CD PROJEKT®

CONSOLIDATED FINANCIAL STATEMENT OF THE CD PROJEKT CAPITAL GROUP FOR 2017

Disclaimer

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

CD PROJEKT Capital Group – Selected financial highlights converted into EUR

	PLN		EUR	
	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016*	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016*
Net revenues from sales of products, services, goods and materials	463 184	583 903	109 121	133 442
Cost of services, products, goods and materials sold	82 174	113 238	19 359	25 879
Operating profit (loss)	240 940	303 627	56 763	69 389
Profit (loss) before tax	247 405	311 938	58 286	71 289
Net profit (loss) attributable to equity holders of parent entity	200 270	250 514	47 181	57 251
Net cash flows from operating activities	231 688	259 456	54 583	59 295
Net cash flows from investment activities	(280 265)	(158 248)	(66 027)	(36 165)
Net cash flows from financial activities	(101 805)	4 532	(23 984)	1 036
Total net cash flows	(150 382)	105 740	(35 428)	24 165
Stock volume (in thousands)	96 120	95 390	96 120	95 390
Net profit (loss) per ordinary share	2.08	2.63	0.49	0.60
Diluted profit (loss) per ordinary share	2.01	2.59	0.47	0.59
Book value per share	9.19	8.14	2.20	1.84
Diluted book value per share	8.87	8.02	2.13	1.81
Declared or paid out dividend per share (PLN/EUR)	1.05	-	0.25	-

** adjusted data*

	PLN		EUR	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Total assets	981 513	874 960	235 324	197 776
Liabilities and provisions for liabilities (less accrued charges)	93 539	94 214	22 427	21 296
Long-term liabilities	4 130	8 275	990	1 870
Short-term liabilities	94 484	89 747	22 653	20 286
Equity	882 899	776 938	211 681	175 619
Share capital	96 120	96 120	23 045	21 727

The financial data has been converted into EUR under the following assumptions:

- Elements of the consolidated profit and loss account and consolidated statement of cash flows were converted into EUR by applying the arithmetic average of exchange rates for the final day of each month belonging to the reporting period, as published by NBP. The corresponding exchange rates were: 4.2447 PLN/EUR for the period between 1 January and 31 December 2017, and 4.3757 PLN/EUR for the period between 1 January and 30 December 2016 respectively.

- Assets and liabilities listed in the consolidated statement of financial positions were converted into EUR by applying the exchange rate for the final day of the reporting period, as published by the National Bank of Poland. These exchange rates were: 4.1709 PLN/EUR on 31 December 2017 and 4.4240 PLN/EUR on 31 December 2016 respectively.

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Primary financial data of the CD PROJEKT Capital Group

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Consolidated profit and loss account

	Note	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016*
Sales revenues	**1**	**463 184**	**583 903**
Revenues from sales of products		346 841	470 464
Revenues from sales of services		98	92
Revenues from sales of goods and materials		116 245	113 347
Cost of products, goods and materials sold	**2**	**82 174**	**113 238**
Cost of products and services sold		1 273	33 160
Cost of goods and materials sold		80 901	80 078
Gross profit (loss) from sales		**381 010**	**470 665**
Other operating revenues	1,3	5 645	2 459
Selling costs	2	110 673	138 508
General and administrative costs	2	32 228	25 339
Other operating expenses	3	2 814	5 650
Operating profit (loss)		**240 940**	**303 627**
Financial revenues	1,4	10 856	8 587
Financial expenses	4	4 391	276
Profit (loss) before tax		**247 405**	**311 938**
Income tax	5	47 135	61 424
Net profit (loss)		**200 270**	**250 514**
Net profit (loss) attributable to equity holders of parent entity		200 270	250 514
Net earnings per share (in PLN)			
Basic for the reporting period	7	2.08	2.63
Diluted for the reporting period	7	2.01	2.59

** adjusted data*

(all figures quoted in PLN thousands unless stated otherwise)

Consolidated statement of comprehensive income

	Note	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Net profit (loss)		**200 270**	**250 514**
Other comprehensive income which will be entered as profit (loss) following fulfillment of specific criteria		**(3 800)**	**1 403**
exchange rate differences on valuation of foreign entities		(3 800)	1 404
differences from rounding to PLN in thousands		-	(1)
Other comprehensive income which will not be entered as profit (loss)		**-**	**-**
Total comprehensive income		**196 470**	**251 917**
Comprehensive income attributable to minority interests		-	-
Total comprehensive income attributable to equity holders of CD PROJEKT S.A.	**9**	**196 470**	**251 917**

Consolidated statement of financial position

	Note	31.12.2017	31.12.2016*
FIXED ASSETS		**255 535**	**170 644**
Tangible assets	11	18 832	14 423
Intangibles	12	46 853	47 112
Expenditures on development projects	12	142 486	62 011
Goodwill	12,13	46 417	46 417
Shares in subsidiaries excluded from consolidation	15	452	-
Other financial assets	17	-	194
Other long-term receivables	16	495	487
CURRENT ASSETS		**725 978**	**704 316**
Inventories	18	323	401
Trade receivables	20	46 261	71 554
Current income tax receivables		-	112
Other receivables	21	17 582	20 268
Other financial assets	40	-	53
Prepaid expenses	22	14 296	14 724
Cash and cash equivalents	23	66 987	217 369
Bank deposits (maturity beyond 3 months)	40	580 529	379 835
TOTAL ASSETS		**981 513**	**874 960**

** adjusted data*

	Note	31.12.2017	31.12.2016*
EQUITY		**882 899**	**776 938**
Equity attributable to equity holders of parent entity		**882 899**	**776 938**
Share capital	24	96 120	96 120
Supplementary capital	25	549 335	403 001
Other reserve capital	26	15 212	4 795
Exchange rate differences		118	3 918
Retained earnings	27	21 844	18 590
Net profit (loss) for the reporting period		200 270	250 514
Minority interest equity		-	-
LONG-TERM LIABILITIES		**4 130**	**8 275**
Other financial liabilities	30,36	148	76
Deferred income tax liabilities	5	1 878	7 198
Deferred revenues	37	2 023	944
Provisions for employee benefits and similar liabilities	38	81	57
SHORT-TERM LIABILITIES		**94 484**	**89 747**
Other financial liabilities	30,36	190	63
Trade liabilities	32	37 374	27 906
Current income tax liabilities		3 457	3 762
Other liabilities	33,34	6 770	9 827
Deferred revenues	37	3 052	2 864
Provisions for employee benefits and similar liabilities	38	1	294
Other provisions	39	43 640	45 031
TOTAL EQUITY AND LIABILITIES		**981 513**	**874 960**

** adjusted data*

(all figures quoted in PLN thousands unless stated otherwise)

Statement of changes in consolidated equity

	Share capital	Supplementary capital	Other reserve capital	Exchange rate differences	Retained earnings	Net profit (loss) for the reporting period	Parent entity shareholders' equity	Minority interest equity	Total equity
01.01.2017 – 31.12.2017									
Equity as of 01.01.2017	**96 120**	**403 001**	**4 795**	**3 918**	**269 104**	**-**	**776 938**	**-**	**776 938**
Cost of incentive program	-	-	10 417	-	-	-	10 417	-	10 417
Allocation of net profit/coverage of losess	-	146 334	-	-	(146 334)	-	-	-	-
Dividend payments	-	-	-	-	(100 926)	-	(100 926)	-	(100 926)
Total comprehensive income	-	-	-	(3 800)	-	200 270	196 470	-	196 470
Equity as of 31.12.2017	**96 120**	**549 335**	**15 212**	**118**	**21 844**	**200 270**	**882 899**	**-**	**882 899**

	Share capital	Supplementary capital	Other reserve capital	Exchange rate differences	Retained earnings	Net profit (loss) for the reporting period	Parent entity shareholders' equity	Minority interest equity	Total equity
01.01.2016 – 31.12.2016									
Equity as of 01.01.2016	**94 950**	**120 199**	**3 354**	**2 514**	**292 658**	**-**	**513 675**	**-**	**513 675**
Cost of incentive program	-	-	6 315	-	-	-	6 315	-	6 315
Payment in own shares	1 170	8 735	(4 874)	-	-	-	5 031	-	5 031
Allocation of net profit/coverage of losess	-	274 067	-	-	(274 067)	-	-	-	-
Total comprehensive income	-	-	-	1 404	(1)	250 514	251 917	-	251 917
Equity as of 31.12.2016	**96 120**	**403 001**	**4 795**	**3 918**	**18 590**	**250 514**	**776 938**	**-**	**776 938**

(all figures quoted in PLN thousands unless stated otherwise)

Consolidated statement of cash flows

	Note	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016*
OPERATING ACTIVITIES			
Net profit (loss)		**200 270**	**250 514**
Total adjustments:	**53**	**37 016**	**8 809**
Depreciation of fixed assets and intangibles		4 906	4 963
Depreciation of development projects		-	31 398
Interest and profit sharing		(10 425)	(6 959)
Profit (loss) from investment activities		906	325
Change in provisions		(1 660)	(11 261)
Change in inventories		78	218
Change in receivables		27 971	22 140
Change in liabilities excluding credits and loans		6 433	(32 944)
Change in other assets and liabilities		1 695	(6 687)
Other adjustments		7 112	7 616
Cash flows from operating activities		**237 286**	**259 323**
Income tax on pre-tax profit (loss)		47 135	61 424
Income tax (paid)/reimbursed		(52 733)	(61 291)
Net cash flows from operating activities		**231 688**	**259 456**
INVESTMENT ACTIVITIES			
Inflows		**1 101 872**	**608 633**
Disposal of intangibles and fixed assets		65	181
Disposal of financial assets		-	85
Closing bank deposits (maturity beyond 3 months)		1 091 382	601 408
Other inflows from investment activities		10 425	6 959
Outflows		**1 382 137**	**766 881**
Purchases of intangibles and fixed assets		13 436	12 041
Expenditures on development projects		76 625	55 605
Opening bank deposits (maturity beyond 3 months)		1 292 076	699 235
Net cash flows from investment activities		**(280 265)**	**(158 248)**
FINANCIAL ACTIVITIES			
Inflows		**-**	**5 031**
Net inflows from issue of securities (stock) and other equity instruments, and from capital contributions		-	5 031
Outflows		**101 805**	**499**
Increase in share capital of subsidiary company		452	-
Dividends and other payments due to equity holders		100 926	-
Payment of liabilities under financial lease agreements		427	499
Net cash flows from financial activities		**(101 805)**	**4 532**
Total net cash flows		**(150 382)**	**105 740**
Change in cash and cash equivalents on balance sheet		**(150 382)**	**105 740**
Cash and cash equivalents at beginning of period		**217 369**	**111 629**
Cash and cash equivalents at end of period		**66 987**	**217 369**

** adjusted data*

(all figures quoted in PLN thousands unless stated otherwise)

Clarifications regarding the consolidated financial statement

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General information

Name:	CD PROJEKT S.A.
Legal status:	Joint-stock company
Headquarters:	Jagiellońska 74, 03-301 Warsaw
Country of registration:	Poland
Principal scope of activity:	CD PROJEKT S.A. is the holding company of the CD PROJEKT Capital Group which conducts its operations in two activity segments: CD PROJEKT RED (videogame development) and GOG.com (digital distribution of videogames).
Keeper of records:	District Court for the City of Warsaw in Warsaw – Poland; 13th Commercial Department of the National Court Register (Sąd Rejonowy dla m.st. Warszawy w Warszawie, XIII Wydział Gospodarczy Krajowego Rejestru Sądowego)
Statistical Identification Number (REGON):	492707333
Duration of the company	indefinite

Consolidation principles

Entities subjected to consolidation

	Capital share	Voting share	Consolidation method
CD PROJEKT S.A.	parent entity	-	-
GOG sp. z o.o.	100%	100%	full
CD PROJEKT Inc.	100%	100%	full
CD PROJEKT Co., Ltd.	100%	100%	excluded from consolidation

During the 12-month period ending on 31 December 2017 the composition of the Capital Group changed as a result of the merger between two of the Group's subsidiaries, i.e. GOG sp. z o.o. (formerly GOG Poland sp. z o.o.) and GOG Ltd., carried out on 31 October 2017. Further information concerning the merger can be found in Note 44.

On 26 April 2017 a subsidiary of CD PROJEKT S.A. named CD PROJEKT Co. Ltd. was incorporated in the People's Republic of China, with a registered office in Shanghai (see Note 44 for a description of changes in the Group's composition). This company has been excluded from consolidation due to lack of materiality. In accordance with the accounting policies in force within the Group, the parent entity may elect to exclude certain subsidiaries from consolidation as long as each of these subsidiaries:

- contributes not more than 2% to the parent entity's profit and loss balance,
- contributes not more than 1% to the parent entity's aggregate sales and financial revenues.

Note that the above values are not inclusive of any transactions between the subsidiary and the parent company which would have otherwise been subject to consolidation eliminations.

In addition to the above, all subsidiaries excluded from consolidation must jointly:

- contribute not more than 5% to the parent entity's profit and loss balance,
- contribute not more than 2% to the parent entity's aggregate sales and financial revenues.

(all figures quoted in PLN thousands unless stated otherwise)

The above values are also not inclusive of any transactions between each subsidiary and the parent company which would have otherwise been subject to consolidation eliminations.

Subsidiaries

Subsidiaries are defined as all entities which fall under the Group's control. An entity is considered to fall under the Group's control if all of the following criteria are met:

- executive control, i.e. possession of the required legal title to direct the entity's significant operations (operations, which significantly affect the entity's financial standing),
- exposure to variable financial results or possession of the required legal title to adjust the Group's financial results in accordance with the entity's own financial results.
- possession of the required administrative apparatus to affect the Group's own financial results by exercising the right to affect financial results attributable to the Group by leveraging the Group's involvement in the entity

Subsidiaries which meet materiality criteria are subject to full consolidation from the date of acquisition of control by the Group and cease to be reported as such on the day control is lost.

Any revenues, expenses, settlements and unrealized gains on transactions between companies belonging to the Group are eliminated in full. Unrealized losses are also eliminated unless the nature of the transaction indicates impairment on any of the transferred assets. Accounting practices in use at subsidiary companies are adjusted whenever necessary to ensure compliance with accounting practices adopted by the Group.

Changes in accounting practices

The accounting practices applied in preparing this consolidated financial statement, the Management Board's professional judgment concerning the Group's accounting practices as well as the main sources of uncertainty in estimations are in all material aspects consistent with the practices applied in preparing the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2016, except for presentation-related adjustments described in the section titled "Assumption of comparability of financial statements".

Assumption of going concern

This consolidated financial statement is prepared under the assumption that the Group and its parent entity intend to continue as a going concern in the foreseeable future, i.e. at least throughout the 12-month period following the balance sheet date.

The Management Board of the parent entity is not aware of any facts or circumstances which would jeopardize the assumption of going concern within said 12-month period by way of intended or forced cessation or significant reduction of continuing operations.

As of the day of preparation of this consolidated financial statement covering the period between 1 January and 31 December 2017 the Management Board is not aware of any events which should have been reflected in the accounts for that period but have not been reflected therein. Additionally, no important events have occurred in relation to the preceding years.

Compliance with International Financial Reporting Standards

This consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards and interpretations issued by the International Accounting Standard Board (IASB) approved by the EU under the relevant Regulation on the Application of International Accounting Standards (European Council 1606/2002), hereinafter referred to as UE IFRS.

UE IFRS comprise standards and interpretations endorsed by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), approved for use in the EU.

Standards and interpretations applied for the first time

In preparing its consolidated financial statement for 2017 the Group applied the same accounting standards as in its consolidated financial statement for 2016 with exception of the following new and amended standards and interpretations approved by the European Union and applicable to reporting periods beginning on or after 1 January 2017:

- **Amendments to IAS 12 – recognition of deferred tax assets for unrealised losses**

  The amendments clarify issues related to recognition of negative temporary differences with regard to debt instruments measured at fair value, estimates of future taxable profits and assessment whether the expected profits will cause reversal of the recognized negative temporary differences.

- **Amendments to IFRS (2014-2016) adopted during the annual IFRS improvements cycle**

  Changes concern *IFRS 12 Disclosure of Interests in Other Entities* and specify that the disclosure requirements in the standard, except for those in §B10-B16, apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

- **Amendments to IAS 7 – disclosure initiative**

  The changes compel the entity to disclose information which will permit readers of its financial statements to assess changes in liabilities arising from financial activities.

Standards published and approved by the EU which have not yet entered into force, and their effect on the Group's financial statement

The Management Board has of the parent entity assessed the influence of new standards upon the Group's future consolidated financial statements. In approving this financial statement, the Group did not apply the following standards, changes in standards and interpretations which have been published and approved for use within the EU but have not yet entered into force.

