



CD PROJEKT®

**MANAGEMENT BOARD REPORT ON
CD PROJEKT CAPITAL GROUP
AND CD PROJEKT S.A.
ACTIVITIES IN 2017**

Disclaimers

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

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

Esteemed Shareholders,



2017 marked the 10th anniversary of *The Witcher* videogame series, which has already sold over 33 million copies worldwide. This achievement proves that dedication to quality pays off.

The undeniable commercial success and critical acclaim of *The Witcher* series is the fruit of hard work by many talented professionals who proudly call themselves members of the CD PROJEKT team. Almost 750 people from 32 countries are now part of the the CD PROJEKT Capital Group.

We continue to grow dynamically and believe that we can maintain this momentum by developing even better games and attracting additional skilled specialists. At the same time, we are careful not to dilute our DNA: we want to work with people who share our business philosophy and our uncompromising devotion to quality.

From the business perspective, 2017 was the first year of strategic cooperation between our two segments: CD PROJEKT RED and GOG.com. This synergy enabled us to harness the technological capabilities of the GOG Galaxy platform in our work on *GWENT: The Witcher Card Game*.

Less than a year after the launch of the public beta *GWENT* is already a well-balanced product, offering nearly 500 cards and available in 10 languages, including a Chinese localization. This, however, is merely the beginning. In the coming months we want the card game to become even more firmly entrenched in the collective mindset of the gaming community. To achieve this, we have established a live ops team, charged with organizing regular in-game events. The game itself will also continue to evolve. We have recently unveiled a new gameplay mode – the Arena – and in future months we plan to add even more cards and activities to further animate the *GWENT* community. By the end of 2018 we expect the game to be out of beta and its first major single-player expansion – *Thronebreaker* – to have been released.

The development of our next flagship product – *Cyberpunk 2077* – is on schedule, and has reached a major production milestone in late 2017.

GOG.com is now available in 7 languages, with Polish and Chinese localizations added in 2017. The platform also supports payments in 13 currencies. Ongoing expansion of our back catalogue and of the online distribution platform itself, together with our focus on expanding our professional skillset, bode well for this major activity segment of the CD PROJEKT Capital Group.

We are also celebrating another success: several days before the publication of the annual financial statement CD PROJEKT joined the WIG20 index and is now among the 20 largest and most liquid companies traded on the Warsaw Stock Exchange. Over the course of our eight-year WSE presence the market capitalization of CD PROJEKT has increased more than 100-fold.

We continue to believe that the best is yet to come!

ADAM KICIŃSKI



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In May we launched

public beta tests

of *GWENT: The Witcher Card Game*



In August we released

GWENT in China

as a closed beta

We generated

463 million PLN

in sales revenue and

200 million PLN

in net profit

We maintained

43%

in net profitability



Market capitalization
of CD PROJEKT S.A. amounted for

10.5 billion PLN*



CD PROJEKT S.A. was included in
prestigious stock indices:

WIG20, MSCI, FTSE**



101 million PLN dividend

was paid out to shareholders

* as of 12 March of 2018. i.
** CD PROJEKT S.A. joined the WIG20 index at the close of trading on 16 March 2018; in the second half of 2017 CD PROJEKT S.A. stock was included in two international indices: FTSE Mid-Cap Index Emerging Europe and MSCI Emerging Markets

2007 (PC)



2011 (PC) 2012 (X360)



2015 (PC, XB1, PS4)



33 million copies

of *The Witcher*, *The Witcher 2: Assassins of Kings* and *The Witcher 3: Wild Hunt* were sold worldwide

GWENT showcased

7 large trade fairs

around the world



Active GWENT players come from

197 countries

Two

GWENT Open

and two

GWENT Challenger

tournaments were held

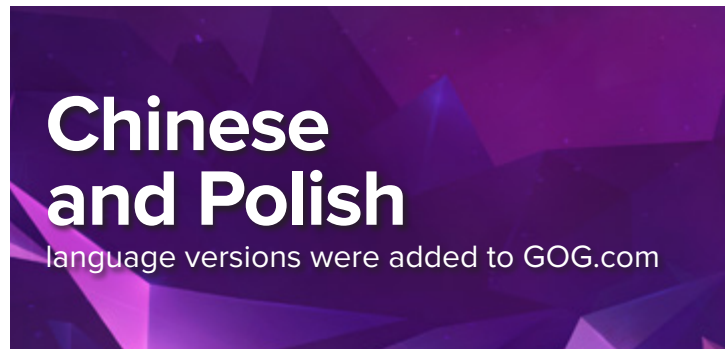


4K support

was added to *The Witcher 3: Wild Hunt* for PlayStation 4 Pro and Xbox One X

Chinese and Polish

language versions were added to GOG.com



**CD PROJEKT
Capital Group
– introduction**



Key achievements of the Capital Group in 2017

CD PROJEKT RED

On 24 May 2017 the **public beta of GWENT: The Witcher Card Game** was launched for the PC, Xbox One and PlayStation 4, triggering a quantitative leap in gamer interest and in revenues associated with this project.

In August 2017, at gamescom 2017 in Cologne, **CD PROJEKT RED announced Thronebreaker** – a single-player campaign intended to provide multiple hours of gameplay by combining elements of *GWENT* and classic RPGs. The game is scheduled for release on the PC, Xbox One and PlayStation 4 in 2018.

