profit / (loss)	311 938	421 585	-26.0%
Income tax	61 424	79 155	
Profit / (loss) from continuing operations	250 514	342 430	-26.8%
Net profitability	42.9%	42.9%	

*adjusted data

Clarifications concerning the consolidated profit and loss account of the CD PROJEKT Capital Group

The aggregate sales revenues of the CD PROJEKT Capital Group in 2016 were 583 903 thousand PLN, which is 26.8% lower than during 2015 – a period marked by the global release of The Witcher 3: Wild Hunt.

The greatest contribution to sales revenues was from the CD PROJEKT RED segment, with revenues valued at 475 822 thousand PLN; mostly from sales of products (457 700 thousand PLN). This figure comprises licensing royalties associated with distribution of The Witcher 3: Wild Hunt in its original edition and in the Game of the Year Edition, the Blood and Wine expansion pack (published in May 2016) and the so-called Expansion Pass, which bundles both expansion packs, i.e. Blood and Wine and Hearts of Stone. Revenues from sales of goods and materials, valued at 16 207 thousand PLN, are mostly from sales of physical components of The Witcher 3: Wild Hunt and Blood and Wine box editions.



The GOG.com segment generated 133 518 thousand PLN in 2016 sales revenues, i.e. 17 695 thousand PLN more than in 2015. This result eclipses the previous GOG.com sales record (2015, mostly due to the global release of The Witcher 3: Wild Hunt).

Regarding expenses, the largest single line item is the cost of products, goods and materials sold, in the amount of 113 957 thousand PLN. This figure comprises the cost of products and services sold by CD PROJEKT RED (33 119 thousand PLN), the value of goods and materials sold by CD PROJEKT RED (15 473 thousand PLN) as well as the cost of goods and materials sold by GOG.com (88 227 thousand PLN, including 23 641 thousand PLN in intragroup purchases).

Gross profitability of sales carried out by CD PROJEKT RED increased and, despite an overall reduction in this segment's sales revenues in the Group's consolidated revenues, the Group's sales profitability (calculated as the proportion between gross profit from sales and consolidated sales revenues) increased as well – from 73.6% in 2015 to 80.5% in 2016. These high profit margins were attained while discounting the entirety of Blood and Wine development costs as well as the remainder of Hearts of Stone development costs during the current year.

The Group's 2016 gross sales profit was 469 946 thousand PLN, compared to 587 393 in the previous year (marked by the release of The Witcher 3: Wild Hunt).

Selling costs comprise advertising and promotional expenses at each activity segment – including the global promotion costs of the Blood and Wine expansion pack (distributed digitally) and the costs of promotional activities surrounding the development of GWENT: The Witcher Card Game. In both cases, unlike in the case of earlier releases such as The Witcher 3: Wild Hunt, the Company is solely responsible for the promotional campaign and bears the majority of the associated costs. Selling costs also include the costs of other bought-in services recognized as selling costs, as well as – following a presentation change introduced in the 2016 financial statement – all expenses and provisions for expenses associated with result-dependent employee compensation (previously reported as General and administrative costs and Other operating expenses). Selling costs were primarily generated by the CD PROJEKT RED segment (82 986 thousand PLN), with an aggregate value of 141 784 thousand PLN (4 797 thousand PLN less than in 2015).

General and administrative costs were reported at 21 344 thousand PLN, mostly due to employee compensation (including incentive program valuation costs) and bought-in services recognized as general and administrative costs. The reported increase – by 6 824 thousand PLN y/y – is associated with additional recruitment and upscaling of Group activities following the release of The Witcher 3: Wild Hunt.

Financial revenues exceeded the corresponding costs by 8 311 thousand PLN, including 6 953 from interest on short-term bank deposits.

Pre-tax profit was reported at 311 938 thousand PLN. The Group paid 61 424 in taxation, including 57 451 thousand PLN in current corporate income tax and 3 952 thousand PLN in deferred tax.

At the end of the year the Group reported a consolidated net profit of 250 514 thousand PLN. The bulk of this figure was due to continuing high sales of The Witcher 3: Wild Hunt (including its Game of the Year Edition, published in the second half of 2016) and excellent sales of both expansion packs. Despite the lack of major releases comparable to that of The Witcher 3: Wild Hunt, the net profit obtained in 2016 was only 26.8% lower than the corresponding 2015 figure.

Net profitability (net profit divided by consolidated sales revenues) was 42.9%, which is comparable to 2015.

Segmented presentation of consolidated profit and loss account – selected highlights



Table 4 Segmented presentation of sales revenues, individual cost categories and financial results – selected highlights (PLN thousands).

w tys. zł	CD PROJEKT RED	GOG.com	Other activities	Consolidation eliminations (incl. adjustments from business combinations)	Total
Sales revenues	475 822	133 518	8 883	-34 320	583 903
Revenues from sales of products and services	459 615	4 704	8 848	-34 312	438 855
Revenues from sales of goods and materials	16 207	128 814	35	-8	145 048
Cost of products, goods and materials sold	48 592	88 938	785	-24 358	113 957
Cost of products and services sold	33 119	711	760	-711	33 879
Value of goods and materials sold	15 473	88 227	25	-23 647	80 078
Gross profit (loss) from sales	427 230	44 580	8 098	-9 962	469 946
Selling costs	82 986	34 072	24 958	-232	141 784
General and administrative costs	16 969	3 799	10 493	-9 917	21 344
Other operating expenses less revenues	2 987	310	-293	187	3 191
Operating profit / (loss)	324 288	6 399	-27 060	0	303 627
Financial revenues less expenses	7 477	-524	105 231	-103 873	8 311
Pre-tax profit / (loss)	331 765	5 875	78 171	-103 873	311 938
Income tax	64 590	1 064	-4 230	0	61 424
Net profit / (loss) from continuing operations	267 175	4 811	82 401	-103 873	250 514



Clarifications concerning the segmented profit and loss account

The CD PROJEKT RED segment reported 267 175 thousand PLN in net profit, while for the GOG.com segment the corresponding figure was 4 811 thousand PLN.

The bulk of the revenues and net profits of both segments in 2016 was generated by continuing sales of The Witcher 3: Wild Hunt and the release of the game's second expansion pack – Blood and Wine, in addition to a separate Expansion Pass which bundles both expansion packs. Additionally, the CD PROJEKT RED segment (as well as GOG.com, where digital distribution is concerned) continued to market earlier releases: The Witcher, The Witcher 2: Assassins of Kings and a range of tie-in products introduced around the release date of The Witcher 3: Wild Hunt.