- **IFRS 9 Financial Instruments – applicable to reporting periods beginning on or after 1 January 2018**

  In July 2014 the International Accounting Standards Board published *IFRS 9 Financial instruments*. IFRS 9 applies to annual reporting periods beginning on or after 1 January 2018, with optional early application.

  In July 2017 the Group conducted a thorough analysis of the effect of IFRS 9 on the accounting standards and policies in force at the Group, as well as on its financial result. The assessment is based on available information, and may change following receipt of additional information or as a result of changes in the Group's condition or asset balance.

  The Group does not expect IFRS 9 to significantly impact its consolidated statement of financial position or equity, except for changes related to asset impairment.

  Trade receivables

  According to IFRS 9 an entity is to measure expected credit losses at an amount equal to the 12-month expected credit losses, or to expected credit losses for the full lifetime of a financial instrument. In the case of trade receivables associated of delivery of products and services, the Group intends to apply the simplified approach and measure expected credit losses for the full lifetime of each receivable. When calculating loss allowances the Group intends to apply the provision matrix method. The Group has determined that, had the new measurement model been applied to receivables existing as of 31 December 2017, the corresponding loss allowance would have been lower than the reported figure by 68 thousand PLN. This difference will be aggregated with retained earnings in future reporting periods.

Loans

The Group has not granted any loans to third parties. Consequently, IFRS 9 is not likely to affect the Group's financial result in this scope.

Shares in other entities

The Group does not hold any shares in other entities. Consequently, IFRS 9 is not likely to affect the Group's financial result in this scope.

Other receivables

The Group has conducted a review of other receivables, which comprise mainly receivables from public administration bodies, with a low default risk. Consequently, the Group has decided not to perform credit risk tests as the relevant risks are considered negligible. IFRS 9 is not likely to affect the Group's financial result in this scope.

Cash and cash equivalents

Cash held on bank accounts pass the SPPI test and the "held to maturity" business model test. Accordingly, such assets will continue to be reported at amortized cost. Implementation of IFRS 9 will affect the calculation of loss allowances, by shifting from the present losses model to the expected losses model.

The Group will calculate individual loss allowances for each balance representing a given financial institution. Assessment of credit risk will be based on third-party bank ratings and publicly available information concerning the likelihood of non-discharge of liabilities (available on the websites of rating agencies). To-date analysis indicates that, as of the balance sheet date, all such assets carry a low credit risk. The Group has decided to apply the simplified procedure provided for by IFRS 9 and calculated loss allowances on the basis of 12-month expected credit losses. The resulting allowances are regarded as negligible.

- **IFRS 15 and clarifications regarding IFRS 15 – Revenues from contracts with customers – applicable to annual reporting periods beginning on or after 1 January 2018**

IFRS 15 Revenues from contracts with customers, published in May 2014 and subsequently amended in April 2016, institutes the so-called Five Step Model when recognizing revenues from contracts with customers. According to the standard, the revenue is recognized at the transaction price, which – in line with the entity's expectations – is payable in exchange for the products or services delivered to the customer. The new standard supersedes all existing requirements concerning recognition of revenues under IFRS.

Licensing royalties associated with distribution of videogames

Under the new regulation, entities which grant customers licenses to use their intellectual property must determine whether the license is transferred to the customer over a period of time or at a specific point in time. Licenses transferred at a point in time give the customer the right to use the entity's intellectual property as it existed at the moment the license was transferred. In order to recognize the corresponding revenue, the customer must possess the means to direct the use of the corresponding intellectual property, and gain all other essential benefits associated with its use. A license transferred over a period of time permits the client to use the intellectual property throughout the license period. During this period the client may expect that the entity will undertake actions which significantly affect the relevant intellectual property (i.e. significantly alter its form or content, with the client's ability to gain the benefits of its use dependent on actions undertaken by the entity). In such cases the revenue is recognized over the license period.

With regard to videogame licensing royalties, which represent the Group's main source of revenues, the actual value of revenues depends the sales volume reported by the distributor during a given period. In light of this, revenues will be recognized over time, once the distributor obtains all materials required in order to commence distribution. Consequently, no changes in the Group's accounting practices will be necessary compared to IAS 18.

Revenues from sales of virtual goods via microtransactions

In the Group's view, IFRS 15 may potentially affect recognition of revenues from sales of virtual goods in the framework of online F2P games with optional microtransactions, including GWENT: The Witcher Card Game. This conclusion indicates the need to conduct an analysis (mandated by IFRS 15) whether such products and services concerned are delivered to customers over time or at a specific point in time.

As a rule, virtual goods offered in the abovementioned games are divided into two categories: durable virtual goods (where the user gains the right to use an item indefinitely and the item is not consumed during its use) and consumable virtual goods (that can be consumed by a specific player action). With regard to the former category, revenues are recognized over time, based on in-game statistics (such as the usage period of a given item), while for the latter category, revenues are recognized either at the moment of use or in proportion to the amount of goods consumed.

With regard to revenues from sales of virtual currency (meteorite dust), the Group will recognize them at the moment the currency is consumed by the user.

In light of the above the Group has conducted an analysis of the structure of virtual goods sold, their corresponding usage statistics and the turnover of the game's virtual currency (meteorite dust). It was concluded that potential application of IFRS 15 to the 2017 consolidated financial statement would not produce a material change in the reported financial data. Consequently, the Board has opted not to recognize revenues from sales of virtual goods over time.

During the assessment of the impact of the new standard upon future financial statements it was determined that, given the existing mechanics and usage statistics of GWENT, IFRS 15 will not materially alter the recognition of revenues by the Capital Group. Nevertheless, it should be noted that GWENT remains in its development and testing phase and, consequently, the presented assessment may not hold during future reporting periods.

Should the Group determine that, as a result of changes in game mechanics, recognition of revenues from microtransactions over time has become necessary, the corresponding values will be aggregated with deferred revenues.

Principal compensation vs. agent compensation in the GOG.com segment

In line with the new standard, when delivery of goods or services to the client involves a third party, it is necessary to determine whether the vendor's obligation is to ensure that certain goods or services are provisioned (in which case the vendor is the principal) or to subcontract delivery of goods or services to another party (in which case the vendor is an agent).

The vendor is the principal to the transaction if it exerts controls over the specified goods or services prior to their delivery to the client. A principal vendor may itself discharge the delivery promise and recognize gross revenues to which it is entitled in exchange for delivery of goods or services.

The vendor is an agent if its obligation is discharged by ensuring that the goods or services are delivered by another party. An agent vendor recognizes its revenues as any fees or royalties to which – in its own view – it will be entitled in exchange for facilitating delivery of goods or services by a third party.

The above considerations may have an effect only on those revenues which the Group obtains in its GOG.com segment in association with distribution of licenses obtained from third parties. In this activity segment the Group concludes contracts with end users in its own name and on its own account, on the basis of distribution licenses for the electronic content which is distributed to end users. The Group also directly maintains and distributes the electronic content in question (i.e. game files). This indicates that the nature of the Group's promise to the customer is to deliver specific goods or services and not to subcontract such delivery to a third party (i.e. the Group is the principal and not an agent).

Additional arguments which support the view that the Group acts as the principal and not an agent are as follows:

- corporate liability under the appropriate customer protection legislation;
- undertaking credit risk with regard to the payments owed by customers;
- pledge to provide technical support and liability for product defects;
- implementation of reward systems (such as store credit granted to customers) for which the Group is solely liable.

Requirements related to presentation and disclosure of information

IFRS 15 introduces new requirements related to presentation and disclosure of information and some of these requirements will affect the Capital Group. Specifically, the Group anticipates the need for additional disclosures related to:

a) significant assessments of revenues, and changes thereof,
b) revenues recognized in the given reporting period and aggregated with deferred revenues at the beginning of the period,
c) subdivision of revenues into categories, reflecting the manner in which economic factors affect the type, amount, payment date and risks related to revenues and cash flows.

- **IFRS 16 – Leases, applicable to annual reporting periods beginning on or after 1 January 2019**

In January 2016 the International Accounting Standards Board published *IFRS 16 Leases*, which superseded *IAS 17 Leases*, *IFRIC 4 Determining* whether an arrangement contains a lease, *SIC 15 Operating leases* – incentives and SIC 27 Evaluating the substance of transactions in the legal form of a lease. IFRS 16 sets forth rules concerning assessment, presentation and disclosure of lease agreements.

IFRS 16 introduces a uniform model for lessee accounting and requires the lessee to disclose assets and liabilities arising under any lease agreements with a lease period longer than 12 months, unless the value of the underlying asset is low. On the lease commencement date, the lessee recognizes the value in use of the underlying asset along with a liability which reflects the lessor's entitlement to lease fees.

The lessee recognizes the depreciation of the value in use of the leased assets, and, separately, interest on lease liabilities. Additionally, the lessee is compelled to revaluate the lease liabilities when certain events occur (e.g. changes in lease duration or changes in future lease fees arising from indexation of rates used to calculate such fees). As a rule, the lessee recognizes changes in lease liabilities as adjustments to the value in use of the underlying asset.

The lessee's accounting obligations, as specified by IFRS 16, remain largely unchanged compared to the provisions of IAS 17. The lessee will continue to recognize all lease agreements, applying the same classification as under IAS 17, particularly by differentiating between operating and financial lease agreements.

IFRS 16 imposes broader disclosure obligations upon both the lessee and the lessor, compared to IAS 17.

With regard to lease agreements concerning office space and passenger cars the Group will apply new regulations related to such agreements. Given that the Group has opted not to apply IFRS 16 before 2019, as of the publication date of this statement the Board is continuing with its assessment of the impact of the new standard upon the accounting policies in force at the Group and upon its financial results.

- **Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, applicable to reporting periods beginning on or after 1 January 2018**

Changes concern application of the new standard (*IFRS 9 Financial Instrument*) prior to implementation of a new standard concerning insurance contract which is currently under development. In order to mitigate temporal variations in financial reporting associated with implementation of IFRS 9, changes in IFRS 4 specify that two approaches are permissible: the overlay approach and the deferral approach. These changes complement options which existing standards already provide.

The Group does not anticipate significant changes in its accounting practices or reported financial data resulting from these amendments.

- **Amendments to IFRS 2 Share-based Payment – applicable to reporting periods beginning on or after 1 January 2018**

These amendments clarify the classification and measurement of share-based payment transactions settled in monetary assets, provide a classification of share-based payment transactions with net settlement features, and specify accounting guidelines for modifications of share-based payment transactions from cash-settled to equity-settled.

The Group does not anticipate significant changes in its accounting practices or reported financial data resulting from these amendments.

- **Amendments to IFRS (2014-2016) adopted during the annual IFRS improvements cycle – applicable to annual reporting periods beginning on or after 1 January 2018**

Amendments to IFRS 1 First-time Adoption of IFRS concern deletion of short-term exemptions provided for under §E3–E7 IFRS 1 since these exemptions were applicable to past reporting periods and have now served their purpose. Additional amendments have also been introduced in IAS 28 Investments in Associates and Joint Ventures, clarifying that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Group does not anticipate significant changes in its accounting practices or reported financial data resulting from these amendments.

- **Amendments to IAS 40 Investment Property: Transfers of investment property – applicable to reporting periods beginning on or after 1 January 2018**

The amendment provides clarifications and guidance on transfers to, or from, investment properties. In line with the amended standard, such a transfer should only be made only when there is evidence of a change in the use of the property. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The Group does not anticipate significant changes in its accounting practices or reported financial data resulting from these amendments.

Standards and interpretations approved by the IASB but not yet approved by the EU

In approving this consolidated financial statement the Group did not apply the following standards, amendments and interpretations which have not yet been approved by the EU:

- ***IFRIC 22*** *Foreign currency transactions and advance consideration* – interpretation applicable to reporting periods beginning on or after 1 January 2018
- Amendments to ***IAS 19*** *Employee benefits: plan amendment, curtailment or settlement* – applicable to reporting periods beginning on or after 1 January 2019
- Amendments to ***IAS 28*** *Long-term interests in associates and joint ventures* – applicable to reporting periods beginning on or after 1 January 2019
- Amendments to ***IFRS 9*** *Prepayment features with negative compensation* – applicable to reporting period beginning on or after 1 January 2019
- Amendments to ***IFRS (2015-2017)*** *Adopted under the annual IFRS improvements cycle* – applicable to reporting periods beginning on or after 1 January 2019
- ***IFRIC 23*** *Uncertainty over income tax treatments* – interpretation applicable to reporting periods beginning on or after 1 January 2019
- ***IFRS 17*** *Insurance Contractors* - applicable to reporting periods beginning on or after 1 January 2021

As of the date of publication of this financial statement, the Group is performing an assessment of the effect these new standards and amendments to standards upon the Group's consolidated financial statement.

Description of applicable accounting practices

Operating revenues and expenses

Revenues are defined as the gross receipts on any economic benefits from the reported period resulting from (ordinary) economic activities of the Group and leading to an increase in its equity other than from capital increases obtained through shareholder contributions.

Revenues only cover receipts on economic benefits allocated to the Group, whether received or receivable. Revenues from sales are defined as received or receivable payments on sales of material assets and services less the applicable sales and services tax. Revenues are determined on the basis of fair payment, whether received or receivable, adjusted for any trade discounts granted by the Group. Sales revenues are recognized on the date of transfer of the relevant goods and rights of use. Where services are concerned, revenues are valid for the period a given service was performed, depending on the progression of the underlying transaction, i.e. the relationship between the current state of work and the totality of work required to render a given service.

In accordance with the principle of matching revenues and expenses, expenses associated with consumption of materials, goods and finished products are reported in the same period as their corresponding sales revenues.

Financial revenues and expenses

Financial revenues consist mainly of interest on bank deposits of monetary assets, commissions and interest on loans granted, penalty interest on overdue receivables, liabilities, released provisions associated with financial activities, revenues from sales of securities, gains from exchange rate differences, reversal of impairment of investment assets and credit/loan write-offs.

Financial expenses consist mainly of interest on outstanding credits and loans, penalty interest on overdue liabilities, provisions set aside to cover certain or probable losses from financial operations, purchase value of any securities sold, commissions and handling charges, write-downs on interest owed and short-term investment valuations, discounts, exchange rate differences and, in the case of financial lease agreements, any other payments except capital payments.

State subsidies

Subsidies are not recognized until there is a reasonable certainty that the Group will fulfill the necessary criteria and receive the subsidy. State subsidies predicated on the condition that the recipient purchases or produces certain fixed assets are recognized in the statement of financial position in the deferred revenues line item and charged to the financial result systematically throughout the anticipate economic life of such assets.

Current and deferred income tax

The reported revenue is subject to compulsory taxation, whether current or deferred. Current tax is calculated on the basis of taxable income in a given financial year. Tax gain (or loss) differs from net accounting gain (or loss) due to temporal differences in recognition of revenues and expenses for fiscal and accounting purposes, as well as due to permanent differences in handling certain revenues and expenses with regard to their fiscal and accounting effects, as appropriate. Tax burden is calculated on the basis of tax rates valid for a given financial year. Current tax on items included directly in the equity capital is reported in the equity statement, as opposed to the profit and loss account.

Deferred tax is calculated using the balance sheet method as the amount payable or receivable as a result of the difference between the carrying amount of assets and liabilities and their corresponding tax base amounts.

Deferred income tax liabilities are recognized in correspondence with taxable positive temporary differences. Deferred tax assets are recognized up to the amount of probable reduction in future tax gains by any recognized negative temporary differences. A tax asset or liability is not recognized if the underlying temporary difference is due to goodwill or prior inclusion of another asset or liability in a transaction which does not affect the company's taxable or accounting revenues.

Deferred income tax liabilities are applied to temporary tax differences resulting from investments in associates and joint ventures unless the Group is capable of controlling the moment of reversal of the temporary difference and the temporary difference is unlikely to reverse in the foreseeable future.

The value of the asset associated with deferred tax is subject to analysis for each balance sheet date. If the expected future tax gains are insufficient to cover the asset or part thereof, a write-down on the asset is recognized.

Deferred tax is calculated by applying rates which will be in force on the date the corresponding gain is realized or the liability becomes due. Deferred tax is reported in the profit and loss account unless it applies to assets included directly in the equity capital in which case it is also reported in the equity capital.

Value added tax

All revenues, expenses and assets are recorded following deduction of the applicable value added tax, except for:

- cases where the value added tax paid when purchasing assets or services cannot be recovered from tax authorities, in which case it is reported as part of the purchase cost of a given asset or as an expense;
- receivables and liabilities reported as inclusive of value added tax.

The net amount of value added tax recoverable from or payable to tax authorities is reported in the statement as part of the Group's receivables or liabilities.