Of particular note are the highest-ever sales revenues reported by GOG.com, particularly in light of the fact that more than a year has already passed since the launch of The Witcher 3. The reported figure is due to sales of a wide range of products, including the season's hottest launch – Blood and Wine (as well as the Expansion Pass). Thanks to GOG Galaxy, GOG.com's share in the overall sales volume of both expansion packs was significantly higher than the standard ratio of base-game-vs.-expansion sales corresponding to GOG.com's current market share.

Closed beta tests of GWENT: The Witcher Card Game, initiated on 25 October 2016, represent an important milestone for CD PROJEKT RED and GOG.com. Having distributed the game to a limited pool of users, the Group began obtaining revenues associated with this title and reported in the segment revenues of CD PROJEKT RED and GOG.com. The aggregate value of promotional expenses and other costs associated with GWENT in 2016 was greater than the corresponding revenues obtained since the launch of the closed beta. The GWENT consortium agreement signed between GOG Poland sp. z o.o. and CD PROJEKT S.A. and the resulting share in surplus costs – typical at this stage of videogame development – are the main reasons between the lower net profit reported by GOG.com in 2016 compared to the preceding year.

The net result of the "Other activities" segment, primarily attributable to its Invest department which provides services to other segments, was 82 401 thousand PLN – mostly dividends obtained from other segments and subject to consolidation eliminations.



Separate profit and loss account – selected highlights

Table 5 Separate profit and loss account of CD PROJEKT S.A. – selected highlights (PLN thousands).

	01.01.2016- -31.12.2016	01.01.2015- -31.12.2015*	y/y change (%)
Sales revenues	476 152	698 225	-31.8%
Revenues from sales of products and services	459 916	646 959	
Revenues from sales of goods and materials	16 236	51 266	
Cost of products, goods and materials sold	49 372	149 321	-66.9%
Cost of products and services sold	33 879	102 508	
Value of goods and materials sold	15 493	46 813	
Gross profit (loss) from sales	426 780	548 904	-22.2%
Selling costs	109 290	128 286	
General and administrative costs	18 551	10 887	-7.7%
Other operating expenses less revenues	2 696	2 204	
Operating profit / (loss)	296 243	407 527	-27.3%
Financial revenues less expenses	12 718	6 019	
Pre-tax profit / (loss)	308 961	413 546	-25.3%
Income tax	59 259	77 400	
Net financial result of acquiree		54	
Net profit / (loss) from continuing operations	249 702	336 200	-25.7%
Net profitability	52.4%	48.2%	

*adjusted data

Clarifications concerning the separate profit and loss account of CD PROJEKT S.A.

CD PROJEKT S.A. is the parent entity of the CD PROJEKT Capital Group as well as the largest entity within the Group. Accordingly, when excluding the GOG.com segment and the CD PROJEKT Inc. subsidiary, the remaining financial data essentially describes the activities and results of CD PROJEKT S.A.

In 2016 the sales revenues of CD PROJEKT S.A. were calculated as 476 152 thousand PLN. This is 31.8% lower than in the preceding year, which coincided with the global launch of The Witcher 3: Wild Hunt. The net profit of the Company, 249 702 thousand PLN, represents 74.3% of the result obtained in 2015. The Issuer's net profitability was 52.4%, compared to 48.2% in 2015.

Consolidated statement of financial position – selected highlights**Table 6** Consolidated statement of financial position – selected highlights (PLN thousands).

	31.12.2016	31.12.2015*
PROPERTY, PLANT AND EQUIPMENT	170 644	137 997
Fixed assets	14 423	9 380
Intangibles	47 112	47 857
Expenditures on development projects	62 011	33 581
Goodwill	46 417	46 417
Other fixed assets	681	762
WORKING ASSETS	704 316	521 178
Trade receivables	71 554	87 704
Other receivables	20 268	26 530
Prepaid expenses	14 724	12 523
Cash, near-cash and other monetary assets	597 204	393 637
Other working assets	566	784
TOTAL ASSETS	874 960	659 175

	31.12.2016	31.12.2015*
EQUITY	776 938	513 675
LONG-TERM LIABILITIES	8 275	3 643
Deferred income tax liabilities	7 198	3 185
Other long-term liabilities	1 077	458
SHORT-TERM LIABILITIES	89 747	141 857
Trade liabilities	27 971	22 603
Other liabilities	9 762	46 965
Deferred revenues	2 864	7 864
Other provisions	45 031	56 383
Other short-term liabilities	4 119	8 042
TOTAL LIABILITIES	874 960	659 175

*adjusted data



Clarifications concerning the consolidated statement of financial position of the CD PROJEKT Capital Group

Assets

As of 31 December 2016 the Group held 14 423 thousand PLN in fixed assets, 5 043 thousand PLN more than at the end of 2015. This figure comprises machinery and equipment (6 777 thousand PLN) – mostly computers, servers and other electronic devices used in the videogame development process, including the furnishings of the Company's motion capture studio – and adaptation work carried out at offices and other premises used by the Group to conduct daily activities (4 406 thousand PLN reported in the "Buildings and structures" line item). The reported increase in the value of fixed assets is due to purchases of electronic equipment, furniture and office space associated with additional recruitment and upscaling of the Group's activities.

The main components of the Intangible assets line item (47 112 thousand PLN as of 31 December 2016) are mainly the CD PROJEKT brand name and The Witcher trademark, jointly valued at 32 119 thousand PLN. The Group's intangibles also include computer software valued at 7 275 thousand PLN and copyrights valued at 6 951 thousand PLN. The total value of intangibles did not undergo major changes in the reporting period.

As a result of a presentation change, the expenses associated with the Group's videogame development projects, previously reported as Inventories – production in progress or finished products, are now aggregated with fixed assets as "Expenditures on development projects" (along with the corresponding adjustments in historical data). This change is meant to convey the principal scope of activity of CD PROJEKT RED, i.e. creation of videogames which are regarded as intangible assets, incur development costs and have a useful economic life exceeding 1 year. Additionally, the change is meant to bring the financial statement of CD PROJEKT RED in line with the financial statements of other publicly traded entities which pursue similar activities.

Year-end expenditures of development projects were reported at 62 011 thousand PLN, mostly borne by the parent Company. Following release of Blood and Wine, the corresponding development expenses were reclassified from "Development projects in progress" to "Development projects completed". Additionally, the presented profit and loss account recognizes the entirety of preorder revenues and current-period sales revenues generated by the new expansion pack, along with the game's Expansion Pass. All Blood and Wine development expenses are discounted during the current period. The reported reduction in expenditures on development projects (completed) compared to 31 December 2015 resulted from discounting all remaining historical development costs of The Witcher 3: Wild Hunt and the Hearts of Stone expansion pack, set against current-period sales revenues for these products. Consequently, the reported balance of expenditures on development projects (completed) at the end of 2016 is 0 PLN, while the reported expenditures on development projects (62 011) are fully attributable to projects currently in progress, including the Company's flagship development projects: GWENT and Cyberpunk 2077.

Goodwill, valued at 46 417 thousand PLN, represents the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. The reported figure was calculated following the merger of the parent entity with the CDP Investment Capital Group on 30 April 2010 and did not change during the reporting period.

Consolidated trade receivables, estimated at 71 554 thousand PLN on 31 December 2016, were mostly attributable to CD PROJEKT RED, with a separate figure of 73 535 thousand PLN (including receivables from GOG.com, which are subject to consolidation eliminations). This



figure comprises CD PROJEKT S.A. receivables associated with fourth-quarter sales reports and the corresponding licensing royalties payable to the Group, in the aggregate amount of 66 465 thousand PLN.

The Group's other receivables, valued at 20 268 thousand PLN, decreased by 6 262 thousand PLN compared to the end of 2015. The bulk of this figure consists of withholding tax deducted at source by CD PROJEKT S.A. trade partners and reportable in the Company's annual financial statement, in addition to VAT receivables.

Prepaid expenses were reported at 14 724 thousand PLN and did not significantly change compared to the end of 2015. The reported figure mostly comprises licenses purchased by GOG Ltd. from suppliers and minimum guarantees payable to the Group in future periods (13 207 thousand PLN as of 31 December 2016).

At the end of December 2016 the Group held 597 204 thousand PLN in cash and other financial assets (bank deposits with maturity periods longer than 3 months following the balance sheet date). This represents an increase by 203 567 thousand PLN compared to 31 December 2015. The consolidated figure comprises 560 383 in cash assets held by CD PROJEKT S.A. and 36 214 thousand PLN in cash assets held by GOG Ltd.

The total value of the Group's fixed assets increased by 32 647 thousand PLN, i.e. 23.7%, mostly as a result of ongoing development work at CD PROJEKT S.A. Over the same period the value of working assets increased by 183 138, i.e. 35.1%, mostly due to an increase in the reported cash assets. At the end of the reporting period fixed assets comprised 19.5% of the Group's total assets, with the remaining 80.5% made up of working assets.

Liabilities

Equity accounted for 88.8% of the Group's liabilities, with the remaining 11.2% divided into short- and long-term liabilities. At the end of 2015 the corresponding figures were 77.9% and 22.1% respectively. The reported increase in the Group's equity is due to the net profit obtained by the Group during the reporting period.

As of 31 December 2016 the trade liabilities of the CD PROJEKT Capital Group were worth 27 971 thousand PLN and mostly attributable to GOG.com (28 196 thousand PLN in trade liabilities, including 5 939 thousand PLN payable to other members of the Group and subject to consolidation eliminations). CD PROJEKT RED reported 5 456 thousand PLN in trade liabilities. The consolidated figure increased by 5 368 thousand PLN compared to 31 December 2015 (23.7% increase).

Other liabilities, valued at 9 762 thousand PLN, decreased by 37 203 thousand PLN (79.2%) compared to 31 December 2015. This decrease resulted from full discounting of Blood and Wine development expenses and advances for licensing royalties associated with preorders of the Expansion Pass, which occurred after the release of Blood and Wine. Of the remaining figure 4 049 thousand PLN represents advances from foreign clients while 3 487 thousand PLN is due to current VAT liabilities.

The value of other provisions – 45 031 thousand PLN at the end of 2016 – was 20.1% lower than at the end of 2015. This figure consists mostly of provisions for future liabilities, including compensation dependent on the Group's financial result.

A detailed segmented consolidated statement of financial position can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2016.



Analysis of the structure of the Group's consolidated assets and liabilities from the point of view of liquidity

Throughout 2016 the Group's equity increased by 263 263 thousand PLN for a 51.3% increase compared to the end of 2015. As of 31 December 2016 equity represented 88.8% of the Group's total liabilities, while short- and long-term liabilities (11.2% of the aggregate figure) decreased by 47 478 thousand PLN (32.6% decrease compared to the end of 2015).

As of 31 December 2016 the Group had no outstanding debt under any credit or loan agreements.

The year-end aggregate cash and monetary asset balance (including bank deposits with maturity periods longer than 3 months following the balance sheet date) was 597 204 thousand PLN, i.e. 51.7% more than at the end of 2015. Cash and near-cash represented 68.3% of the Group's year-end assets.

With regard to management of cash assets, surplus assets can be made available to other Group member companies under a cash pooling agreement. Unused cash pool funds are typically placed in overnight or longer-term bank deposits.

Consolidated trade receivables decreased by 16 150 thousand PLN (18.4%) in 2016. At the end of 2016 this figure comprised mostly licensing royalties associated with Q4 2016 sales reports, payable in future reporting periods (with a total value of 66 465 thousand PLN).

An important contribution to the Group's assets is from expenditures on development projects, valued at 62 011 thousand PLN at the end of 2016 (28 430 thousand PLN increase). This figure is affected by the following factors:

- increases (by 59 828 thousand PLN) – expenses associated with completed and ongoing development projects, including the main projects underway during 2016, i.e. Cyberpunk 2077, Blood and Wine and GWENT: The Witcher Card Game;
- reductions (by 31 398 thousand PLN) – discounting of all outstanding costs associated with development of The Witcher 3: Wild Hunt, Hearts of Stone and Blood and Wine, recognized as the cost of products and services sold in 2016.



Separate statement of financial position – selected highlights

Table 7 Separate statement of financial position of CD PROJEKT S.A. – selected highlights (in thousand PLN).

	31.12.2016	31.12.2015*
PROPERTY, PLANT AND EQUIPMENT	169 607	121 607
Fixed assets	10 952	6 579
Intangibles	84 075	69 028
Expenditures on development projects	60 049	33 488
Goodwill	13 850	11 750
Other fixed assets	681	762
WORKING ASSETS	658 922	482 725
Trade receivables	73 372	87 591
Other receivables	23 701	27 426
Prepaid expenses	1 012	703
Cash, near-cash and other monetary assets	560 383	366 222
Other working assets	454	783
TOTAL ASSETS	828 529	604 332
	31.12.2016	31.12.2015*
EQUITY	757 576	480 087
LONG-TERM LIABILITIES	8 705	4 358
Deferred income tax liabilities	7 638	3 912
Other long-term liabilities	1 067	446
SHORT-TERM LIABILITIES	62 248	119 887
Trade liabilities	7 204	4 660
Other liabilities	7 035	51 754
Deferred revenues	587	429
Other provisions	43 499	55 265
Other short-term liabilities	3 923	7 779
TOTAL LIABILITIES	828 529	604 332

*adjusted data



Clarifications concerning the separate statement of financial position of CD PROJEKT S.A.