Fixed assets

Fixed assets are recognized on the basis of their cost (purchase price or production cost) following deduction of depreciation and impairment for each reporting period. Borrowing costs associated directly with the purchase or construction of assets which require a long time to become usable or resalable are added to the cost of construction of such fixed assets up until the beginning of their useful economic life. Revenues from short-term investment of borrowings related to construction of fixed assets are deducted from the borrowing costs following capitalization. Other borrowing costs are reported as expenses in the period during which they were incurred.

Depreciation is calculated for all fixed assets except land holdings and fixed assets under construction, throughout their expected useful economic life, using the straight-line method.

The expected useful life for individual categories of tangible assets is as follows:

Category	Useful life
Buildings and structures	5 – 10 years
Machinery and equipment	2 – 10 years
Vehicles	5 years
Other fixed assets	2 – 10 years

Assets held under financial lease agreements are depreciated throughout their useful economic life in the same way as proprietary assets.

Profits or losses on sales/disposal or cessation of use of fixed assets are defined as the difference between their sales revenues and net value, and are reported in the profit and loss account.

Intangibles – expenditures on development projects

The Group reports expenses associated with development of videogames as "Expenditures on development projects". Videogame development expenses incurred prior to the commencement of sales or application of new solutions are recognized as "Development projects in progress". Once development has completed and the relevant costs are recognized, said expenses are transferred to the "Development projects completed" line item. In the case of projects where a reliable sales volume estimate can be provided, the Group offsets projects costs against sales revenues using the natural method, in proportion to realized sales. Depreciation of development expenditures is presented in the profit and loss account as the cost of products and services sold.

Other intangibles

Intangibles are recognized according to their historical cost of purchase or production, following deduction of depreciation and impairment costs. Depreciation is calculated using the straight-line method. Costs of research and development activities are not subject to activation and are reported in the profit and loss account for the period when they were incurred.

The expected useful life for individual classes of intangible assets is as follows:

Category	Useful life
Patents and licenses	2 – 15 years
Computer software	2 – 10 years

In its consolidated financial statement, the Group regards The Witcher trademark and the CD PROJEKT brand name as its intangible assets. The value of trademarks is calculated using the relief from royalty method, which is one of the basic valuation methods for trademarks and other intangible assets in the context of business combinations, in line with IFRS 3 Business combinations. Trademark valuation is subject to yearly impairment tests.

Goodwill

Goodwill is defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition.

Goodwill may be created either as a result of acquisition of a corporate entity, or through acquisition of an enterprise, i.e. an organized part of an entity, which is defined as a set of assets and corresponding liabilities, including contingent liabilities.

Combinations with external entities are accounted for using the purchase method according to which the takeover cost, calculated as the fair value of payment incurred for acquiring control over a corporate entity or part thereof (i.e. an enterprise), is allocated to identifiable assets and liabilities (including contingent liabilities) of the entity being acquired. Any surplus resulting from this allocation procedure is assumed to represent goodwill. Any negative difference between the acquisition cost and the parent Company's share in the net fair value of identifiable assets and liabilities (including contingent liabilities) on the date of acquisition is treated as revenues and disaggregated in the profit and loss account as other operating revenues.

Business combinations under common control

Legal mergers between the parent company and a subsidiary are recognized on the basis of the subsidiary's financial data disclosed in the parent Company's consolidated financial statement; these figures include changes which occur at the parent Company as a result of merging with the subsidiary. The reported financial result and financial position of the subsidiary are determined prospectively from the merger date.

Impairment of non-financial assets

For each balance sheet date all companies which belong to the Capital Group perform an inventory of the net value of all their fixed assets in order to determine whether impairment of assets may have occurred.

If asset impairment is suspected, the recoverable amount of each asset is calculated to determine the potential write-down. If a given asset does not produce a cash flow that is substantially separate from cash flows produced by other assets, analysis is performed for the whole group of cash producing assets to which the given asset belongs.

For intangible assets with an indefinite useful economic life this impairment test is performed on a yearly basis and, additionally, whenever impairment is suspected.

Recoverable amount is defined as the greater of the following two values: fair value of the asset less the cost of sale, and the asset's value in use. The latter value is defined as the balance of expected future cash flows produced by the asset, discounted using discount rates which acknowledge the market value of the relevant currency and a risk factor specific to the given asset.

If the recoverable amount of a given asset is lower than its net book value, the book value is lowered to match the recoverable amount. The loss resulting from this operation is accounted as cost in the period during which it was incurred, unless the asset had previously been carried at a revalued amount in which case the impairment is reflected by adjusting the revalued amount.

At the moment of reversal of asset impairment, the net value of the asset (or group of assets) is increased to match the newly estimated recoverable amount; it cannot, however, exceed the net value of the asset which would have been reported had the impairment not been recognized during previous fiscal years. Reversal of asset impairment is recognized as revenues unless the asset had previously been carried at a revalued amount in which case the impairment reversal is reflected by adjusting the revaluation capital.

Investment properties

Investment properties are defined as all properties held for the expected revenues from rent, increase in value, or both. As such, cash flows produced by investment properties are largely independent from those produced by other assets belonging to a Group member company.

Investment properties may be estimated using the fair value or purchase cost method.

Lease agreements

Lease agreements are considered to be financial in nature if the agreement transfers the totality of potential benefits and risks associated with the lease to the lessee. All other forms of lease agreements are considered operating.

Assets utilized on the basis of financial lease agreements are considered to belong to the Group member company and are accounted by their fair value on the date of acquisition. The reported value cannot, however, exceed the current minimum total of lease payments. The lease agreement establishes a liability due to the lessor, which is aggregated with Other financial liabilities in the Group's financial statement. Lease payments are divided into capital and interest payments in such a way that the interest rate for the remaining portion of the liability remains fixed. Financial costs are reported in the profit and loss account. In the context of operating lease agreements, payments are allocated to costs throughout the duration of lease using the straight-line method.

Investments in affiliates

Investments in affiliates are accounted on their effective date and at cost. Assessment of such investments for a given balance sheet date is performed on the basis of initial cost minus the write-down associated with any permanent impairment of assets.

Financial assets

On initial recognition each Group member company classifies each of its financial assets as:

- financial assets designated at fair value through financial result,
- investments held to maturity,
- loans or receivables,
- salable financial assets.

Assets are reported on the member company's balance sheet at the moment the company enters into a binding agreement. On initial recognition each asset is designated at fair value, which is increased – if the given asset or financial liability is not qualified for designation at fair value through financial result – by the cost of transactions directly attributable to acquisition or issuance of the financial asset or liability.

Financial liabilities

A financial liability is defined as any liability which:

- is associated with a contractual obligation to transfer monetary or other financial assets to another entity, or exchange financial assets or liabilities with another entity on potentially disadvantageous terms;
- is associated with a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are considered equity instruments if the entity offers the rights, options or pro rata warrants to all existing owners of the same class of its own non-derivative equity instruments.

On initial recognition each Group member company classifies each of its financial liabilities as:

- financial liabilities designated at fair value through financial result,
- other financial liabilities.

On initial recognition a financial liability is estimated at fair value, which is increased – if the given liability is not qualified for estimation at fair value through financial result – by the cost of transactions directly related to said liability.

Inventories

The initial value (cost) of an inventory is the sum of all costs (related to purchase, production etc.) incurred in bringing the inventory to its current level and location. The cost of inventories is defined as the original purchase price increased by import duties and other taxes (which cannot be recovered from tax authorities), transport, loading and unloading costs, and any other costs associated with construction of inventories, and reduced by any discounts, rebates and similar deductions. Inventories are valued at initial cost (purchase price or production cost) or at their net sale price, whichever is lower. The net sale price is defined as the estimated sale price reduced by any costs involved in finalizing production, facilitating the sale and finding a buyer (this includes sales and marketing expenses, etc.) In relation to inventories, cost is always determined by applying the "weighted average" method.

Trade and other receivables

Receivables associated with delivery of products and services are entered in the accounts at their nominal value, adjusted for write-downs reflecting any doubtful debts.

Accrued and deferred charges

Group member companies include in their statements of deferred and accrued charges any prepayments and charges related in part or in full to subsequent reporting periods.

Deferred charges are recognized by the Group as allocated to future reporting periods, depending on when the relevant revenue is realized.

Claims related to sale of products which have been produced and accounted for in the reporting period but reported following the end of this period (in accordance with contractual obligations) are reported as trade receivables until the relevant invoices have been received.

Accrued charges are charges associated with payment for products or services which have been received or performed, but which have not been paid for, invoiced or formally agreed upon with the supplier.

In the GOG.com segments the purchased licenses are initially recognized as deferred charges. This initial recognition concerns payments associated with the so-called minimum guarantees – compensation payable to the vendor immediately after the licensing contract is concluded. Following commencement of sales these expenses are progressively reassigned to costs of products, goods and materials sold (costs associated with minimum guarantees depend on the realized sales revenues).

If the calculated cost of products, goods and materials sold exceeds the corresponding minimum guarantees, the remainder is recognized as a trade liability. Trade liabilities are calculated on the basis of the quantity of goods sold or revenues obtained.

Cash and other monetary assets

Cash assets are defined as cash on hand and any deposits payable on demand. Other monetary assets represent highly liquid short-term investments easily exchangeable for a known quantity of cash and subject to low depreciation risk.

Overdraft on any current bank account is aggregated with credits and loans.

Cash flows associated with loans granted or taken out under the cash pool agreement are aggregated with other inflows or outflows from financial activities, as appropriate.

Assets held for sale and discontinued operations

Tangible assets held for sale (as well as net disposal groups) are valued at either their carrying amount or their fair value less the cost of sale, whichever is lower.

Tangible assets and disposal groups are classified as held for sale if their carrying amount is expected to be retrieved by way of sale rather than continued use. This condition is only considered fulfilled if the sale transaction is highly likely to occur and the given asset (or disposal group) is available for immediate sale in its present form. Designating a given asset as held for sale conveys the Company management’s intent to conclude the sale transaction within one year of such a designation being made.

Equity

Equity is treated in accounting practice with distinction to its type and in accordance with the applicable legal constraints, as well as any statutory requirements and conditions expressed in the contracts to which a Group member company is a party.

Share capital is reported at nominal value, in the amount consistent with the parent Company’s Articles of Association and its record in the court register.

Supplementary capital is derived from:

- the positive difference between the issue price of shares and their corresponding nominal value less the cost of issuance. Said costs, incurred while establishing a joint-stock company or increasing its share capital, limit the capital to the excess of issue price over the nominal value of shares;
- profit earned and reported as Other capital contributions.

Provisions for liabilities

Provisions are created whenever a Group member company faces a liability (whether legal or customary) resulting from past events, it is likely that discharging said liability will reduce the Group’s economic advantage and the liability can be reliably estimated. No provisions are made for future operating losses.

Restructuring cost allowances are made only when the given company has revealed a detailed and formalized restructuring plan to all interested parties.

Employee benefits

The costs of short-term employee benefits other than those stemming from termination of employment and equity compensation are recognized as liabilities following adjustment for any payments already made and, at the same time, as expenses during the period, unless a given benefit is includable in the cost of construction of an asset. The Group does not provide any employee benefit programs following termination of employment.

On 24 May 2016 the Extraordinary General Meeting of Shareholders of CD PROJEKT S.A. voted to institute an incentive program for persons viewed as crucially important for the Company's Capital Group as a whole and having a decisive influence upon the development of the Group's activity branches. A set of targets were established and the Management Board and Supervisory Board of the Company selected a number of persons who, assuming these profit and marketing goals are met, are rewarded with warrants entitling them to acquire company shares by way of a conditional increase in the Company's share capital. Details are presented in Current Report no. 18/2016 of 24 May 2016. The incentive program is settled in accordance with IFRS 2 Share-based payment rules.

Bank credits and loans

Any bank credits on which interest is charged (including overdraft facilities) are recognized in the amount of acquired revenues less the cost of acquisition. Financial costs, including commissions charged upon repayment or waivers, as well as direct costs of obtaining credit are reported in the profit and loss account using the accrual accounting method and included in the book value of the instrument adjusted for any repayments made in the reporting period. Accounting practices related to credits are also applied to loans. Loans granted are estimated at their acquisition cost adjusted by applying the effective interest rate.

Trade and other liabilities

Liabilities pertaining to supplies and services are reported in their nominal amount. Financial liabilities and equity instruments are classified according to their commercial substance which depends on contractual obligations. Equity instruments are defined as contracts granting a share in the Group's equity less any applicable liabilities.

Licenses

Licenses purchased by the Group are recognized, on the basis of invoices, as prepaid expenses. This value is increased by the uninvoiced portion of minimum guarantees associated with licensing contracts. The value of licenses is reassigned to costs in proportion to sales realized; when these costs exceed the balance of prepaid expenses the remainder is reassigned to trade liabilities.

Borrowing costs

Borrowing costs associated with the purchase, construction or creation of a qualifying asset are recognized as a component of its acquisition or construction cost (IAS 23).

Dividend payments

Dividends are recognized at the moment the parent Company shareholders become entitled to receive them.

Functional currency and presentation currency

Functional currency and presentation currency

All items in this financial statement are expressed in the currency of the primary economic environment in which the Group operates (functional currency). The financial statement is presented in Polish Zlotys (PLN), which is the functional and presentation currency of the parent Company and its Capital Group.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency according to the exchange rate on the date of the transaction. Exchange rate losses and gains on settlement of transactions and on valuation of assets and liabilities denominated in foreign currencies are reported in the profit and loss account unless deferred in the equity capital as cash flow hedges and hedges of net investments.

Important values based on professional judgment and estimates

Professional judgment

In applying accounting practices (policies) to the issues listed below, a key aspect – in addition to accounting estimates – is the professional judgment of persons discharging managerial responsibilities at the Group's member companies.

Classification of lease agreements

Group member companies classify lease agreements as either operating or financial based on their assessment of the degree to which the risk and benefits from possessing the leased asset accrue to the lessee as opposed to the lessor. This assessment is based on the commercial substance of each agreement.

Uncertainty of estimates

This section lists key assumptions regarding future conditions and other fundamental sources of uncertainty, as of the balance sheet date, which may pose a serious risk of significant adjustments in asset and liability valuation during the coming financial year.

Asset impairment

Goodwill and trademark impairment tests require an assessment of the value in use of each cash generating unit. This assessment is based on a projection of future cash flows generated by individual cash generating units and requires an estimate of the discount rate applied when conducting pending assessment of the value of said flows. The latest test of the CD PROJEKT brand name, The Witcher trademark and of goodwill was conducted on 31 December 2017 and did not indicate impairment of any of those assets. Asset impairment tests at individual subsidiaries were last conducted on 31 December 2017 No circumstances were identified which would suggest impairment of these assets.

Valuation of provisions

Provisions for employee pensions and incentive program benefits settled in own shares were estimated on the basis of actuarial gains and losses.

Deferred tax assets

Group member companies recognize deferred tax assets by anticipating future taxable revenues which may require recognition of such assets. A decrease in future economic performance might render such assumptions invalid.

Deferred tax provisions

Group member companies recognize deferred income tax provisions by anticipating future tax liabilities arising from positive temporary differences, enabling the given provision to be consumed.

Fair value of financial instruments

Financial instruments for which there is no active market are estimated using the appropriate valuation methods. In selecting the suitable methods and assumptions Group member companies apply their professional judgment.

Depreciation rates

Depreciation rates are determined on the basis of the expected useful economic life of tangible equity assets and intangible assets. Group member companies perform annual validation of the assumed useful economic life of their assets, based on current estimates.

Comparability of financial statements and changes in accounting policies

Changes in accounting policies

The accounting practices applied in preparing this consolidated financial statement, the Management Board's professional judgment concerning the Group's accounting practices as well as the main sources of uncertainty in estimations are in all material aspects consistent with the practices applied in preparing the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2016, except for changes in accounting policies and presentation-related adjustments described below.

Presentation changes

In preparing this consolidate financial statement for the period between 1 January and 31 December 2017 several changes have been introduced in the presentation of selected financial data. In order to ensure comparability of financial statements, the financial data for the period between 1 January and 31 December 2016 and for 31 December 2016 has been adjusted as follows:

- In the consolidated profit and loss account for the period between 1 January and 31 December 2016 the presentation of general and administrative expenses has been adjusted as follows:
    - Selling costs – adjusted by (3 276) thousand PLN
    - General and administrative costs – adjusted by 3 995 thousand PLN
    - Cost of products and services sold – adjusted by (719) thousand PLN

  These adjustments have no effect on the Group's financial result or equity.