CD PROJEKT S.A. is the parent entity of the CD PROJEKT Capital Group as well as the largest entity within the Group. Accordingly, when excluding the GOG.com segment and the CD PROJEKT Inc. subsidiary, the remaining financial data essentially describes the activities and results of CD PROJEKT S.A.

The balance of CD PROJEKT S.A. assets and liabilities at the end of 2016 was lower than the corresponding balance of the CD PROJEKT Capital Group by 46 431 thousand PLN (5.3%). At the end of the preceding year the difference was 54 843 thousand PLN (8.3%). The gap shrank in 2016 as a result of further dynamic growth of the Company and the fact that the bulk of the Group's current-period financial result is attributable to CD PROJEKT S.A.

Major differences between the consolidated statement of financial position of the CD PROJEKT Capital Group and the corresponding separate statement of CD PROJEKT S.A. include:

- Goodwill – defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. In the separate statement goodwill (valued at 39 147 thousand PLN) is aggregated with intangible assets, while in the consolidated statement it is disaggregated as a separate line item in the PP&E section.
- Investments in subsidiaries – CD PROJEKT S.A. holds 100% of shares in all other member companies of the Capital Group and reports investments in subsidiaries in its separate annual statement. These investments, valued at 13 850 thousand PLN, are all subject to consolidation eliminations.
- Prepaid expenses, cash, near-cash, other monetary assets, equity and trade liabilities – in each case the separate statement does not cover the contribution of other member companies of the Capital Group; particularly of the GOG Ltd. subsidiary.



Consolidated statement of cash flows – selected highlights

Table 8 Consolidated statement of cash flows – selected highlights (in thousand PLN).

	01.01.2016- -31.12.2016	01.01.2015- -31.12.2015*
OPERATING ACTIVITIES		
Net profit / (loss)	250 514	342 430
Total adjustments:	8 809	59 477
Depreciation of fixed assets and intangibles/legal assets	4 242	2 698
Depreciation of expenditure on development projects	31 398	96 924
Change in provisions	-11 261	56 315
Change in receivables	22 140	-96 789
Change in liabilities excluding credits and loans	-32 944	-3 445
Other adjustments	4 766	3 774
Cash flows from continuing operations	259 323	401 907
Income tax on profit (loss) before taxation	61 424	79 155
Income tax (paid) / reimbursed	-61 291	-69 077
Net cash flows from operating activities	259 456	411 985
INVESTMENT ACTIVITIES		
Inflows	47 225	4 757
Expiration of bank deposit	40 000	0
Other inflows from investment activities (incl. interest)	7 225	4 757
Outflows	107 646	97 123
Purchases of intangibles and fixed assets	12 041	16 864
Expenditures on development projects	55 605	40 183
Creation of bank deposit	40 000	40 000
Other outflows from investment activities	0	76
Net cash flows from investment activities	-60 421	-92 366
FINANCIAL ACTIVITIES		
Net inflows from issue of shares	5 031	0
Outflows from financial lease agreements	499	377
Net cash flows from financial activities	4 532	-377
Aggregate net cash flows	203 567	319 242

**adjusted data*



Clarifications concerning the consolidated statement of cash flows of the CD PROJEKT Capital Group

In the scope of operating activities, the CD PROJEKT Capital Group reported 259 456 thousand PLN in positive 2016 cash flows. This is 152 529 thousand PLN (37.0%) less than in 2015 when *The Witcher 3: Wild Hunt* was released.

An important change occurring in 2016 involved depreciation of development expenses. The reported value of 31 398 thousand PLN corresponds to the decrease in Expenditures on development projects (aggregated with the Group's fixed assets) caused by discounting the costs of products and services sold. In 2015 this depreciation concerned mainly development costs of *The Witcher 3: Wild Hunt*, while in 2016 it covered the entirety of *Blood and Wine* development costs, as well as – to a lesser degree – all costs associated with *The Witcher 3: Wild Hunt* and *Hearts of Stone* not previously discounted.

Another notable adjustment affecting cash flows from operating activities was the reported decrease in the Group's receivables – by 22 140 thousand PLN – with contributions from both trade receivables and other receivables.

The reported change in liabilities except credits and loans (decrease by 32 944 thousand PLN) was due to the decrease in the balance of other liabilities resulting from full discounting of Expansion Pass licensing royalties previously advanced to the Group and discounted following the official release of *Blood and Wine* in May 2016.

Extensive ongoing development work, now reported as a separate line item ("Expenditures on development projects" in the fixed asset category) resulted in outflows flows from investment activities valued at 60 421 thousand PLN. This figure is primarily composed of the aforementioned development expenses (55 605 thousand PLN in the current year, compared to 40 183 thousand PLN in 2015). The reported increase is a result of expansion of CD PROJEKT RED activities, with parallel work on three major projects in 2016: *Cyberpunk 2077*, *GWENT: The Witcher Card Game* and *Blood and Wine* (released in May). Other outflows from investment activities resulted from purchases of fixed assets and intangibles (12 041 thousand PLN) – this figure comprises adaptation of office space, purchases of computer software and licenses, and other investments related to ongoing activities in each of the Group's activity segments.

The investment activities category now also includes bank deposits with maturity periods longer than 3 months following the balance sheet date. With regard to the 2015 financial statement, the Group reported an "outflow" of cash associated with such deposits, whereas in 2016 the corresponding amount – 40 000 thousand PLN – was reported both as inflows (due to maturation of previously created deposits) and outflows (due to creation of additional deposits).

With regard to financial activities, the Group reported 4 532 thousand PLN in positive cash flows (inflow of 5 031 thousand PLN). This figure was primarily affected by the issue of new stock under the incentive program for 2012-2015, following attainment of the program's goals.

In 2015 (*The Witcher 3* release year) the balance of the Group's cash assets increased by 319 242 thousand PLN, whereas in 2016 the corresponding increase was 203 567 thousand PLN.

As of 31 December 2016 the Group held cash assets valued at 557 204 thousand PLN and bank deposits with maturity periods longer than 3 months following the balance sheet date valued at 40 000 thousand PLN. The Capital Group had no outstanding debt under any credit or loan agreements.



Separate statement of cash flows – selected highlights

Table 9 Separate statement of cash flows of CD PROJEKT S.A. – selected highlights (in thousand PLN).

	01.01.2016- -31.12.2016	01.01.2015- -31.12.2015*
OPERATING ACTIVITIES		
Net profit / (loss)	249 702	336 200
Total adjustments:	-2 106	44 574
Depreciation of fixed assets and intangibles/legal assets	2 170	1 468
Depreciation of expenditures on development projects	31 398	96 924
Change in provisions	-10 917	55 180
Change in receivables	17 348	-97 651
Change in liabilities excluding credits and loans	-41 967	-8 752
Other adjustments	-138	-2 595
Cash flows from continuing operations	247 596	380 774
Income tax on profit (loss) before taxation	59 259	77 400
Income tax (paid) / reimbursed	-59 987	-67 341
Net cash flows from operating activities	246 868	390 833
INVESTMENT ACTIVITIES		
Inflows	50 972	11 973
Expiration of bank deposit	40 000	0
Other inflows from investment activities (incl. dividends and interest)	10 972	11 973
Outflows	103 416	92 077
Purchases of intangibles and fixed assets	9 478	11 925
Expenditures on development projects	53 938	40 090
Creation of bank deposit	40 000	40 000
Other outflows from investment activities	0	62
Net cash flows from investment activities	-52 444	-80 104
FINANCIAL ACTIVITIES		
Inflows (incl. from issue of shares)	5 031	2 962
Outflows	5 294	416
Net cash flows from financial activities	-263	2 546
Aggregate net cash flows	194 161	313 275

**adjusted data*



Clarifications concerning the separate statement of cash flows of CD PROJEKT S.A.

CD PROJEKT S.A. is the parent entity of the CD PROJEKT Capital Group as well as the largest entity within the Group. The balance of positive cash flows at the Company in 2016 represented 95.4% of the consolidated positive balance of cash flows within the Capital Group. In 2015 the contribution of CD PROJEKT S.A. to Capital Group cash flows was 98.1%.

Description of the implementability of investment plans

In accordance with the information presented above, as of 31 December 2016 the Group had no outstanding debt under any credit or loan agreements, and held cash assets (including bank deposits) valued at 597 204 thousand PLN.

The Group intends to finance its future activities with own resources and future positive cash flows. Development of new videogames may, starting at a certain point in the development lifecycle, also be partly financed by advance payments received from distributors and publishers on the basis of licensing and distribution agreements.

As of the publication date of this statement the Group does not anticipate any problems with securing adequate financing for its foreseeable investment plans.

Disclosure of credits and loans received in 2016

Throughout 2016 the CD PROJEKT Capital Group had no outstanding debt under any credit or loan agreements.

Disclosure of loans granted in 2016

The CD PROJEKT Capital Group granted no loans to other parties in 2016. A cash pooling agreement is in force, enabling Group member companies to consolidate their bank accounts in order to ensure efficient use of the available financial resources.

Disclosure of sureties and guarantees issued in 2016, and other significant off-balance sheet items

Information regarding the sureties and guarantees issued by the Group, and other important off-balance sheet items can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2016.

Description of the current economic and financial condition of the Capital Group

In 2015 and 2016, owing to the success of The Witcher 3: Wild Hunt and the game's two expansion packs – Hearts of Stone and Blood and Wine – the Group reported a qualitative leap in revenues, net profit, positive cash flows and equity, both within the CD PROJEKT RED segment and within the Group as a whole. The scale of operations and revenues of GOG.com also continued to increase during the reporting period. In parallel, throughout 2016, both

segments – CD PROJEKT RED and GOG.com – continued to carry out development work at a scale not previously seen in the Group's history. The current economic and financial condition of the CD PROJEKT Capital Group can be described as stable.



Description of the expected future economic and financial condition of the Capital Group

The excellent reception of *The Witcher 3: Wild Hunt* by gamers and gaming media, evident around the game's release date and bolstered by over 250 Game of the Year titles received in 2015 and 2016, should ensure long-term appeal of the game, which is expected to continue generating revenues and positive cash flows for the Company and its Capital Group. This record number of GOTY awards, along with the release of two independent expansion packs – *Hearts of Stone* and *Blood and Wine* – enabled CD PROJEKT RED to publish *The Witcher 3* as a Game of the Year Edition – this version, released in August 2016, bundles the base game along with both expansion packs. In the future it will represent the base edition of the Studio's most recent major release, which – similarly to previous installments in *The Witcher* franchise – is expected to generate further sales in the coming years. All development expenses associated with *The Witcher 3* and both expansion packs have been fully discounted by 31 December 2016 – this means that future sales of all three products will not be offset by major cost items and will therefore generate significant positive cash flows.

The Group also anticipates further expansion of activities in the GOG.com segment, including, among others, via technical and conceptual development of GOG Galaxy.

Implementation of the Company's and its Capital Group's plans in future years will incur major expenses, primarily due to the development and marketing of future releases – such as *GWENT: The Witcher Card Game* and *Cyberpunk 2077*. As of the publication date of this statement, the Management Board does not perceive any threats to the liquidity or solvency of the Capital Group.

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 Capital Group in 2016:

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

In addition, in 2016 CD PROJEKT S.A. formed a consortium with GOG Poland sp. z o.o. to jointly develop *GWENT: The Witcher Card Game*. This cooperation will continue into 2017 and it is the intent of both parties to carry out collaborative activities in the scope of post-release support and further expansion of the game.

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 Condensed Interim Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2016.

Description of major domestic and foreign investments, and of the structure of major capital market investments

The Capital Group does not pursue significant direct investments in the traditional sense of the term. Nevertheless, the Group's operations require possession of major assets and major expenditures on development projects, in line with the following description.

As of the end of 2016, the bulk of the Group's assets is represented by cash and cash equivalents. Throughout 2016 surplus cash was invested mostly in short-term bank deposits with varying maturity. The total value of cash, near-cash and other monetary assets (i.e. bank deposits with maturity periods longer than 3 months following the balance sheet date) on 31 December 2016 was 597 204 thousand PLN.

Important fixed assets reported in the Group's statement of financial position for 31 December 2016 include intangibles, valued at 47 112 thousand PLN – mainly the CD PROJEKT brand name and The Witcher trademark. Additionally, in its statement of financial position the Group reports goodwill, which is calculated as the positive difference between the cost of establishing a business combination and the Company's share in the net fair value of all assets and liabilities of the controlled entity on the date of acquisition. The reported value of the Group's goodwill is 46 417 thousand PLN.

Expenditures on development projects borne in 2016 and up until the publication date of this report focused on ongoing development of videogames. As of 31 December 2016 the balance of expenditures on development projects in the CD PROJEKT RED segment was 60 050 thousand PLN, whereas the corresponding GOG.com figure was 1 961 thousand PLN.

At the end of 2016 the Group held 14 423 thousand PLN in fixed assets. This figure comprises machinery and equipment (6 777 thousand PLN) – mostly computers, servers and other devices utilized by the Group – and adaptation work carried out in the Group's office space (4 406 thousand PLN reported in the "Buildings and structures" line item).

Throughout 2016 member companies of the CD PROJEKT Capital Group financed their activities and investment projects mostly with their own resources.

The CD PROJEKT Capital Group includes two whole owned foreign subsidiaries: GOG Ltd. and CD PROJEKT Inc., in addition to a wholly owned domestic subsidiary – GOG Poland sp. z o.o. CD PROJEKT S.A. also holds 3.11% of shares in cdp.pl sp. z o.o.