- In the consolidated profit and loss statement for the period between 1 January and 31 December 2016 the presentation of revenues associated with sales of Group products by GOG Ltd. has been adjusted as follows:
    - Revenues from sales of products – adjusted by 31 701 thousand PLN
    - Revenues from sales of goods and materials – adjusted by (31 701) thousand PLN

  These adjustments have no effect on the Group's financial result or equity.
- In the consolidated statement of financial position for 31 December and in the consolidated statement of cash flows for the period between 1 January and 31 December 2016 the presentation of short-term bank deposits with maturity periods longer than 3 months has been adjusted as follows:
    - Consolidated Statement of financial position for 31 December 2016:
        - Bank deposits (maturity beyond 3 months) (formerly: Other monetary assets) – adjusted by 339 835 thousand PLN
        - Cash and cash equivalents – adjusted by (339 835) thousand PLN
    - Consolidated statement of cash flows for the period between 1 January and 31 December 2016:
        - Opening bank deposits (maturity beyond 3 months) (formerly: Creation of bank deposits) – adjusted by 659 235 thousand PLN
        - Closing bank deposits (maturity beyond 3 months) (formerly: Bank deposits held to maturity) – adjusted by 561 408 thousand PLN
        - Cash assets at beginning of period – adjusted by (242 008) thousand PLN

- Cash assets at end of period – adjusted by (339 835) thousand PLN

These adjustments have no effect on the Group's financial result or equity.

- In the consolidated statement of financial position for 31 December 2016 the presentation of settlements with Board members has been adjusted as follows:
  - Other liabilities – adjusted by 65 thousand PLN
  - Trade liabilities – adjusted by (65) thousand PLN

These adjustments have no effect on the Group's financial result or equity.

- In the consolidated statement of cash flows for the period between 1 January and 31 December 2016 the presentation of expenses associated with ongoing development of games prior to commencement of sales has been adjusted as follows:
  - Depreciation of fixed assets and intangibles – adjusted by 721 thousand PLN
  - Other adjustments – adjusted by (721) thousand PLN.

Supplementary information – CD PROJEKT Capital Group activity segments

3

Activity segments

Presentation of results by activity segment

The scope of financial disclosures in relation to each of the Group's activity segments is regulated by IFRS 8. For each segment the result is based on net profit.

Description of changes in the differentiation of activity segments, or of the assessment of per-segment profit or loss compared to the most recent annual consolidated financial statement

Compared to the consolidated financial statements for 2016 and for earlier years, the Group has decided to discontinue separate presentation of the "Other activities" segment. All activities represented by this segment have been folded into the CD PROJEKT RED segment. The "Other activities" segment had previously comprised the activities of the Invest department, which, together with CD PROJEKT RED, belonged to CD PROJEKT S.A. and provided services to other members of the Group in relation to corporate oversight, financial supervision, accounting, HR and payroll, legal and fiscal advice, and investor relations. As of the publication date of this statement, given the overall reduction in the number of distinct activity segments comprising the group (resulting from sale of shares in cdp.pl sp. z o.o.) along with continued dynamic growth of the CD PROJEKT RED segment, the Management Board has decided that disaggregation of the "Other activities" segment, which primarily serves the CD PROJEKT RED segment, would not carry any added value for readers of the Group's financial statement. The resulting change has no impact on the aggregate financial results of both segments, except for consolidation eliminations.

Disclosure of activity segments

	Continuing operations		Consolidation eliminations (incl. from business combinations)	Total
	CD PROJEKT RED	GOG.com		
01.01.2017 – 31.12.2017				
Sales revenues	**330 304**	**169 550**	**(36 670)**	**463 184**
sales to external clients	293 634	169 550	-	463 184
sales between segments	36 670	-	(36 670)	-
Segment profit/(loss)	**184 272**	**15 998**	**-**	**200 270**

	Continuing operations		Consolidation eliminations (incl. from business combinations)	Total
	CD PROJEKT RED	GOG.com		
01.01.2016 – 31.12.2016*				
Sales revenues	**478 058**	**133 518**	**(27 673)**	**583 903**
sales to external clients	450 393	133 510	-	583 903
sales between segments	27 665	8	(27 673)	-
Segment profit/(loss)	**249 576**	**4 811**	**(3 873)**	**250 514**

** Changes with respect to data published on 30 March 2017 in the consolidated financial statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2016 result from presentation-related adjustments described in the section titled "Assumption of comparability of financial statements and changes in accounting policies".*

(all figures quoted in PLN thousands unless stated otherwise)

Segmented consolidated profit and loss account for the period between 01.01.2017 and 31.12.2017

	CD PROJEKT RED	GOG.com	Consolidation eliminations (incl. from business combinations)	Total
Sales revenues	**330 304**	**169 550**	**(36 670)**	**463 184**
Revenues from sales of products	319 481	13 469	13 891	346 841
Revenues from sales of services	4 237	-	(4 139)	98
Revenues from sales of goods and materials	6 586	156 081	(46 422)	116 245
Cost of products, goods and materials sold	**13 715**	**107 297**	**(38 838)**	**82 174**
Cost of products and services sold	7 312	268	(6 307)	1 273
Cost of goods and materials sold	6 403	107 029	(32 531)	80 901
Gross profit (loss) from sales	**316 589**	**62 253**	**2 168**	**381 010**
Other operating revenues	6 064	759	(1 178)	5 645
Selling costs	70 032	38 310	2 331	110 673
General and administrative costs	26 483	5 908	(163)	32 228
Other operating expenses	3 590	402	(1 178)	2 814
Operating profit (loss)	**222 548**	**18 392**	**-**	**240 940**
Financial revenues	10 762	136	(42)	10 856
Financial expenses	4 069	364	(42)	4 391
Profit (loss) before taxation	**229 241**	**18 164**	**-**	**247 405**
Income tax	44 969	2 166	-	47 135
Net profit (loss)	**184 272**	**15 998**	**-**	**200 270**
Net profit (loss) attributable to noncontrolling interests	**-**	**-**	**-**	**-**
Net profit (loss) attributable to equity holders of the parent entity	**184 272**	**15 998**	**-**	**200 270**

(all figures quoted in PLN thousands unless stated otherwise)

Segmented consolidated profit and loss account for the period between 01.01.2016 and 31.12.2016*

	CD PROJEKT RED	GOG.com	Consolidation eliminations (incl. from business combinations)	Total
Sales revenues	**478 058**	**133 518**	**(27 673)**	**583 903**
Revenues from sales of products	457 700	4 704	8 060	470 464
Revenues from sales of services	4 122	-	(4 030)	92
Revenues from sales of goods and materials	16 236	128 814	(31 703)	113 347
Cost of products, goods and materials sold	**50 566**	**88 227**	**(25 555)**	**113 238**
Cost of products and services sold	35 074	-	(1 914)	33 160
Cost of goods and materials sold	15 492	88 227	(23 641)	80 078
Gross profit (loss) from sales	**427 492**	**45 291**	**(2 118)**	**470 665**
Other operating revenues	2 713	508	(762)	2 459
Selling costs	104 667	34 783	(942)	138 508
General and adminitrative costs	22 902	3 799	(1 362)	25 339
Other operating expenses	5 408	818	(576)	5 650
Operating profit (loss)	**297 228**	**6 399**	**-**	**303 627**
Financial revenues	12 900	41	(4 354)	8 587
Financial expenses	192	565	(481)	276
Profit (loss) before taxation	**309 936**	**5 875**	**(3 873)**	**311 938**
Income tax	60 360	1 064	-	61 424
Net financial result of acquiree	-	-	-	-
Net profit (loss)	**249 576**	**4 811**	**(3 873)**	**250 514**
Net profit (loss) attributable to noncontrolling interests	**-**	**-**	**-**	**-**
Net profit (loss) attributable to equity holders of the parent entity	**249 576**	**4 811**	**(3 873)**	**250 514**

** Changes with respect to data published on 30 March 2017 in the consolidated financial statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2016 result from presentation-related adjustments described in the section titled "Assumption of comparability of financial statements and changes in accounting policies".*

(all figures quoted in PLN thousands unless stated otherwise)

Segmented consolidated statement of financial position as of 31.12.2017

	CD PROJEKT RED	GOG.com	Consolidation eliminations (incl. from business combinations)	Total
FIXED ASSETS	**258 617**	**13 150**	**(16 232)**	**255 535**
Tangible assets	16 022	2 810	-	18 832
Intangible assets	44 741	2 112	-	46 853
Expenditures on development projects	135 210	7 276	-	142 486
Goodwill	46 417	-	-	46 417
Investments in subsidiaries	15 280	-	(15 280)	-
Shares in subsidiaries not subject to consolidation	452	-	-	452
Deferred income tax assets	-	952	(952)	-
Other long-term receivables	495	-	-	495
CURRENT ASSETS	**660 328**	**72 668**	**(7 018)**	**725 978**
Inventories	323	-	-	323
Trade receivables	37 253	10 208	(1 200)	46 261
Other receivables	22 278	1 122	(5 818)	17 582
Prepaid expenses	934	13 362	-	14 296
Cash and cash equivalents	19 011	47 976	-	66 987
Bank deposits (maturity beyond 3 months)	580 529	-	-	580 529
TOTAL ASSETS	**918 945**	**85 818**	**(23 250)**	**981 513**

(all figures quoted in PLN thousands unless stated otherwise)

	CD PROJEKT RED	GOG.com	Consolidation eliminations (incl. from business combinations)	Total
EQUITY	**858 547**	**39 632**	**(15 280)**	**882 899**
Equity attributable to shareholders of the parent company	**858 547**	**39 632**	**(15 280)**	**882 899**
Share capital	96 120	136	(136)	96 120
Supplementary capital	550 780	3 227	(4 672)	549 335
Other reserve capital	15 212	1 592	(1 592)	15 212
Exchange rate differences on valuation of foreign entities	(37)	(315)	470	118
Retained earnings	12 200	18 994	(9 350)	21 844
Net profit (loss) for the reporting period	184 272	15 998	-	200 270
Noncontrolling interest equity	**-**	**-**	**-**	**-**
LONG-TERM LIABILITIES	**5 039**	**43**	**(952)**	**4 130**
Other financial liabilities	148	-	-	148
Deferred income tax liabilities	2 830	-	(952)	1 878
Deferred revenues	1 983	40	-	2 023
Provisions for employee benefits and similar liabilities	78	3	-	81
SHORT-TERM LIABILITIES	**55 359**	**46 143**	**(7 018)**	**94 484**
Other financial liabilities	190	-	-	190
Trade liabilities	9 256	29 469	(1 351)	37 374
Liabilities from current income tax	2 227	1 230	-	3 457
Other liabilities	2 058	10 379	(5 667)	6 770
Deferred revenues	587	2 465	-	3 052
Provisions for retirement benefits and similar liabilities	1	-	-	1
Other provisions	41 040	2 600	-	43 640
TOTAL EQUITY AND LIABILITIES	**918 945**	**85 818**	**(23 250)**	**981 513**

(all figures quoted in PLN thousands unless stated otherwise)

Segmented consolidated statement of financial position as of 31.12.2016*

	CD PROJEKT RED	GOG.com	Consolidation eliminations (incl. from business combinations)	Total
FIXED ASSETS	**176 047**	**8 483**	**(13 886)**	**170 644**
Tangible assets	11 551	2 872	-	14 423
Intangible assets	43 660	3 452	-	47 112
Expenditures on development projects	60 050	1 961	-	62 011
Goodwill	46 417	-	-	46 417
Investments in subsidiaries	13 688	-	(13 688)	-
Other financial assets	194	-	-	194
Deferred income tax assets	-	198	(198)	-
Other long-term receivables	487	-	-	487
CURRENT ASSETS	**658 721**	**56 558**	**(10 963)**	**704 316**
Inventories	401	-	-	401
Trade receivables	73 654	3 904	(6 004)	71 554
Current income tax receivables	-	112	-	112
Other receivables	22 769	2 532	(5 033)	20 268
Other financial assets	53	-	-	53
Prepaid expenses	1 012	13 712	-	14 724
Cash and cash equivalents	180 997	36 298	74	217 369
Bank deposits (maturity beyond 3 months)	379 835	-	-	379 835
TOTAL ASSETS	**834 768**	**65 041**	**(24 849)**	**874 960**

(all figures quoted in PLN thousands unless stated otherwise)

	CD PROJEKT RED	GOG.com	Consolidation eliminations (incl. from business combinations)	Total
EQUITY	**764 350**	**26 276**	**(13 688)**	**776 938**
Equity attributable to shareholders of the parent company	**764 350**	**26 276**	**(13 688)**	**776 938**
Share capital	96 120	136	(136)	96 120
Supplementary capital	402 004	5 669	(4 672)	403 001
Other reserve capital	4 271	524	-	4 795
Exchange rate differences on valuation of foreign entities	54	3 394	470	3 918
Retained earnings	12 325	11 742	(5 477)	18 590
Net profit (loss) for the reporting period	249 576	4 811	(3 873)	250 514
Noncontrolling interest equity	**-**	**-**	**-**	**-**
LONG-TERM LIABILITIES	**8 464**	**9**	**(198)**	**8 275**
Other financial liabilities	76	-	-	76
Deferred income tax liabilities	7 396	-	(198)	7 198
Deferred revenues	937	7	-	944
Provisions for employee benefits and similar liabilities	55	2	-	57
SHORT-TERM LIABILITIES	**61 954**	**38 756**	**(10 963)**	**89 747**
Other financial liabilities	63	-	-	63
Trade liabilities	5 705	28 131	(5 930)	27 906
Liabilities from current income tax	3 678	84	-	3 762
Other liabilities	8 240	6 620	(5 033)	9 827
Deferred revenues	587	2 277	-	2 864
Provisions for retirement benefits and similar liabilities	182	112	-	294
Other provisions	43 499	1 532	-	45 031
TOTAL EQUITY AND LIABILITIES	**834 768**	**65 041**	**(24 849)**	**874 960**

** Changes with respect to data published on 30 March 2017 in the consolidated financial statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2016 result from presentation-related adjustments described in the section titled "Assumption of comparability of financial statements and changes in accounting policies".*

(all figures quoted in PLN thousands unless stated otherwise)

Supplementary information – additional notes and clarifications regarding the consolidated financial statement

4

Note 1. Sales revenues

In accordance with **IAS 18** revenues from sales of products, goods and services, less the applicable value added tax and any discounts or rebates, are recognized when the substantial risks and rewards of ownership are transferred to the buyer.

	01.01.2017–31.12.2017	01.01.2016 – 31.12.2016
Sales revenues	**463 184**	**583 903**
Revenues from sales of products	346 841	470 464
Revenues from sales of services	98	92
Revenues from sales of goods and materials	116 245	113 347
Other revenues	**16 501**	**11 046**
Other operating revenues	5 645	2 459
Financial revenues	10 856	8 587
Total	**479 685**	**594 949**

Sales revenues by territory

	01.01.2017 - 31.12.2017		01.01.2016 - 31.12.2016	
	PLN	%	PLN	%
Domestic sales	24 443	5.29%	26 456	4.53%
Exports, including:	**438 741**	**94.71%**	**557 447**	**95.47%**
EU member states	110 534	23.86%	155 184	26.58%
Russia	7 476	1.61%	6 016	1.03%
USA	250 025	53.98%	323 773	55.45%
Asia	41 838	9.03%	45 294	7.76%
other territories	28 868	6.23%	27 180	4.65%
Total	**463 184**	**100.00%**	**583 903**	**100.00%**

Note 2. Operating costs

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016*
Depreciation of fixed and intangible assets, and impairment write-downs	4 906	4 963
Consumption of materials and energy	1 419	1 305
Bought-in services	60 982	69 364
Taxes and fees	606	440
Employee compensation, social security and other benefits	72 198	84 507
Business travel	1 910	1 658
Use of company cars	156	95
Cost of goods and materials sold	80 901	80 078
Cost of products and services sold	1 273	33 160
Other costs	724	1 515
Total	**225 075**	**277 085**
Selling costs	110 673	138 508
General and administrative costs	32 228	25 339
Cost of products, goods and materials sold	82 174	113 238
Total	**225 075**	**277 085**

** adjusted data*

(all figures quoted in PLN thousands unless stated otherwise)

CD PROJEKT

Note 3. Other operating revenues and expenses

Other operating revenues

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Elimination of write-downs on receivables	1 036	73
Dissolution of provisions for employee benefits	1 234	41
Dissolution of provisions for expenses	72	117
Subsidies	1 024	809
Write-down on expired liabilities	34	12
Reinvoicing revenues	534	702
Profit from disposal of fixed assets	50	51
Withholding tax recovered at source	431	-
Settlement of financial lease liabilities	-	13
Other provisions dissolved	21	41
Cost adjustments for the preceding years	472	-
Repossession gains received	36	20
Damages collected	120	2
Goods received free of charge	41	7
Current assets surplus	10	9
Other sales	457	457
Other miscellaneous operating revenues	73	105
Total operating revenues	**5 645**	**2 459**