Disclosure of significant differences between the financial results reported in the annual financial statement and earlier projections covering the given year

The CD PROJEKT Capital Group had never published financial projections for 2016. Accordingly, no description of the significant differences between the Group's actual results and earlier projections is provided.

Disclosure of the appropriation of revenues from issue of capital market instruments up until the publication date of the financial statement



Between 1 January and 31 December 2016 CD PROJEKT S.A. issued 1 170 000 shares as a means of implementing its incentive program for 2012-2015. In accordance with the relevant General Meeting resolution of 16 December 2011, the per-share issue price was 4.30 PLN. Aggregate revenues from issue of shares carried out in 2016 in conjunction with the incentive program were 5 031 thousand PLN, which corresponds to less than 1% of the total cash assets held by the group at the end of 2016. All such revenues were used to finance the base activities of CD PROJEKT S.A.

Corporate governance



Disclosure of entities charged with audits and attestation of financial statements

Following Management Board recommendation, on 1 June 2016 the Supervisory Board of the Company selected Ernst & Young Audyt Polska sp. z o.o. sp. k., headquartered in Warsaw, 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 2016 (Current Report no. 21/2016). Ernst & Young Audyt Polska sp. z o.o. sp. k. is listed in the register of licensed auditors under ID 130.

Detailed information concerning the remuneration of the entity charged with audits and attestation of the Company's financial statements for the 2016 fiscal year is provided in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2016, in note 51: "Disclosure of transactions with entities charged with performing audits of financial statements".

Ernst & Young Audyt Polska sp. z o.o. sp.k. has also been contracted to audit the financial statement of GOG Poland sp. z o.o.

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

The Company share capital amounts to 96 120 000 PLN and is divided into 96 120 000 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 10 Shareholders controlling at least 5% of votes at the General Meeting.

**Table 10** Shareholders controlling at least 5% of votes at the General Meeting.

	Qty. of shares	% share in share capital	Qty. of votes at the GM	% share in total no. of votes at the GM
Marcin Iwiński	12 150 000	12.64%	12 150 000	12.64%
Michał Kiciński ¹	10 486 106	10.91%	10 486 106	10.91%
Piotr Nielubowicz	6 135 197	6.38%	6 135 197	6.38%
AVIVA OFE ²	4 940 000	5.14%	4 940 000	5.14%
Pozostały akcjonariat	62 408 697	64.93%	62 408 697	64.93%

1 as disclosed in Current Report no. 49/2016 of 6 December 2016

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

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. 32/2016 of 4 October 2016 the Company announced that it had been notified by PKO Towarzystwo Funduszy Inwestycyjnych S.A. that, as a result of sale of Company stock carried out on 29 October 2016, the aggregate percentage share in the Company share capital held by investment funds managed by PKO Towarzystwo Funduszy Inwestycyjnych S.A. dropped below 5%. Following the aforementioned transaction, PKO TFI funds hold 3 874 169 shares of Company stock, which represents 4.04% of the Company share capital and affords 3 874 169 votes at the General Meeting (4.04% of the total number of votes).

In Current Report no. 35/2016 of 26 October 2016 the Company announced that it had been notified by MetLife PTE S.A. that, as a result of sale of Company stock carried out on 20 October 2016, the percentage share in the Company share capital held by MetLife Otwarty Fundusz Emerytalny dropped below 5%. Following the aforementioned transaction MetLife Otwarty Fundusz Emerytalny holds 4 716 500 shares of Company stock, which represents 4.92% of the Company share capital and affords 4 716 500 votes at the General Meeting (4.92% of the total number of votes).



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

In 2016 the Company instituted an incentive program for its key employees and collaborators, described elsewhere in this report.

Implementation of the incentive program may result in changes in the proportion of shares held by Company shareholders. As of 31 December 2016 warrants have been granted to program participants entitling them to claim up to 5 690 000 Company shares, depending on the manner in which the program is implemented. The total number of warrants which may potentially be assigned under the incentive program is 6 000 000.

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 2016-2021, was approved by the General Meeting of Shareholders on 24 May 2016. A detailed set of terms and conditions was endorsed by the Supervisory Board and subsequently approved by the Management Board on 5 July 2016. Implementation of the program is directly supervised by the Supervisory Board and Management Board of CD PROJEKT S.A.



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

Table 11 Quantity of shares held by members of the Company's managerial and supervisory bodies.

Name	Position	as of 01.01.2016	as of 31.12.2016	as of 30.03.2017
Adam Kiciński	President of the Board	3 122 481	3 322 481	3 322 481
Marcin Iwiński	Vice President of the Board	12 000 000	12 150 000	12 150 000
Piotr Nielubowicz	Vice President of the Board	5 985 197	6 135 197	6 135 197
Adam Badowski	Board Member	–	150 000	150 000
Michał Nowakowski	Board Member	1 149	101 149	101 149
Piotr Karwowski	Board Member	–	8 000	8 000
Katarzyna Szwarc	Chairwoman of the Supervisory Board	10 010	10 010	10 010

In Current Report no. 16/2016 of 23 May 2016 the Company announced that it had been notified of the execution of warrants assigned to members of the Management Board under the incentive program for the years 2012-2015 and the corresponding purchase of Company stock:

- On 20 May 2016 Mr. Adam Kiciński, President of the Board, purchased 40 000 Series L shares outside of the regulated market;
- On 20 May 2016 Mr. Marcin Iwiński, Vice President of the Board, purchased 30 000 Series L shares outside of the regulated market;
- On 20 May 2016 Mr. Piotr Nielubowicz, Vice President of the Board, purchased 30 000 Series L shares outside of the regulated market;
- On 20 May 2016 Mr. Piotr Karwowski, Board Member, purchased 20 000 Series L shares outside of the regulated market.

In Current Report no. 27/2016 of 18 July 2016 the Company announced that it had been notified of the execution of warrants assigned to members of the Management Board under the incentive program for the years 2012-2015 and the corresponding purchase of Company stock:

- On 15 July 2016 Mr. Adam Kiciński, President of the Board, purchased 160 000 Series L shares outside of the regulated market;
- On 15 July 2016 Mr. Marcin Iwiński, Vice President of the Board, purchased 120 000 Series L shares outside of the regulated market;
- On 15 July 2016 Mr. Piotr Nielubowicz, Vice President of the Board, purchased 120 000 Series L shares outside of the regulated market;
- On 15 July 2016 Mr. Michał Nowakowski, Board Member, purchased 100 000 Series L shares outside of the regulated market.

in Current Report No. 28/2016 of 21 July 2016 the Company announced that it had been notified of a sale of Company stock carried out on 20 July 2016 on the regulated market by Mr. Piotr Karwowski, Board Member, who sold 12 000 shares at an average price of 32.38 PLN per share.

in Current Report No. 38/2016 of 10 November 2016 the Company announced that it had been notified of the execution of warrants assigned to Mr. Adam Badowski under the under the incentive program for the years 2012-2015 and the corresponding purchase of 150 000 Series L shares outside of the regulated market, carried out on 9 November 2016.