Other operating expenses

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Revaluation of trade receivables	13	3 216
Revaluation of other receivables	4	-
Expenses associated with receivable enforcement proceedings	92	-
Donations	14	-
Reinvoicing costs	537	702
Receivables written off	38	348
Fixed assets written off	743	-
Unrecoverable withholding tax	136	252
Insurance costs	2	-
Disposal of materials and goods	28	32
Stocktaking shortages settlement	13	25
Cost of other sales	1 077	1 047
Other miscellaneous expenses	117	28
Total operating expenses	**2 814**	**5 650**

(all figures quoted in PLN thousands unless stated otherwise)

Note 4. Financial revenues and expenses

Financial revenues

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Revenues from interest:	**10 433**	**7 039**
on short-term bank deposits	10 425	6 953
on trade settlements	8	6
discount of long-term receivables	-	80
Other financial revenues, including:	**423**	**1 548**
forward currency transactions	41	856
profit from sales of shares	374	678
other miscellaneous financial revenues	8	14
Total financial revenues	**10 856**	**8 587**

Financial expenses

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Interest payments	**88**	**174**
on trade settlements	-	1
on lease agreements	12	9
on budget commitments	76	164
Other financial expenses	**4 303**	**102**
surplus negative interest rate differences	4 303	76
forward currency transactions	-	6
net loss from sales of investments (shares)	-	20
Total financial expenses	**4 391**	**276**
Net balance of financial activities	**6 465**	**8 311**

(all figures quoted in PLN thousands unless stated otherwise)

Disclosure of revenues, expenses, profits and losses by financial instrument category

	Financial assets designated at fair value through financial result	Financial assets held to maturity	Loans granted and receivables	Trade and other liabilities	Total estimation of financial instruments
01.01.2017 – 31.12.2017					
Revenues/expenses from interest	-	9 329	1 104	(76)	10 357
Creation of write-downs	-	-	(17)	-	(17)
Revenues from shares held	374	-	-	-	374
Dissolution of write-downs	-	-	1 036	-	1 036
Profit (loss) from sales of financial instruments	41	-	-	-	41
Total profit (loss)	**415**	**9 329**	**2 123**	**(76)**	**11 791**

	Financial assets designated at fair value through financial result	Financial assets held to maturity	Loans granted and receivables	Trade and other liabilities	Total estimation of financial instruments
01.01.2016 – 31.12.2016					
Revenues/expenses from interest	-	3 889	3 070	(165)	6 794
Creation of write-downs	-	-	(3 216)	-	(3 216)
Revenues from shares held	658	-	-	-	658
Dissolution of write-downs	-	-	73	-	73
Profit (loss) from sales of financial instruments	856	-	-	-	856
Valuation of forward contracts	(6)	-	-	-	(6)
Total profit (loss)	**1 508**	**3 889**	**(73)**	**(165)**	**5 159**

(all figures quoted in PLN thousands unless stated otherwise)

Note 5. Current and deferred income tax

The main components of the tax burden for the years ending on 31 December 2017 and 31 December 2016 respectively are as follows:

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Current income tax	**52 455**	**57 472**
For the fiscal year	52 514	57 451
Adjustments from preceding years	(59)	21
Deferred income tax	**(5 320)**	**3 952**
Due to creation and reversal of temporary differences	(5 320)	3 952
Tax burden reported in profit and loss account	**47 135**	**61 424**

Deferred tax reported in the profit and loss account is calculated as the difference between deferred tax liabilities and assets at the beginning and end of each reporting period.

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Pre-tax income	**247 405**	**311 938**
Revenues increasing the tax base	4 355	-
Revenues applicable to future reporting periods	31 546	15 764
Tax-exempt revenues	(5 574)	(1 563)
Revenues from advance payments subject to fiscal disclosures	-	(15 820)
Expenses from preceding years reducing the tax base	(45 632)	(31 522)
Non-deductible expenses	49 982	28 352
Taxable income	**282 082**	**307 149**
Deductions from income – losses	1 047	3 520
Deductions from income – donations	2	-
Deductions from income – R&D fiscal relief	69	-
Tax base	**280 964**	**303 629**
Income tax due (assumed rate: 19%)	53 383	57 690
Differences from tax rates applicable to foreign entities	**(869)**	**(625)**
Cyprus (12.5%)	(1 023)	(552)
USA (15.0%)	154	(73)
Income tax	**52 514**	**57 065**
Effective tax rate	**19.05%**	**19.69%**

Current income tax is estimated by applying a tax rate of 19% to the reported tax base.

(all figures quoted in PLN thousands unless stated otherwise)

Negative temporary differences requiring recognition of deferred tax assets

	31.12.2016*	increases	reductions	31.12.2017
Provisions for other employee benefits	243	89	231	101
Valuation of futures contracts under the incentive program	43 906	42 998	43 906	42 998
Fixed assets written off	-	743	743	-
Tax loss	-	1 047	-	1 047
Negative exchange rate differences	1 027	2 458	2 550	935
Compensation and social security expenses payable in future reporting periods	113	11	121	3
Prepayments associated with virtual wallet contributions and benefits programs	-	2 386	-	2 386
Difference between the balance sheet value and the net tax value of fixed assets and intangibles	157	392	549	-
Other provisions	499	794	774	519
Total negative temporary differences	**45 945**	**50 918**	**48 874**	**47 989**
Tax rate (Poland)	19%	19%	19%	19%
Deferred tax assets	**8 730**	**9 674**	**9 286**	**9 118**

** adjusted data*

Positive temporary differences requiring recognition of deferred tax liabilities

	31.12.2016	increases	reductions	31.12.2017
Difference between the balance sheet value and the net tax value of fixed assets and intangibles	15 761	5 830	20	21 571
Revaluation of currency forward contracts (cash flow hedge) at fair value	53	-	53	-
Income in the current period invoiced in the following period	66 698	153 478	185 226	34 950
Positive exchange rate differences	1 004	1 226	1 277	953
Valuation of shares in other entities	169	-	169	-
Other sources	146	270	17	399
Total positive temporary differences	**83 831**	**160 804**	**186 762**	**57 873**
Tax rate (Poland)	19%	19%	19%	19%
Deferred tax liabilities	**15 928**	**30 553**	**35 485**	**10 996**

** adjusted data*

Balance of deferred tax assets/liabilities

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Deferred tax assets	9 118	8 730
Deferred tax liabilities	10 996	15 928
Net deferred tax assets/liabilities	**(1 878)**	**(7 198)**

(all figures quoted in PLN thousands unless stated otherwise)

Note 6. Discontinued operations

No discontinued operations were reported in the current or in the preceding year.

Note 7. Earnings per share

Base earnings per share are calculated by dividing the net profit for the reporting period attributable to ordinary equity holders of parent Company by a weighted average of the number of ordinary shares issued valid during the reporting period. Diluted earnings per share are calculated by dividing the net profit for the reporting period attributable to ordinary equity holders of the Company by a weighted average of the number of ordinary shares issued valid during the reporting period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

During the 12-month period ending on 31 December 2017 dilutive instruments comprised entitlements issued under the incentive program and entitling certain parties to claim shares of the parent Company. Information regarding the quantity of entitlements issued is provided in Note 42.

Net profit and number of shares for the purpose of calculating earnings per share

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016*
Average weighted number of shares for the purpose of calculating base earnings per share (units)	96 120 000	95 390 000
Average weighted number of shares for the purpose of calculating diluted earnings per share (units)	99 561 288	96 907 927
Net profit/(loss) for the purpose of calculating diluted earnings per share	200 270	250 514
Base earnings per share	**2.08**	**2.63**
Diluted earnings per share	**2.01**	**2.59**

** adjusted data*

Note 8. Dividends proposed or approved by the date of approval of this financial statement

On 23 May 2017 the Ordinary General Meeting of Shareholders of CD PROJEKT S.A. voted to allocate part of the parent Company's profit obtained in 2016 towards a dividend payable to Company shareholders. In line with the adopted resolution, on 13 June 2017 the parent company paid out a dividend in the amount of 100 926 000 PLN (1.05 PLN per share). The dividend applied to 96 120 000 shares of the parent company.

Note 9. Disclosure of other components of the reported comprehensive income

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Net profit (loss)	**200 270**	**250 514**
Exchange rate differences on valuation of foreign entities	(3 800)	1 404
Differences from rounding to PLN in thousands	-	(1)
Total comprehensive income	**196 470**	**251 917**
Total comprehensive income attributable to minority interests	**-**	**-**
Total comprehensive income attributable to parent entity	**196 470**	**251 917**

Note 10. Tax effects of other components of the reported comprehensive income

Not applicable.

Note 11. Fixed assets

Ownership structure of tangible fixed assets

	31.12.2017	31.12.2016
Wholly owned	18 096	14 139
Held under a hire purchase, hire or other contract, including leasing contracts	736	284
Total	**18 832**	**14 423**

Fixed assets whose title is restricted and fixed assets pledged as collateral for liabilities

	31.12.2017	31.12.2016
Held under a financial leasing contract	736	284
Fixed assets subsidized by the EU	1 397	1 905
Value of fixed assets whose title is restricted and fixed assets pledged as collateral for liabilities	**2 133**	**2 189**

Contractual commitments for future acquisition of fixed assets

	31.12.2017	31.12.2016
Leasing of passenger cars	736	284
Total	**736**	**284**

(all figures quoted in PLN thousands unless stated otherwise)

Changes in fixed assets (by category) between 01.01.2017 and 31.12.2017

	Buildings and structures	Machinery and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross carrying amount as of 01.01.2017	**6 559**	**16 062**	**1 537**	**1 134**	**1 860**	**27 152**
Increases from:	**6 682**	**4 652**	**625**	**794**	**3 564**	**16 317**
purchases	1 631	4 484	-	471	3 564	10 150
lease agreements	-	-	625	-	-	625
reclassification from fixed assets under construction	4 421	53	-	313	-	4 787
other reclassification	630	80	-	10	-	720
acquisition free of charge	-	35	-	-	-	35
Reductions from:	**49**	**186**	**126**	**733**	**4 787**	**5 881**
sales	5	15	126	-	-	146
disposal	-	13	-	-	-	13
reclassification from fixed assets under construction	-	-	-	-	4 787	4 787
other reclassification	-	63	-	657	-	720
others	44	95	-	76	-	215
Gross carrying amount as of 31.12.2017	**13 192**	**20 528**	**2 036**	**1 195**	**637**	**37 588**
Depreciation as of 01.01.2017	**2 153**	**9 285**	**771**	**520**	**-**	**12 729**
Increases from:	**1 387**	**4 343**	**379**	**444**	**-**	**6 553**
depreciation	1 186	4 285	379	434	-	6 284
reclassification	201	58	-	10	-	269
Reductions from:	**23**	**146**	**115**	**242**	**-**	**526**
sales	1	15	115	-	-	131
disposal	-	13	-	-	-	13
reclassification	-	58	-	211	-	269
others	22	60	-	31	-	113
Depreciation as of 31.12.2017	**3 517**	**13 482**	**1 035**	**722**	**-**	**18 756**
Impairment write-downs as of 01.01.2017	-	-	-	-	-	-
Impairment write-downs as of 31.12.2017	-	-	-	-	-	-
Net carrying amount as of 31.12.2017	**9 675**	**7 046**	**1 001**	**473**	**637**	**18 832**

(all figures quoted in PLN thousands unless stated otherwise)

Changes in fixed assets (by category) between 01.01.2016 and 31.12.2016

	Buildings and structures	Machinery and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross carrying amount as of 01.01.2016	**4 002**	**10 779**	**1 364**	**815**	**613**	**17 573**
Increases from:	**2 683**	**5 299**	**352**	**319**	**3 642**	**12 295**
purchases	347	5 207	6	274	3 642	9 476
lease contracts	-	-	346	-	-	346
reclassification from fixed assets under construction	2 336	56	-	-	-	2 392
leasing agreements	-	7	-	-	-	7
acquisition free of charge	-	29	-	45	-	74
Reductions from:	**126**	**16**	**179**	**-**	**2 395**	**2 716**
sales	126	7	179	-	3	315
disposal	-	9	-	-	-	9
reclassification from fixed assets under construction	-	-	-	-	2 392	2 392
Gross carrying amount as of 31.12.2016	**6 559**	**16 062**	**1 537**	**1 134**	**1 860**	**27 152**
Depreciation as of 01.01.2016	**1 587**	**5 821**	**637**	**148**	**-**	**8 193**
Increases from:	**569**	**3 479**	**313**	**372**	**-**	**4 733**
depreciation	569	3 469	313	359	-	4 710
others	-	10	-	13	-	23
Reductions from:	**3**	**15**	**179**	**-**	**-**	**197**
disposal	-	9	-	-	-	9
sales	3	6	179	-	-	188
Depreciation as of 31.12.2016	**2 153**	**9 285**	**771**	**520**	**-**	**12 729**
Impairment write-downs as of 01.01.2016	-	-	-	-	-	-
Impairment write-downs as of 31.12.2016	-	-	-	-	-	-
Net carrying amount as of 31.12.2016	**4 406**	**6 777**	**766**	**614**	**1 860**	**14 423**

(all figures quoted in PLN thousands unless stated otherwise)

Fixed assets under construction

	01.01.2017	Expenditures in fiscal year	Expenditure settlements	31.12.2017
Improvements to office and social space	1 611	3 246	4 378	479
Adaptation of office and social space	229	127	356	-
Redevelopment of parking lot	-	140	-	140
Construction of motion capture studio	20	51	53	18
Total	**1 860**	**3 564**	**4 787**	**637**

	01.01.2016	Expenditures in fiscal year	Expenditure settlements	31.12.2016
Adaptation of office and social space	594	3 353	2 336	1 611
Construction of motion capture studio	-	229	-	229
Other	19	60	59	20
Total	**613**	**3 642**	**2 395**	**1 860**

Value and area of land holdings in perpetuity

Not applicable.

Fixed assets held under lease agreements

	31.12.2017			31.12.2016		
	Gross value	Depreciation	Net value	Gross value	Depreciation	Net value
Vehicles	973	238	735	348	64	284
Total	**973**	**238**	**735**	**348**	**64**	**284**

(all figures quoted in PLN thousands unless stated otherwise)

Note 12. Intangibles and expenditures on development projects

Changes in intangibles and expenditures on development projects between 01.01.2017 and 31.12.2017

	Development projects in progress	Development projects completed	Trademarks	Patents and licenses	Copyrights	Computer software	Goodwill	Intangible assets under construction	Others	Total
Gross carrying amount as of 01.01.2017	**62 011**	**162 155**	**32 199**	**1 590**	**6 530**	**22 185**	**46 417**	**51**	**1**	**333 139**
Increases from:	**81 218**	**-**	**-**	**59**	**-**	**3 957**	**-**	**36**	**-**	**85 270**
purchases	-	-	-	59	-	3 259	-	36	-	3 354
reclassification from intangible assets under construction	-	-	-	-	-	31	-	-	-	31
own creation	81 218	-	-	-	-	667	-	-	-	81 885
Reductions from:	**743**	**-**	**-**	**3**	**-**	**1 177**	**-**	**33**	**-**	**1 956**
disposal	743	-	-	-	-	-	-	-	-	743
reclassification from intangibles under construction	-	-	-	-	-	-	-	31	-	31
other	-	-	-	3	-	1 177	-	2	-	1 182
Gross carrying amount as of 31.12.2017	**142 486**	**162 155**	**32 199**	**1 646**	**6 530**	**24 965**	**46 417**	**54**	**1**	**416 453**
Depreciation as of 01.01.2017	**-**	**162 155**	**-**	**533**	**-**	**14 910**	**-**	**-**	**1**	**177 599**
Increases from:	**-**	**-**	**-**	**231**	**-**	**3 751**	**-**	**-**	**-**	**3 982**
depreciation	-	-	-	222	-	3 751	-	-	-	3 973
other	-	-	-	9	-	-	-	-	-	9
Reductions from:	**-**	**-**	**-**	**-**	**-**	**884**	**-**	**-**	**-**	**884**
other	-	-	-	-	-	884	-	-	-	884
Depreciation as of 31.12.2017	**-**	**162 155**	**-**	**764**	**-**	**17 777**	**-**	**-**	**1**	**180 697**
Impairment write-downs as of 01.01.2017	-	-	-	-	-	-	-	-	-	-
Impairment write-downs as of 31.12.2017	-	-	-	-	-	-	-	-	-	-
Net carrying amount as of 31.12.2017	**142 486**	**-**	**32 199**	**882**	**6 530**	**7 188**	**46 417**	**54**	**-**	**235 756**

(all figures quoted in PLN thousands unless stated otherwise)

Changes in intangibles and expenditures on development projects between 01.01.2016 and 31.12.2016*