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.

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 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 specific areas of activity:



Adam Kiciński
President of the
Management Board

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.



Marcin Iwiński
Vice President for
International Affairs

Coordinates the Company's international activities and the corresponding policies, takes part in supervising and managing the Company's foreign subsidiaries.



Piotr Nielubowicz

Vice President for Financial Affairs

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



Adam Badowski

Board Member

Heads the CD PROJEKT RED development studio which is owned by the Company, coordinates the Company's game development activities.



Michał Nowakowski

Board Member

Oversees formulation and implementation of the Company's sales policies, and participates in shaping the Company's international activities and policies; participates in game development activities carried out by the Company.



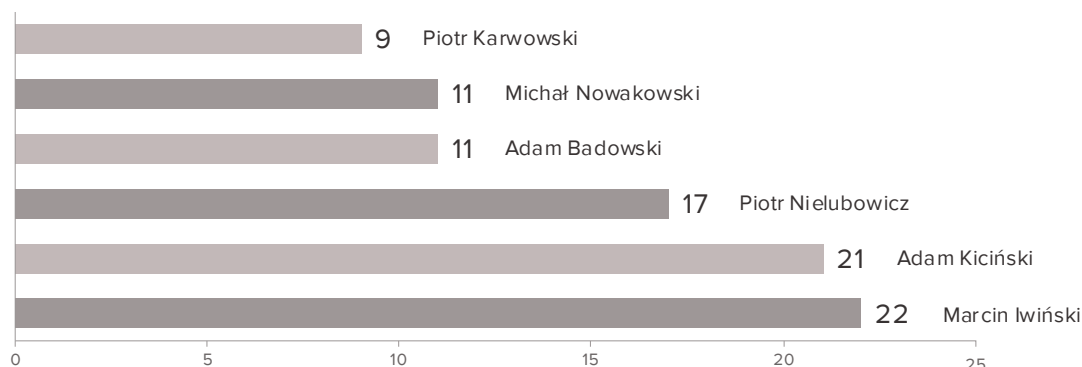
Piotr Karwowski

Board Member

Assumes responsibility for the Company's and its Capital Group's activities in the scope of digital distribution, manages the GOG.com activity segment.



Figure 14 Tenure of current members of the Management Board as holders of managerial positions within the CD PROJEKT Capital Group (in years).



Changes in Management Board composition

No changes in the composition of the Company's management board occurred during the reporting period.

Supervisory Board of CD PROJEKT S.A.

Katarzyna Szwarz	<i>Chairwoman of the Supervisory Board</i>
Piotr Pągowski	<i>Deputy Chairman of the Supervisory Board</i>
Maciej Majewski	<i>Secretary of the Supervisory Board</i>
Michał Bień	<i>Supervisory Board Member</i>
Krzysztof Kilian	<i>Supervisory Board Member</i>

Changes in Supervisory Board composition

In Current Report no. 9/2016 of 27 April 2016, the Management Board announced that Mr. Grzegorz Kujawski had tendered his resignation as member of the Supervisory Board of the Company, effective on 28 April 2016. According to the notice submitted by Mr. Kujawski the resignation was due to personal reasons.

As disclosed in Current Report no. 20/2016 of 24 May 2016, the Ordinary General Meeting of Shareholders had appointed Mr. Michał Bień to the Supervisory Board of the Company.



Gross compensation of members of the Management Board and Supervisory Board of CD PROJEKT S.A.

Adam Kiciński, President of the Board

Mr. Kiciński's compensation paid by CD PROJEKT S.A. in 2015 was 420 thousand PLN, all of which represented his base salary. In 2016 this base salary remained unchanged at 420 thousand PLN. In 2016 Mr. Kiciński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in the second half of 2015, was 3 037 thousand PLN, while the portion associated with the net result of the Capital Group for 2016 was 7 165 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Marcin Iwiński, Vice President of the Board

Mr. Iwiński's compensation paid by CD PROJEKT S.A. in 2015 was 312 thousand PLN, all of which represented his base salary. In 2016 this base salary was increased to 334 thousand PLN. In 2016 Mr. Iwiński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in the second half of 2015, was 3 037 thousand PLN, while the portion associated with the net result of the Capital Group for 2016 was 7 165 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Piotr Nielubowicz, Vice President of the Board

Mr. Nielubowicz's compensation paid by CD PROJEKT S.A. in 2015 was 312 thousand PLN, all of which represented his base salary. In 2016 this base salary was increased to 345 thousand PLN. In 2016 Mr. Nielubowicz also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in the second half of 2015, was 3 037 thousand PLN, while the portion associated with the net result of the Capital Group for 2016 was 7 165 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Adam Badowski, Board Member

Mr. Badowski's compensation paid by CD PROJEKT S.A. in 2015 was 396 thousand PLN, all of which represented his base salary. In 2016 this base salary remained unchanged at 396 thousand PLN. In 2016 Mr. Badowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the aggregate net result of the CD PROJEKT RED segment in the years 2014-2015, payable as a result of attainment of the incentive program's minimum goals, was 5 310 thousand PLN, which corresponds to 2 655 thousand PLN annually. The variable portion of his salary associated with the combined net result of CD PROJEKT RED and GOG.com for 2016 was 4 080 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Michał Nowakowski, Board Member

Mr. Nowakowski's compensation paid by CD PROJEKT S.A. in 2015 was 360 thousand PLN, all of which represented his base salary. In 2016 this base salary was increased to 364 thousand PLN. In 2016 Mr. Badowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the aggregate net result of the



CD PROJEKT RED segment in the years 2014-2015, payable as a result of attainment of the incentive program's minimum goals, was 5 310 thousand PLN, which corresponds to 2 655 thousand PLN annually. The variable portion of his salary associated with the combined net result of CD PROJEKT RED and GOG.com for 2016 was 4 080 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Piotr Karwowski, Board Member

Mr. Karwowski's compensation paid by CD PROJEKT S.A. and covering the period between his appointment and 31 December 2015 was 10 thousand PLN, all of which represented his base salary. In 2016 the base portion of Mr. Karwowski's salary was 60 thousand PLN.

Table 12 Compensation (except bonuses payable under the incentive program and dependent on the Company's financial result) of members of the Management Board and Supervisory Board of CD PROJEKT S.A. paid out by Company subsidiaries in conjunction with duties performed at these subsidiaries (PLN thousands).