	Development projects in progress	Development projects completed	Trademarks	Patents and licenses	Copyrights	Computer software	Goodwill	Intangible assets under construction	Others	Total
Gross carrying amount as of 01.01.2017	**28 483**	**135 855**	**32 199**	**903**	**6 624**	**19 424**	**46 417**	**462**	**1**	**270 368**
Increases from:	**59 828**	**26 300**	**-**	**687**	**-**	**3 837**	**-**	**3**	**-**	**90 655**
purchases	-	-	-	655	-	3 019	-	-	-	3 674
reclassification from intangible assets under construction	-	-	-	-	-	414	-	-	-	414
reclassification from development projects in progress	-	26 300	-	-	-	-	-	-	-	26 300
own creation	59 828	-	-	-	-	-	-	-	-	59 828
other	-	-	-	32	-	404	-	3	-	439
Reductions from:	**26 300**	**-**	**-**	**-**	**94**	**1 076**	**-**	**414**	**-**	**27 884**
disposal	-	-	-	-	94	1 076	-	-	-	1 170
reclassification from intangible assets under construction	-	-	-	-	-	-	-	414	-	414
reclassification from development projects in progress	26 300	-	-	-	-	-	-	-	-	26 300
Gross carrying amount as of 31.12.2016	**62 011**	**162 155**	**32 199**	**1 590**	**6 530**	**22 185**	**46 417**	**51**	**1**	**333 139**
Depreciation as of 01.01.2016	**-**	**130 757**	**-**	**405**	**94**	**11 256**	**-**	**-**	**1**	**142 513**
Increases from:	**-**	**31 398**	**-**	**128**	**-**	**4 730**	**-**	**-**	**-**	**36 256**
depreciation	-	31 398	-	127	-	4 536	-	-	-	36 061
other	-	-	-	1	-	194	-	-	-	195
Reductions from:	**-**	**-**	**-**	**-**	**94**	**1 076**	**-**	**-**	**-**	**1 170**
disposal	-	-	-	-	94	1 076	-	-	-	1 170
Depreciation as of 31.12.2016	**-**	**162 155**	**-**	**533**	**-**	**14 910**	**-**	**-**	**1**	**177 599**
Impairment write-downs as of 01.01.2016	-	-	-	-	-	-	-	-	-	-
Impairment write-downs as of 31.12.2016	-	-	-	-	-	-	-	-	-	-
Net carrying amount as of 31.12.2016	**62 011**	**-**	**32 199**	**1 057**	**6 530**	**7 275**	**46 417**	**51**	**-**	**155 540**

** adjusted data*

(all figures quoted in PLN thousands unless stated otherwise)

Ownership structure of intangible assets

	31.12.2017	31.12.2016
Wholly owned assets	46 853	47 112
Total	**46 853**	**47 112**

Intangible assets under construction

	01.01.2017	Expenditures in fiscal year	Expenditure settlements	31.12.2017
Deployment of Tagetik 5 system	-	36	-	36
GOG videogame licenses	51	-	33	18
Total	**51**	**36**	**33**	**54**

	01.01.2016	Expenditures in fiscal year	Expenditure settlements	31.12.2016
GOG videogame licenses	68	-	17	51
GOG localization licenses	49	-	49	-
GALAXY SDK-DEV-PIPELINE	345	-	345	-
Total	**462**	**-**	**411**	**51**

Contractual commitments for future acquisition of intangible assets

None reported.

Intangible assets whose title is restricted

None reported.

Note 13. Goodwill

Goodwill

	31.12.2017	31.12.2016
CDP Investment Group companies	46 417	46 417
Total	**46 417**	**46 417**

Breakdown of goodwill

	31.12.2017	31.12.2016
Goodwill from mergers with subsidiaries	39 147	39 147
Goodwill from consolidation	7 270	7 270
Net goodwill	**46 417**	**46 417**

Goodwill and trademark impairment tests require assessment of the value in use of each cash generating unit. When conducting these assessments the Company prepared estimates of future cash flows generated by each cash generating unit, and applied a projected discount rate to estimate the current value of said cash flows. The most recent impairment tests of the CD PROJEKT brand, The Witcher trademark and Company goodwill were performed on 31 December 2017 and did not indicate impairment of any of these assets. The most recent impairment tests concerning shares in subsidiaries were performed on 31 December 2017 and did not indicate impairment of any such shares.

(all figures quoted in PLN thousands unless stated otherwise)

Changes in goodwill from consolidation

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Gross goodwill at beginning of period	**46 417**	**46 417**
Increases from business combinations	-	-
Reductions from business combinations	-	-
Gross goodwill at end of period	**46 417**	**46 417**
Impairment write-downs	-	-
Net goodwill	**46 417**	**46 417**

Note 14. Investment properties

Not applicable.

Note 15. Shares in subsidiaries excluded from consolidation

Investments in subsidiaries held at purchase price

	31.12.2017	31.12.2016
Investments in affiliates (subsidiaries)	452	-

Changes in investments in affiliates

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
At beginning of period	**-**	**-**
Increases from:	**452**	**-**
incorporation of affiliates	452	-
Reductions	**-**	**-**
At end of period	**452**	**-**

Investments in affiliates as of 31.12.2017

	CD PROJEKT Co., Ltd.
Registered office	Shanghai
Percentage of shares held as of 31.12.2017	100%
Percentage of votes controlled as of 31.12.2017	100%
Capital investment	452

Note 16. Other long-term receivables

	31.12.2017	31.12.2016
Other receivables – office space rental deposit	495	487
Total	**495**	**487**

(all figures quoted in PLN thousands unless stated otherwise)

Note 17. Financial assets held for sale

	31.12.2017	31.12.2016
Investments in subsidiaries	-	194
Total	**-**	**194**

Note 18. Inventories

	31.12.2017	31.12.2016
Goods	300	373
Other materials	23	28
Gross inventories	**323**	**401**
Inventory impairment write-downs	-	-
Net inventories	**323**	**401**

The “Other materials” line item comprises components (intermediates) of box editions of videogames as well as marketing materials.

Changes in inventory revaluation write-downs

None reported.

Inventories pledged as collateral for liabilities

Not applicable.

Note 19. Construction contracts

Not applicable.

Note 20. Trade receivables

	31.12.2017	31.12.2016
Net trade receivables	**46 261**	**71 554**
from affiliates	27	-
from external entities	46 234	71 554
Impairment write-downs	2 349	3 479
Gross trade receivables	**48 610**	**75 033**

(all figures quoted in PLN thousands unless stated otherwise)

Changes in impairment write-downs on trade receivables

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
FROM AFFILIATES		
Impairment write-downs at beginning of period	**-**	**-**
Increases	**-**	**-**
Reductions, including:	**-**	**-**
elimination of impairment write-downs by write-offs	-	-
Impairment write-downs at end of period	**-**	**-**
FROM OTHER ENTITIES		
Impairment write-downs at beginning of period	**3 479**	**382**
Increases, including:	**17**	**3 216**
impairment write-downs on past-due and contested receivables	17	3 216
Reductions, including:	**1 147**	**119**
elimination of impairment write-downs due to collection of receivables	1 038	79
elimination of impairment write-downs by write-offs	109	40
Impairment write-downs at end of period	**2 349**	**3 479**
Aggregate impairment write-downs at end of period	**2 349**	**3 479**

Current and overdue trade receivables as of 31.12.2017

	Total	Not overdue	Days overdue				
			1 – 60	61 – 90	91 – 180	181 – 360	>360
FROM AFFILIATES							
gross receivables	27	2	12	13	-	-	-
impairment write-downs	-	-	-	-	-	-	-
Net receivables	**27**	**2**	**12**	**13**	**-**	**-**	**-**
FROM OTHER ENTITIES							
gross receivables	48 583	45 540	652	-	27	18	2 346
impairment write-downs	2 349	-	3	-	-	-	2 346
Net receivables	**46 234**	**45 540**	**649**	**-**	**27**	**18**	**-**
TOTAL							
gross receivables	48 610	45 542	664	13	27	18	2 346
impairment write-downs	2 349	-	3	-	-	-	2 346
Net receivables	**46 261**	**45 542**	**661**	**13**	**27**	**18**	**-**

(all figures quoted in PLN thousands unless stated otherwise)

Current and overdue trade receivables as of 31.12.2016

	Total	Not overdue	Days overdue				
			1 – 60	61 – 90	91 – 180	181 – 360	>360
FROM OTHER ENTITIES							
gross receivables	75 033	71 422	132	2 663	47	259	510
impairment write-downs	3 479	-	-	2 663	47	259	510
Net receivables	**71 554**	**71 422**	**132**	**-**	**-**	**-**	**-**
TOTAL							
gross receivables	75 033	71 422	132	2 663	47	259	510
impairment write-downs	3 479	-	-	2 663	47	259	510
Net receivables	**71 554**	**71 422**	**132**	**-**	**-**	**-**	**-**

Trade receivables by currency

in thousands	31.12.2017		31.12.2016	
	currency units	PLN equivalent	currency units	PLN equivalent
PLN	34 374	34 374*	60 845	60 845*
USD	2 034	7 082	1 324	5 536
EUR	536	2 235	1 009	4 465
GBP	106	498	39	202
RUB	8 185	494	1 357	92
JPY	15 429	477	209	7
BRL	176	185	83	106
SEK	418	177	102	47
AUD	63	172	30	91
CAD	60	166	28	87
CNY	290	155	-	-
DKK	166	93	35	21
CHF	22	79	8	32
NOK	175	74	47	23
Total		**46 261**		**71 554**

** This field also aggregates receivables obtained in association with foreign licensing reports during the current period but invoiced in future reporting periods. For the purposes of this financial statement, such receivables are denominated directly in PLN.*

Note 21. Other receivables

	31.12.2017	31.12.2016
Other receivables, including:	**17 582**	**20 268**
tax returns except corporate income tax	14 205*	17 229
advance payments for supplies	2 195	1 838
deposits	125	83
employee compensation settlements	52	38
sale of shares	-	1 031
prepayments associated with licensing royalties	51	-
prepayments associated with purchase of fixed assets	940	-
others	14	49
Impairment write-downs	**732**	**732**
Total other gross receivables	**18 314**	**21 000**

** This field also aggregates withholding tax in the amount of 11 357 thousand PLN, which will be deducted by the parent Company in its annual tax declaration once the parent Company has received certificates from foreign clients confirming that the tax has been paid abroad.*

	31.12.2017	31.12.2016
Other receivables, including:	**17 582**	**20 268**
from affiliates	18	10
from other entities	17 564	20 258
Impairment write-downs	**732**	**732**
Other gross receivables	**18 314**	**21 000**

Other receivables subject to court proceedings

	31.12.2017	31.12.2016
Other receivables subject to court proceedings	732	732
Impairment write-downs on contested receivables	732	732
Net other receivables subject to court proceedings	**-**	**-**

Other receivables by currency

in thousands	31.12.2017		31.12.2016	
	currency units	PLN equivalent	currency units	PLN equivalent
PLN	17 373	17 373*	20 136	20 136*
USD	38	136	31	127
CHF	8	31	-	-
EUR	6	23	1	5
JPY	584	19	-	-
Total		**17 582**		**20 268**

** This field also aggregates withholding tax deducted at source by the Group's foreign collaborators and reportable in the Company's annual corporate income tax declaration filed with domestic fiscal authorities.*

Trade and other receivables from affiliates

	31.12.2017	31.12.2016
Gross receivables from affiliates	**45**	**10**
trade receivables	27	-
other receivables	18	10
Impairment write-downs	**-**	**-**
Net receivables from affiliates	**45**	**10**

Note 22. Prepaid expenses

	31.12.2017	31.12.2016
Non-life insurance	100	98
Company car insurance	22	-
Minimum guarantees and advance payments at GOG	12 714	13 207
Access to online legal support portal	12	23
Software, licenses	736	866
Business travel (airfare, accommodation, insurance)	60	25
IT security costs	415	-
Other prepaid expenses	237	505
Total prepaid expenses	**14 296**	**14 724**

Note 23. Cash and cash equivalents

	31.12.2017	31.12.2016*
Cash on hand and bank deposits	**16 633**	**25 527**
cash on hand	-	1
current bank accounts	16 633	25 526
Other monetary assets:	**50 354**	**191 842**
monetary assets in transit	-	73
overnight deposits	148	6 111
short-term bank deposits (maturity up to 3 months)	50 206	185 658
Total	**66 987**	**217 369**

** adjusted data*

Restricted cash

Not applicable.

(all figures quoted in PLN thousands unless stated otherwise)

Note 24. Share capital

Share capital structure as of 31.12.2017

Series	Shares issued	Nominal value of series/issue	Capital paid up in
A	500 000	500 000	Cash
B	2 000 000	2 000 000	Cash
C	6 884 108	6 884 108	Cash
C1	18 768 216	18 768 216	Cash
D	35 000 000	35 000 000	Non-cash assets
E	6 847 676	6 847 676	Cash
F	3 500 000	3 500 000	Cash
G	887 200	887 200	Cash
H	3 450 000	3 450 000	Cash
I	7 112 800	7 112 800	Cash
J	5 000 000	5 000 000	Cash
K	5 000 000	5 000 000	Cash
L	1 170 000	1 170 000	Cash
Total	**96 120 000**	**96 120 000**	-

The share capital structure did not undergo changes compared to 31 December 2016.

Changes in share capital

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Share capital at beginning of period	**96 120**	**94 950**
Increases from:	**-**	**1 170**
issue of shares paid up in cash – incentive program	-	1 170
Reductions	**-**	**-**
Share capital at end of period	**96 120**	**96 120**

Note 25. Changes in share capital and reserve capital from sale of shares above nominal price

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
At beginning of period	**403 001**	**120 199**
Increases from:	**146 334**	**282 802**
issue of shares	-	8 735
allocation of net profit	146 334	274 067
Reductions	**-**	**-**
At end of period	**549 335**	**403 001**

(all figures quoted in PLN thousands unless stated otherwise)

Note 26. Other capital contributions

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Reserve capital	549 335	403 001
Other reserve capital – incentive program	15 212	4 795
Total	**564 547**	**407 796**

Changes in other capital contributions

	Reserve capital	Other reserve capital – incentive program	Total
As of 01.01.2017	**403 001**	**4 795**	**407 796**
Increases from:	**146 334**	**10 417**	**156 751**
allocation of net profit	146 334	-	146 334
contributions associated with incentive program	-	10 417	10 417
Reductions	**-**	**-**	**-**
As of 31.12.2017	**549 335**	**15 212**	**564 547**

	Reserve capital	Other reserve capital – incentive program	Total
As of 01.01.2016	**120 199**	**3 354**	**123 553**
Increases from:	**282 802**	**1 441**	**284 243**
allocation of net profit	274 067	-	274 067
contributions associated with incentive program	8 735	1 441	10 176
Reductions	**-**	**-**	**-**
As of 31.12.2016	**403 001**	**4 795**	**407 796**

Note 27. Retained earnings

	31.12.2017	31.12.2016
Amount aggregated in the Retained earnings line item and not subject to dividend payments	21 844	18 590
Total	**21 844**	**18 590**

Changes in retained earnings

	31.12.2017	31.12.2016
At beginning of period	**18 590**	**(49 772)**
Increases from:	**250 514**	**342 429**
allocation of profit from preceding years	250 514	342 430
recognition of financial result of acquiree in preceding years	-	(1)
Reductions from:	**247 260**	**274 067**
dividend payments	100 926	-
reclassification as reserve capital	146 334	274 067
At end of period	**21 844**	**18 590**

(all figures quoted in PLN thousands unless stated otherwise)

Note 28. Noncontrolling shareholders' equity

None reported.

Note 29. Credits and loans

None reported.

Note 30. Other financial liabilities

	31.12.2017	31.12.2016
Lease liabilities	**338**	**139**
Other financial liabilities, including:	**338**	**139**
long-term liabilities	148	76
short-term liabilities	190	63

Lease liabilities

	31.12.2017	31.12.2016
Short-term lease liabilities	**190**	**63**
Long-term lease liabilities, including:	**148**	**76**
between 1 and 5 years	148	76
Total	**338**	**139**

Note 31. Other long-term liabilities

Not applicable.