Name	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Marcin Iwiński	24	24
Piotr Nielubowicz	–	13
Michał Nowakowski	–	4
Piotr Karwowski	495	48*

**for the period between 01.11.2015 and 31.12.2015*

The Company incentive program for the years 2012-2015, settled in Company shares, was instituted by the Extraordinary General Meeting of 16 December 2011 for the benefit of key employees and collaborators of the Company and other companies constituting its Capital Group, as well as other persons regarded as having decisive influence on the financial results of the Company and its Capital Group. Details are provided in a separate Terms and Conditions document approved by the Extraordinary General Meeting of 16 December 2011 and in the corresponding resolutions of the Supervisory Board and Management Board. The value of potential benefits payable to members of the Management Board under the incentive program is listed in the table below.



Table 13 Quantity of warrants granted to members of the Management Board under the 2012-2015 incentive program, along with the value of the corresponding benefits (PLN thousands).

Name	Position	Warrants granted	Wartość potencjalnych korzyści	
			01.01.2016-31.12.2016	01.01.2015-31.12.2015
Adam Kiciński	President of the Board	200 thousand	85	93
Marcin Iwiński	Vice President of the Board	150 thousand	1 465	905
Piotr Nielubowicz	Vice President of the Board	150 thousand	64	69
Adam Badowski	Board Member	150 thousand	64	69
Michał Nowakowski	Board Member	100 thousand	43	46
Piotr Karwowski	Board Member	100 thousand	-159	46

Given the fulfillment of the following goals set forth under the 2012-2015 incentive program:

- market goal – Company stock must outperform the WIG index by at least 100 points for the period between 16 December 2011 and 30 December 2015 (actual results: WIG – 25.6% increase; Company stock – 353.0% increase),
- result goal defined for the whole Capital Group – consolidated net earnings per share calculated for the years 2012-2015 must be at least 2.436 PLN (actual consolidated net earnings per share for the listed period: 4.11 PLN).

members of the Management Board have been granted subscription warrants which entitle them to claim Company shares issued as a conditional increase in the Company share capital. These shares have been duly issued and claimed by the entitled parties as specified in section “Company shares held by members of the Management Board and Supervisory Board”, elsewhere in this report.

The Extraordinary General Meeting held on 24 May 2016 voted to institute a new incentive program covering the years 2016-2021 for the benefit of key employees and collaborators of the Company and other companies constituting its Capital Group, as well as other persons regarded as having decisive influence on the financial results of the Company and its Capital Group. Details are provided in a separate Terms and Conditions document approved by the Extraordinary General Meeting of 24 May 2016 and in the corresponding resolutions of the Supervisory Board and Management Board. The value of potential benefits payable to members of the Management Board under the new incentive program is listed in the table below.



Table 14 Quantity of entitlements granted to members of the Management Board under the 2016-2021 incentive program, along with the value of the corresponding benefits (PLN thousands).

Name	Position	Entitlements granted	Value of corresponding benefits 01.01.2016-31.12.2016
Adam Kiciński	President of the Board	800 thousand	676
Marcin Iwiński	Vice President of the Board	800 thousand	676
Piotr Nielubowicz	Vice President of the Board	800 thousand	676
Adam Badowski	Board Member	600 thousand	507
Michał Nowakowski	Board Member	600 thousand	507
Piotr Karwowski	Board Member	200 thousand	169

The value of potential benefits payable to Management Board in light of their participation in incentive programs settled in Company shares is based on the fair value of assigned entitlements as calculated by a licensed actuary. These values have been duly recognized as Company expenses in the years 2015 and 2016 respectively.

Assignment of entitlements to Management Board members – general rules

The variable portion of the Management Board members' salaries resulting under the groupwide incentive program is strictly dependent on the financial results of the Group or its individual segments, and determined by the Supervisory Board.

Compensation of Supervisory Board Members

Table 15 Compensation of members of the Supervisory Board of CD PROJEKT S.A. (gross figures; PLN thousands).

Name	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Katarzyna Szwarz – Chairwoman of the Supervisory Board	91	80
Piotr Pągowski – Deputy Chairman of the Supervisory Board	39	22
Maciej Majewski – Secretary of the Supervisory Board	39	22
Krzysztof Kilian – Supervisory Board Member (since 28.05.2015)	39	14
Michał Bień – Supervisory Board Member (since 24.05.2016)	29	–
Grzegorz Kujawski – Supervisory Board Member (until 28.04.2016)	0	0
Cezary Iwański – Supervisory Board member (until 7.05.2015)	–	6



Disclosure of retirement benefits and similar compensation payable to former members of the Company's executive, supervisory or administrative bodies, and of any liabilities associated with such benefits, specifying the aggregate amounts for each category of recipients

As of 31 December 2016 the Company had no such liabilities.

Agreements between the Company and members of its managing and supervisory bodies concerning compensation in the event of their resignation or dismissal

As of 31 December 2016 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 force regulating compensation in the event of their resignation or dismissal.

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

In 2016 there were no significant transactions between the Company 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 practices at the Company and its Capital Group

No significant changes in basic management policies affecting the Company and its Capital Group occurred in 2016.

Corporate governance policies

CD PROJEKT S.A. follows the corporate governance policies listed in the "Best Practice for WSE Listed Companies 2016" document, published as an attachment to Resolution no. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2016 can be found on the Company website at www.cdprojekt.com.



Disclosure of significant ongoing legal proceedings

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

Litigation 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 issue concerns the question whether the State Treasury can be held liable to CD PROJEKT when the decisions concerning tax arrears were issued not with respect to Optimus itself, but to the company which existed prior to disaggregation of technological operations into Optimus Technologie. The Supreme Court concurred with the Company's request and declined to adjudicate the issue. Consequently, the case will be further tried by the Appellate Court in Kraków.

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 in the court of first instance, and will retain this status until the trial has concluded. Having found the defendants guilty, the Court awarded the Company 210 thousand PLN in damages under Art. 46 of the Penal Code. According to the operative part of the judgement total losses sustained by the Company as a result of the defendants' actions were estimated at 15.6 million PLN (this figure follows from standard regulations applicable to criminal trials). The sentence is not legally valid and, as of the publication date of this report, the Company is not aware whether it will be appealed, and if so – by which parties. On 21 March 2017 the Company filed an appeal against the verdict, with a motion to reassess the damages due to the Company, among other provisions.

Adam Kiciński	Marcin Iwiński	Piotr Nielubowicz	Adam Badowski	Michał Nowakowski	Piotr Karwowski
Prezes Zarządu	Wiceprezes Zarządu	Wiceprezes Zarządu	Członek Zarządu	Członek Zarządu	Członek Zarządu



CD PROJEKT®

WWW.CDPROJEKT.COM