Note 32. Trade liabilities

	31.12.2017	31.12.2016
Trade liabilities:	**37 374**	**27 906**
payable to affiliates	662	-
payable to external entities	36 712	27 906

Current and overdue trade liabilities

	Total	Not overdue	Days overdue				
			1 – 60	61 – 90	91 – 180	181 – 360	>360
As of 31.12.2017	**37 374**	**34 950**	**2 390**	**22**	**-**	**-**	**12**
payable to affiliates	662	662	-	-	-	-	-
payable to external entities	36 712	34 288	2 390	22	-	-	12

	Total	Not overdue	Days overdue				
			1 – 60	61 – 90	91 – 180	181 – 360	>360
As of 31.12.2016	**27 906**	**25 966**	**1 920**	**8**	**11**	**-**	**1**
payable to affiliates	-	-	-	-	-	-	-
payable to external entities	27 906	25 966	1 920	8	11	-	1

(all figures quoted in PLN thousands unless stated otherwise)

Trade liabilities by currency

in thousands	31.12.2017		31.12.2016	
	currency units	PLN equivalent	currency units	PLN equivalent
USD	8 805	30 653	5 818	24 316
PLN	2 674	2 674	2 456	2 456
EUR	624	2 604	189	836
CNY	2 237	1 196	171	103
GBP	26	121	3	13
JPY	3 556	110	4 188	150
BRL	15	16	6	8
AUD	-	-	3	10
CAD	-	-	3	8
RUB	-	-	88	6
Total		**37 374**		**27 906**

Note 33. Other liabilities

	31.12.2017	31.12.2016
Liabilities from other taxes, duties, social security payments and others, except corporation tax	**6 114**	**4 508**
Value added tax	4 508	3 487
Flat-rate withholding tax	159	12
Personal income tax	937	659
Social security (ZUS) payments	471	327
National Disabled Persons Rehabilitation Fund (PFRON) payments	22	19
PIT-8A settlements	17	4
Other liabilities	**656**	**5 319**
Compensation payable to employees	409	1 204
Other employee-related liabilities	2	25
Other liabilities payable to Management Board members	6	75
Other liabilities associated with the Internal Social Benefits Fund (ZFŚS)	(17)	(34)
Advance payments received from foreign clients	256	4 049
Total other liabilities	**6 770**	**9 827**

Current and overdue other short-term liabilities

	Total	Not overdue	Days overdue				
			1 – 60	61 – 90	91 – 180	181 – 360	>360
As of 31.12.2017	**6 770**	**6 767**	**3**	**-**	**-**	**-**	**-**
payable to affiliates	7	5	2	-	-	-	-
payable to external entities	6 763	6 762	1	-	-	-	-

	Total	Not overdue	Days overdue				
			1 – 60	61 – 90	91 – 180	181 – 360	>360
As of 31.12.2016	**9 827**	**9 794**	**33**	**-**	**-**	**-**	**-**
payable to affiliates	75	65	10	-	-	-	-
payable to external entities	9 752	9 729	23	-	-	-	-

Other short-term liabilities by currency

in thousands	31.12.2017		31.12.2016	
	currency units	PLN equivalent	currency units	PLN equivalent
EUR	581	2 450	25	111
PLN	1 946	1 946	1 083	1 083
USD	420	1 495	2 143	8 633
GBP	84	403	-	-
SEK	362	155	-	-
AUD	32	87	-	-
DKK	152	86	-	-
RUB	1 132	69	-	-
NOK	117	50	-	-
CHF	7	26	-	-
CNY	5	3	-	-
Total		**6 770**		**9 827**

Note 34. Internal Social Benefits Fund (ZFŚS): assets and liabilities

	31.12.2017	31.12.2016
Cash assets	49	40
Liabilities associated with the Internal Social Benefits Fund (ZFŚS)	32	6
Balance	**17**	**34**
Internal Social Benefits Fund (ZFŚS) deductions in the fiscal year	**258**	**196**

Note 35. Contingent liabilities

Contingent liabilities from operating lease agreements

Not applicable.

Promissory note liabilities from loans received

Not applicable.

Contingent liabilities from sureties and collateral pledged

	Pledged in association with	Currency	31.12.2017	31.12.2016
Agora S.A.				
Promissory note agreement	Collateral for licensing and distribution agreement	PLN	-	11 931
Declaration of submission to enforcement with respect to guaranteed execution of distribution agreement	Collateral for licensing and distribution agreement	PLN	-	11 931
mBank S.A.				
Declaration of submission to enforcement	Collateral for credit card agreement	PLN	920	920
Promissory note agreement	Collateral for framework agreement concerning forward and derivative transactions	PLN	7 710	7 710
Promissory note agreement	Collateral for lease agreement	PLN	667	667
Ingenico Group S.A. (formerly Global Collect Services BV)				
Contract of guarantee	Guarantee of discharge of liabilities by GOG sp. z o.o.	EUR	155	155
Ministry of the Economy				
Promissory note agreement	Co-financing agreement no. POIG.06.05.02-00-146/13-00	PLN	-	265
Promissory note agreement	Co-financing agreement no. POIG.06.05.02-00-148/13-00	PLN	-	235
Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości)				
Promissory note agreement	Co-financing agreement no. UDA-POIG.08.02.00-14-524/13-00; POIG Task 8.2	PLN	798	798
National Center for Research and Development (Narodowe Centrum Badań i Rozwoju)				
Promissory note agreement	Co-financing agreement no. POIR.01.02.00-00-0105/16	PLN	7 934	-
Promissory note agreement	Co-financing agreement no. POIR.01.02.00-00-0110/16	PLN	5 114	-
Promissory note agreement	Co-financing agreement no. POIR.01.02.00-00-0112/16	PLN	3 857	-

(all figures quoted in PLN thousands unless stated otherwise)

Promissory note agreement	Co-financing agreement no. POIR.01.02.00-00-0118/16	PLN	5 324	-
Promissory note agreement	Co-financing agreement no. POIR.01.02.00-00-0120/16	PLN	1 234	-
Raiffeisen Bank Polska S.A.				
Guarantee of discharge of cash pool liabilities	Cash pool agreement	PLN	-	15 000
Guarantee of discharge of cash pool liabilities	Cash pool agreement	USD	-	500
Declaration of submission to enforcement	Framework agreement concerning forward and derivative transactions	PLN	25 000	75 000
BZ WBK Leasing S.A.				
Promissory note agreement	Lease agreement no. CZ5/00019/2016	PLN	320	320
Promissory note agreement	Lease agreement no. CZ5/00013/2017	PLN	403	-
Promissory note agreement	Lease agreement no. CZ5/00036/2017	PLN	175	-
BZ WBK S.A.				
Promissory note agreement	Framework agreement concerning treasury transactions	PLN	6 500	6 500

(all figures quoted in PLN thousands unless stated otherwise)

Note 36. Short- and long-term financial lease liabilities

	31.12.2017		31.12.2016	
	Minimum payments	Payments outstanding	Minimum payments	Payments outstanding
Due within 1 year	197	190	67	63
Due between 1 and 5 years	149	148	76	76
Total minimum lease payments	**346**	**338**	**143**	**139**
Future interest	8	-	4	-
Current minimum value of lease payments, including:	**338**	**338**	**139**	**139**
short-term payments	190	190	63	63
long-term payments	148	148	76	76

Assets subject to financial leasing as of 31.12.2017

	Asset category					Total
	Land holdings	Buildings and structures	Machinery and equipment	Vehicles	Other fixed assets	
Passenger cars	-	-	-	736	-	736
Net value of leased assets	**-**	**-**	**-**	**736**	**-**	**736**

(all figures quoted in PLN thousands unless stated otherwise)

Financial lease agreements as of 31.12.2017

Financier	Contract no.	Base value	Base value in currency units	Currency	Contract expiration date	Payments outstanding at end of reporting period	Prolongation conditions and buyout options
BZ WBK Leasing S.A.	CZ5/00019/2016	346	346	PLN	2018-02-20	76	Lessee is entitled to buy out the leased asset – the contractual net residual value is 59 thousand PLN
BZ WBK Leasing S.A.	CZ5/00013/2017	436	436	PLN	2019-03-20	182	Lessee is entitled to buy out the leased asset – the contractual net residual value is 74 thousand PLN
BZ WBK Leasing S.A.	CZ5/00036/2017	189	189	PLN	2019-03-20	79	Lessee is entitled to buy out the leased asset – the contractual net residual value is 32 thousand PLN
Total		**971**	**971**			**337**	

(all figures quoted in PLN thousands unless stated otherwise)

Note 37. Deferred revenues

	31.12.2017	31.12.2016
Subsidies	**2 603**	**1 524**
Construction of data processing and communications center of the CD PROJEKT Group	31	48
Functional upgrade of ICT architecture with ERP B2B software facilitating automated electronic data exchange	457	624
Cross Platform SDK (GameINN)	36	-
Animation Excellence (GameINN)	323	-
City Creation (GameINN)	967	-
Seamless Multiplayer (GameINN)	215	-
Cinematic Feel (GameINN)	176	-
CPF (Working Title)	-	452
Promised Land	398	400
Future period revenues	**2 472**	**2 284**
future sales	64	97
official phone rental	9	9
others	2 399	2 178
Total, including:	**5 075**	**3 808**
long-term deferrals	2 023	944
short-term deferrals	3 052	2 864

Note 38. Provisions for employee benefits and similar liabilities

	31.12.2017	31.12.2016
Provisions for retirement benefits and pensions	82	58
Provisions for other employee benefits	-	293
Total, including:	**82**	**351**
long-term provisions	81	57
short-term provisions	1	294

The following assumptions have been made by the actuary when calculating provisions:

	31.12.2017	31.12.2016
Discount rate (%)	3.25	3.59
Projected inflation rate (%)	3.25	3.59
Employee turnover rate (%) – adjusted for age (CD PROJEKT RED segment)	8.2% at age 31	8% at age 31
Employee turnover rate (%) – adjusted for age (GOG.com segment)	17% at age 30	13.7% at age 31
Projected annual rate of salary growth (%)	2.5%	2.5%
Mortality rates published by the Central Statistical Office (year of estimation)	2016	2015
Likelihood of disability during the fiscal year	0.1%	0.1%

Statistical methods were employed by an actuary to construct and calibrate a mobility model for Company employees, based on the Multiple Decrement paradigm. The model was calibrated using historical data supplied by Group member companies. Based on publicly available statistical data and the actuary's own analysis, the mobility coefficient was assumed to decrease with age. The valuation model is highly sensitive to changes in mobility coefficients and should therefore be subject to frequent verifications and updates.

(all figures quoted in PLN thousands unless stated otherwise)

Changes in provisions for employee benefits and similar liabilities

	Provisions for retirement benefits and pensions	Provisions for other employee benefits	Total
As of 01.01.2017	**58**	**293**	**351**
Provisions created	24	-	24
Benefits paid out	-	219	219
Provisions dissolved	-	74	74
As of 31.12.2017, including:	**82**	**-**	**82**
long-term provisions	81	-	81
short-term provisions	1	-	1

	Provisions for retirement benefits and pensions	Provisions for other employee benefits	Total
As of 01.01.2016	**37**	**223**	**260**
Provisions created	23	586	609
Benefits paid out	-	456	456
Provisions dissolved	2	60	62
As of 31.12.2016, including:	**58**	**293**	**351**
long-term provisions	57	-	57
short-term provisions	1	293	294

Note 39. Other provisions

	31.12.2017	31.12.2016
Provisions for warranty-covered repairs and returns	**62**	**21**
Provisions for liabilities, including:	**43 578**	**45 010**
Provisions for financial statement audit and review expenses	40	68
Provisions for bought-in services	163	644
Provisions for compensation dependent on the Group’s financial result	42 998	43 906
Provisions for licensing royalties	-	81
Provisions for purchases of licenses and fixed assets	-	72
Provisions for other expenses	377	239
Total, including:	**43 640**	**45 031**
long-term provisions	-	-
short-term provisions	43 640	45 031

(all figures quoted in PLN thousands unless stated otherwise)

Changes in other provisions

	Provisions for warranty-covered repairs and returns	Provisions for compensation dependent on the Group's financial result	Other provisions	Total
As of 01.01.2017	**21**	**43 906**	**1 104**	**45 031**
Provisions created during fiscal year	62	42 998	2 035	45 095
Provisions used	21	42 678	2 555	45 254
Provisions dissolved	-	1 228	4	1 232
As of 31.12.2017, including:	**62**	**42 998**	**580**	**43 640**
long-term provisions	-	-	-	-
short-term provisions	62	42 998	580	43 640

	Provisions for warranty-covered repairs and returns	Provisions for compensation dependent on the Group's financial result	Other provisions	Total
As of 01.01.2016	**6**	**54 863**	**1 514**	**56 383**
Provisions created during fiscal year	69	54 682	5 633	60 384
Provisions used	55	65 621	5 219	70 895
Provisions dissolved	-	18	858	876
Exchange rate adjustments	1	-	34	35
As of 31.12.2016, including:	**21**	**43 906**	**1 104**	**45 031**
long-term provisions	-	-	-	-
short-term provisions	21	43 906	1 104	45 031

Note 40. Disclosure of financial instruments

Fair value of financial instruments per class

Following an analysis of each class of financial instruments held by the parent Company the Management Board has reached the conclusion that their carrying amounts in all cases reflect their corresponding fair value, both as of 31 December 2017 and as of 31 December 2016.

(all figures quoted in PLN thousands unless stated otherwise)

Chances in financial instruments

	01.01.2017 – 31.12.2017					01.01.2016 – 31.12.2016*				
	Financial assets carried at fair value through profit or loss	Financial assets held to maturity	Loans granted and receivables	Financial assets held for sale	Other financial liabilities	Financial assets carried at fair value through profit or loss	Financial assets held to maturity	Loans granted and receivables	Financial assets held for sale	Other financial liabilities
At beginning of period	**53**	**379 835**	**309 191**	**194**	**37 872**	**165**	**282 008**	**467 871**	**547**	**69 861**
Increases	**-**	**1 292 076**	**130 830**	**-**	**44 482**	**53**	**699 235**	**309 191**	**-**	**37 872**
Cash assets	-	-	66 987	-	-	-	-	217 369	-	-
Trade and other receivables	-	-	63 843	-	-	-	-	91 822	-	-
Trade and other liabilities	-	-	-	-	44 144	-	-	-	-	37 733
Financial lease agreements	-	-	-	-	338	-	-	-	-	139
Short-term deposits (maturity beyond 3 months)	-	1 292 076	-	-	-	-	699 235	-	-	-
Forward contracts	-	-	-	-	-	53	-	-	-	-
Reductions	**53**	**1 091 382**	**309 191**	**194**	**37 872**	**165**	**601 408**	**467 871**	**353**	**69 861**
Cash assets	-	-	217 369	-	-	-	-	353 637	-	-
Trade and other receivables	-	-	91 822	-	-	-	-	114 234	-	-
Trade and other liabilities	-	-	-	-	37 733	-	-	-	-	69 568
Financial lease agreements	-	-	-	-	139	-	-	-	-	293
Short-term deposits (maturity beyond 3 months)	-	1 091 382	-	-	-	-	601 408	-	-	-
Shares in other entities	-	-	-	194	-	106	-	-	353	-
Forward contracts	53	-	-	-	-	59	-	-	-	-
At end of period	**-**	**580 529**	**130 830**	**-**	**44 482**	**53**	**379 835**	**309 191**	**194**	**37 872**

** adjusted data*

The reported reduction in the value of assets held for sale results from sale of 16 shares of cdp.pl sp. z o.o., carried out on 31 March 2017, as a result of which the Group's involvement in the share capital of cdp.pl sp. z o.o. was reduced from 3.11% to 0%.

(all figures quoted in PLN thousands unless stated otherwise)

Hierarchy of financial instruments carried at fair value

	31.12.2017	31.12.2016
LEVEL 1		
Assets carried at fair value		
Financial assets carried at fair value through financial result	**-**	**-**
LEVEL 2		
Assets carried at fair value		
Derivatives:	**-**	**53**
forward currency contract - USD	-	53

Financial instruments carried at fair value are categorised into different levels of the fair value hierarchy as follows:

Level 1 - inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - inputs are unobservable inputs for the asset or liability

Note 41. Equity management

The main goal of equity management at the Capital Group is to retain a good credit rating and safe capital indicators, facilitating Group operations, enabling implementation of future development and publishing plans, and increasing shareholder value.

The Group actively manages its equity structure, resulting in changes which reflect changing economic conditions. In order to retain or adjust said structure, the Group may pay out dividends to shareholders, return capital to shareholders or issue new shares. The Group monitors its capital status by applying a leverage ratio which is calculated as the ratio of net borrowing versus total equity increased by net borrowing. As of 31 December 2017 the value of cash assets held by the Group was in excess of its liabilities associated with delivery of goods and services, aggregated with all other liabilities. Consequently, the Group reports a positive cash balance.

Note 42. Employee share programs

2012-2015 incentive program

On 16 December 2011 the Extraordinary General Meeting of Shareholders of CD PROJEKT S.A. voted to institute an incentive program for personnel viewed as crucially important for the Capital Group, as described in note 47 of the Consolidated Financial Statement for 2015. The conditional increase in parent Company capital carried out in the framework of implementing the incentive program amounted to not more than 1 900 thousand PLN, which represented 2% of the parent Company share capital. A total of 1 450 thousand warrants were granted under the program. Following verification of the attainment of the incentive program’s goals, a total of 1 170 000 Series A subscription warrants were assigned to entitled parties, authorizing them to claim 1 170 000 Series L shares with a nominal value of 1 PLN per share.

Changes in warrants granted under the 2012-2015 incentive program

	01.01.2016-31.12.2016	
	Warrants granted	**Exercise price (PLN)**
Unexercised at beginning of period	1 900 000	4.30
Granted but unexercised at beginning of period	1 450 000	4.30
Granted	-	-
Forfeited	280 000	4.30
Exercised	1 170 000	4.30
Unexercised at end of period	-	-
Granted but unexercised at end of period	-	-

(all figures quoted in PLN thousands unless stated otherwise)

2016-2021 incentive program

On 24 May 2016 the General Meeting of Shareholders voted to institute a new incentive program covering the years 2016-2021. According to the program's conditions, a maximum of 6 000 000 entitlements may be granted. Implementation of the program may be carried out by issuing and assigning series B subscription warrants, entitling holders to claim parent Company shares issued as a conditional increase in the parent Company share capital, or by presenting entitled parties with an offer to buy existing shares which the parent Company will have previously bought back on the open market. In either case, implementation of the program is contingent upon meeting specific result goals (80% of entitlements) and market goals (20% of entitlements), in addition to a loyalty criterion which applies to each entitled party until such time as the attainment of either goal is officially declared.

In conjunction with assignment of Series B subscription warrants, the parent Company is also discretionarily empowered to present each entitled party with an offer to repurchase said warrants, in part or in whole, for redemption.

As of the balance sheet date, a total of 5 790 000 entitlements have been granted under the incentive program. This corresponds to a conditional increase in the parent Company share capital by not more than 6 000 thousand PLN, representing 6.24% of the current share capital of the parent Company.

Incentive program valuation – assumed indicators

Grant date	CDR volatility index	WIG volatility index	WIG/CDR correlation coefficient	Risk-free rate
Entitlements granted on 04.12.2017	32%	14%	37%	2.6%
Entitlements granted on 06.09.2017	32%	14%	37%	2.5%
Entitlements granted on 29.08.2017	32%	14%	37%	2.6%
Entitlements granted on 18.05.2017	32%	15%	38%	2.8%
Entitlements granted on 05.01.2017	32%	16%	37%	3.0%
Entitlements granted on 17.11.2016	32%	16%	37%	2.4%
Entitlements granted on 05.07.2016	32%	16%	39%	2.5%

Grant date

In 2017 the parent Company issued grants of eligibility in five batches. For each batch the fair value of assigned entitlements was calculated on the corresponding grant date using modern financial engineering methods and numerical algorithms by a licensed actuary entered in the register of actuaries maintained by the Financial Supervision Authority (cf. above table).

Classification of valuation conditions

The condition associated with changes in the parent Company stock price vs. changes in the value of the WIG index and the condition specifying that on the day of exercise the market price must be above the acquisition price are considered market conditions. Conditions related to increases in net profits are considered non-market conditions. Formal terms (e.g. correct and timely filing of the relevant documentation), loyalty criteria and any other terms not related to share price are also treated as non-market conditions, as is the requirement of survival until the exercise date and other similar stipulations.

Stock volume on grant date

As of 31 December 2017 the parent Company's stock volume was 96 120 000 shares.

Status of the program

As of 31 December 2017 implementation of the incentive program for 2016-2021 is ongoing.

(all figures quoted in PLN thousands unless stated otherwise)

Changes in entitlements granted under the 2016-2021 incentive program

	01.01.2017 - 31.12.2017		01.01.2016 - 31.12.2016	
	Entitlements granted	**Exercise price (PLN)**	**Entitlements granted**	**Exercise price (PLN)**
Unexercised at beginning of period	6 000 000	-	-	-
Granted but unexercised at beginning of period	5 690 000	-	-	-
Granted	220 000	25.70 or 22.35	5 700 000	25.70 or 22.35
Forfeited	120 000	25.70 or 22.35	10 000	25.70 or 22.35
Unexercised at end of period	6 000 000	25.70 or 22.35	6 000 000	25.70 or 22.35
Granted but unexercised at end of period	5 790 000	25.70 or 22.35	5 690 000	25.70 or 22.35

Note 43. Transactions with affiliates

Conditions governing transactions with affiliates

Intragroup transactions are conducted in accordance with the Directive of the Finance Minister of 10 September 2009 specifying the rules for estimating the income of legal entities and avoiding double taxation when adjusting the income of affiliated legal entities (Journal of Laws of the Republic of Poland 2014, item 1186).

The prices of goods and services exchanged within the Group are estimated according to the abovementioned directive, by applying the comparable uncontrolled price method, the resale price method or the reasonable profit margin (“cost plus”) method. Method selection is preceded by a thorough analysis of each transaction. The division of responsibilities, asset exposure and assignment of substantial risks and rewards in each intragroup transaction are adjusted in such a way as to closely reflect similar transactions concluded by unaffiliated entities. For significant transactions exceeding the limits specified in Art. 9a of the corporate income tax law all participating entities submit the required tax forms..

(all figures quoted in PLN thousands unless stated otherwise)

Transactions with affiliates following consolidation eliminations

	Sales to affiliates		Purchases from affiliates		Receivables from affiliates		Liabilities due to affiliates	
	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
SUBSIDIARIES								
CD PROJEKT Co., Ltd	36	-	2 738	-	25	-	663	-
GROUP MEMBER COMPANIES EXECUTIVES								
Marcin Iwiński	7	5	-	1	7	1	1	-
Adam Kiciński	5	4	-	-	1	-	1	7
Piotr Nielubowicz	5	5	-	-	-	-	-	-
Michał Nowakowski	12	10	-	-	7	-	-	3
Adam Badowski	2	-	-	9	3	9	-	-
Piotr Karwowski	2	-	-	-	2	-	-	-
Oleg Klapovskiy	-	-	-	-	-	-	4	65
SUPERVISORY BOARD MEMBERS								
Katarzyna Szwarc	-	-	5	-	-	-	-	-

(all figures quoted in PLN thousands unless stated otherwise)

Note 44. Mergers and other changes in the structure of the CD PROJEKT Capital Group

Mergers between subsidiaries

Acquirer	Acquiree	Merger date	Acquisition price	Percentage of voting shares acquired	Fair value of Acquiree's net assets taken over by Acquirer	Goodwill acquired in business combinations
GOG sp. z o.o. (formerly GOG Poland sp. z o.o.)	GOG Limited	31.10.2017	-	100.00%	32 382	-

On 15 May 2017 the Boards of two subsidiaries of CD PROJEKT S.A., i.e. GOG Poland sp. z o.o. and GOG Ltd. adopted resolutions declaring their intent to carry out a merger between both these entities. The goal of the merger was to relocate all GOG Ltd. activities to Poland and streamline the organizational structure of the CD PROJEKT Capital Group. On 31 October 2017 a transnational merger between GOG Poland sp. z o.o., with a registered office in Warsaw (the Acquirer) and GOG Limited with a registered office in Nicosia (the Acquiree) was carried out. Pursuant to Art. 492 §1 section 1 and Art. 516[1] of the Commercial Companies Code, the merger involved transferring the totality of assets and liabilities of GOG Limited to GOG Poland sp. z o.o. in exchange for shares in the increased share capital of the Acquirer, issued to the sole shareholder of the Acquiree, i.e. CD PROJEKT S.A.

Following the merger, the name of the Acquirer was changed from GOG Poland sp. z o.o. to GOG sp. z o.o.

In recognizing the merger the Group applied the pooling of interest method, based on Acquiree financial date reported in the consolidated financial statement of the Acquirer.

Incorporation of new subsidiary

On 26 April 2017 a new subsidiary of CD PROJEKT S.A. was incorporated in the People's Republic of China under the name CD PROJEKT Co. Ltd., with a registered office in Shanghai. The goal of this action is to ensure CD PROJEKT Capital Group presence on the local market and to support a local team which will coordinate publishing and promotional activities, particularly in relation to the upcoming release of GWENT in the People's Republic of China.

Note 45. Compensation of top management and Supervisory Board members

Benefits paid out to Management Board members

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Base salaries	2 162	869
Compensation associated with duties performed	2 509	2 454
Bonuses and compensation dependent on the Group's financial result	29 798	21 056
Total	**34 469**	**24 379**

Benefits paid out to other top executives at the Capital Group

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Base salaries	2 743	2 577
Compensation associated with duties performed	94	174
Bonuses and compensation dependent on the Group's financial result	740	2 800
Total	**3 557**	**5 551**

(all figures quoted in PLN thousands unless stated otherwise)

Benefits paid out to Supervisory Board members

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Compensation associated with duties performed	288	236
Total	**288**	**236**

Note 46. Employment

Average employment

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Average employment	226	214
Total	**226**	**214**

Employee rotation

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Employees hired	65	81
Employees dismissed	33	26
Total	**32**	**55**

Note 47. Operating lease agreements

The Group has concluded office space lease agreements which, in light of their substance, qualify as operating lease agreements. The Group does not report assets covered by these agreements in its financial statement. As of 31 December 2017 and 31 December 2016 future minimum payments associated with irrevocable operating lease agreements are as follows:

	31.12.2017	31.12.2016
less than 1 year	3 681	2 688
between 1 and 5 years	4 847	6 147
more than 5 years	-	-
Total	**8 528**	**8 835**

Note 48. Activated borrowing costs

Not applicable.

Note 49. Seasonal, cyclical or sporadic revenues

Not applicable.

(all figures quoted in PLN thousands unless stated otherwise)

Note 50. Fiscal settlements

Fiscal settlements and other areas of activity governed by legal regulations (such as import duties or currency exchange) may be subject to audits by administrative bodies authorized to impose high penalties and sanctions. The lack of entrenched legal regulations in Poland leads to numerous ambiguities and inconsistencies in this regard. Interpretation of existing tax law frequently varies from state organ to state organ as well as between state organs and business entities, giving rise to areas of uncertainty and conflict. These conditions increase tax risks in Poland beyond the level encountered in states with more developed fiscal systems.

Fiscal settlements may be subject to state audits within five years following the end of the period in which tax payment was effected.

On 15 July 2016 the Tax Code was amended to reflect the stipulations of the General Anti-Avoidance Rule (GAAR). The goal of GAAR is to discourage creation and exploitation of fictitious legal structures which serve primarily as a means of avoiding taxation. GAAR defines tax avoidance as any activity which is carried out specifically to obtain fiscal relief in a manner contrary to the goal and substance of the applicable tax laws. Under GAAR, such activities provide no fiscal relief if carried out under false pretense. Specifically, all cases of (i) unnecessary partitioning of activities; (ii) involving intermediaries despite the lack of economic justification for such involvement; (iii) activities which produce a state identical to or materially similar to the state which existed prior to initiation of such activities; (iv) mutually compensating or counterbalancing activities or (v) activities which carry excessive economic risk given the expected benefits, except for fiscal benefits, giving rise to the conclusion that a rational entity would not have undertaken such risk – all such activities may be regarded as carried out under false pretense and therefore subject to GAAR. The introduction of GAAR will mandate much more diligent assessment of the fiscal consequences of transactions carried out by the Capital Group.

GAAR is applicable to transactions carried out following its introduction as well as to preceding transactions, if such transactions continued to generate tax benefits on the date of introduction of GAAR. Implementation of the abovementioned rules will enable Polish tax authorities to question legal agreements concluded by taxable entities, such as restructuring and reorganization of the Capital Group.

Note 51. Events following the balance sheet date

Information concerning events which occurred after the balance sheet date can be found in the Management Board report on CD PROJEKT Capital Group activities in the period between 1 January and 31 December 2017. None of the events described therein have an effect on this financial statement.

Note 52. Disclosure of transactions with entities contracted to perform audits of financial statements

Compensation paid out or payable during the fiscal year	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
for auditing annual financial statements and the consolidated financial statement	173	90
for reviewing financial statements and the consolidated financial statement	61	53
Total	**234**	**143**

(all figures quoted in PLN thousands unless stated otherwise)

Note 53. Clarifications regarding the consolidated cash flow statement

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016*
Cash and cash equivalents reported in cash flow statement	**66 987**	**217 369**
cash on balance sheet	**66 987**	**217 369**
Depreciation:	**4 906**	**36 361**
depreciation of intangibles	2 426	2 800
depreciation of expenditures on development projects	-	31 398
depreciation of fixed assets	2 480	2 163
Interest and share in profits (dividends) consist of:	**(10 425)**	**(6 959)**
interest received	(10 425)	(6 959)
Profit (loss) from investment activities results from:	**906**	**325**
revenues from sales of fixed assets	(65)	(181)
net value of fixed assets sold	15	127
net value of shares sold	195	46
fixed assets received free of charge	(35)	-
revaluation of short-term financial assets	53	-
fair-value revaluation of cdp.pl shares	-	306
fixed assets written off	743	-
revenues from sales of investments	-	(23)
revaluation of short-term financial assets	-	50
Changes in provisions result from:	**(1 660)**	**(11 261)**
balance of changes in provisions for liabilities	(1 391)	(11 352)
balance of changes in provisions for employee benefits	(269)	91
Changes in inventory status result from:	**78**	**218**
balance of changes in inventory status	78	218
Changes in receivables result from:	**27 971**	**22 140**
balance of changes in short-term receivables	28 091	22 300
balance of changes in long-term receivables	(8)	(272)
income tax set against withholding tax	14 353	21 583
current income tax adjustments	(14 465)	(21 471)
Changes in short-term liabilities except financial liabilities result from:	**6 433**	**(32 944)**
balance of changes in short-term liabilities	6 233	(35 827)
current income tax adjustments	395	3 762
changes in financial liabilities	(127)	230
adjustments for changes in liabilities due to purchase of fixed assets	(324)	(675)
adjustments for changes in liabilities due to purchase of intangibles	256	(434)
Changes in other assets and liabilities result from:	**1 695**	**(6 687)**
balance of changes in prepaid expenses	428	(2 201)
balance of changes in deferred revenues	1 267	(4 479)
elimination of fixed assets received free of charge	-	(7)
Other adjustments include:	**7 112**	**7 616**
cost of incentive program	10 417	6 315
depreciation aggregated with selling cost	88	188
exchange rate differences	(3 393)	1 113

** adjusted data*

(all figures quoted in PLN thousands unless stated otherwise)

Note 54. Cash flows and other changes resulting from financial activities

	01.01.2017	Cash flows	Other changes (acquisition)	31.12.2017
Lease liabilities	139	(427)	626	338
Total	**139**	**(427)**	**626**	**338**

(all figures quoted in PLN thousands unless stated otherwise)

Statement of the Management Board of the parent Company

With regard to the correctness of the annual consolidated financial statement

Pursuant to the directive of the Finance Minister of 19 February 2009 regarding the publication of periodic and current reports by issuers of securities and conditions under which information required by legal regulations of a third country may be recognized as equivalent (Journal of Laws 2014 No. 133, as amended), the Management Board of the parent Company hereby declares that, to the best of its knowledge, this annual consolidated financial statement and comparative data contained herein have been prepared in accordance with all accounting regulations applicable to the CD PROJEKT Capital Group and that they constitute a true, unbiased and clear description of the finances and assets of the Capital Group as well as its current profit and loss balance.

This consolidated financial statement was prepared in accordance with International Financial Reporting Standards (IFRS) approved by the EU and in force as of 31 December 2017. Where these standards are not applicable the statement conforms to the Accounting Act of 29 September 1994 (Journal of Laws of the Republic of Poland, 2018, item no. 395 as amended) and to any secondary legislation based on said Act, as well as to the directive of the Finance Minister of 19 February 2009 regarding the publication of periodic and current reports by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of the Republic of Poland, 2014, item no. 133 as amended).

With regard to the entity contracted to audit the annual consolidated financial statement

On 23 May 2017 the Supervisory Board of the parent Company concurred with the recommendation submitted by the Management Board and selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., headquartered in Warsaw, as the entity charged with reviewing the semiannual financial statement and performing an audit of the annual financial statement of the Company and its Capital Group for 2017. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. is included on the list of entities authorized to perform audits of financial statement, maintained by the National Chamber of Statutory Auditors (no. 130).

Approval of financial statement

This consolidated financial statement of the CD PROJEKT Capital Group was signed and approved for publication by the Management Board of CD PROJEKT S.A. on 22 March 2018, and is duly submitted to the General Meeting of CD PROJEKT S.A. for approval.

Warsaw, 22 March 2018

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

Michał Nowakowski	Oleg Klapovskiy	Piotr Karwowski	Rafał Zuchowicz
Board Member	Board Member	Board Member	Accounting Officer

(all figures quoted in PLN thousands unless stated otherwise)

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