At Gamescom CD PROJEKT also announced **GWENT Masters – a professional esports series**. Two **GWENT Open** tournaments and two **GWENT Challenger** tournaments were held in 2017 in the framework of this project. *GWENT Masters* is set to culminate in January 2019 with a world championship event. The total prize pool of the *GWENT Masters* series is 850 thousand USD.

On 28 August 2017, having obtained all the required official permits, The Company initiated **beta tests of GWENT: The Witcher Card Game in the People's Republic of China**.



On 3-6 September 2017 the second edition of the **Promised Land Festival** was organized in collaboration with CD PROJEKT RED. The event gathered nearly 500 representatives of the creative industries from 23 countries. Participants could attend 50 hours of lectures, discussion panels, mentor meetings and workshops devoted to digital arts, sculpture and drawing.



In Q4 2017 the studio released updates for *The Witcher 3: Wild Hunt*, enabling the game to be run **in 4K resolution** on the latest Sony and Microsoft gaming consoles. The PlayStation 4 Pro update was published on 4 October, with the Xbox One X update following on 20 December 2017.

Continuing strong sales of *The Witcher 3: Wild Hunt*, together with its expansion packs (*Hearts of Stone* and *Blood and Wine*) were again responsible for the bulk of revenues in the CD PROJEKT RED segment throughout 2017.



GOG.com



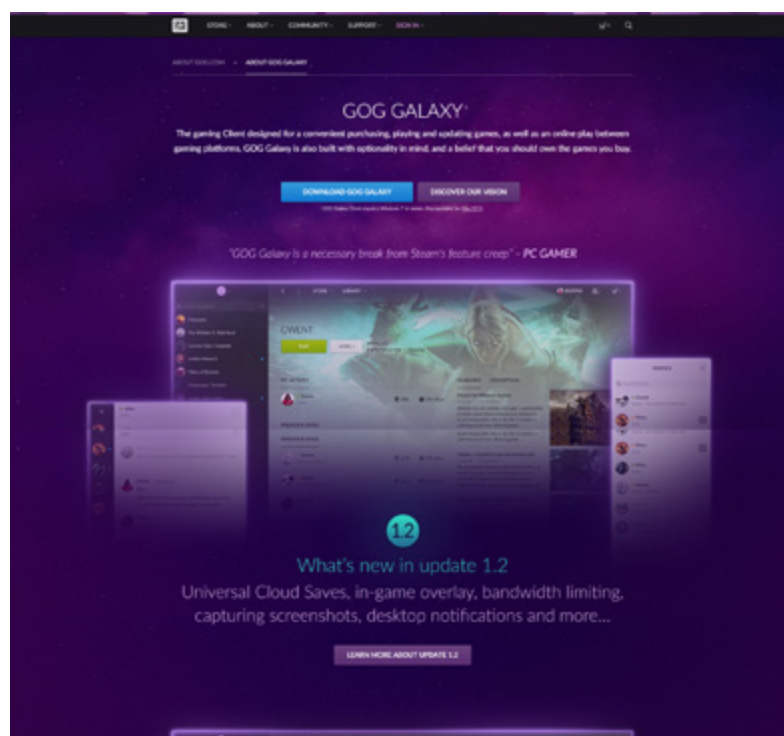
With regard to revenues, the most important product of 2017 in the GOG.com segment was **GWENT: The Witcher Card Game**. All in-game transactions in the game's PC edition are handled by GOG, with use of GOG Galaxy and the GOG.com checkout panel. Additionally, owing to its participation in the GWENT development consortium, GOG is also entitled to a portion of revenues from the game's console editions.

In April 2017 GOG.com released the **newest version of the GOG Galaxy client**. Update 1.2 introduced support for cloud-based savegames. The client interface was enriched with customization options, enabling users to toggle selected features. Additionally, the CPU and memory footprint of the client software was reduced by adding a hibernation mode.

In June 2017 GOG.com held its **annual summer sale**, which involved discounts on over 1500 games.

In 2017 Chinese and Polish language versions were added to GOG.com, respectively in June and October 2017. GOG.com currently supports 7 languages and enables customers to make payments in **13 currencies**.

The GOG.com catalogue currently comprises over **2350 games** from **over 550 publishers and distributors** worldwide.



On 31 October 2017 a **transnational merger between GOG Poland sp. z o.o. and GOG Limited** was carried out. The merger involved transferring the totality of assets and liabilities of GOG Limited to GOG Poland sp. z o.o. Following the merger, the name of the company was changed from GOG Poland sp. z o.o. to GOG sp. z o.o.

Other events



In March 2017 CD PROJEKT S.A. was once again named **Stock Exchange Company of the Year** by capital market experts, as revealed in the prestigious annual ranking published by Puls Biznesu. The Company carried two categories – “Innovation” and “Growth prospects”, and was the runner-up in three additional categories – “Management excellence”, “Investor relations” and “Success in the past year”. In addition, users of two financial portals – pb.pl and bankier.pl – voted to present the Company with the prestigious **2016 WSE Master** award.



Source: Puls Biznesu



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 GWENT.

On 23 May 2017 the General Meeting of CD PROJEKT S.A. voted to allocate the Company’s net profit for 2016 (totaling 249 702 thousand PLN) in such a way that **100 926 thousand PLN would be returned to shareholders as a dividend**, with the remainder, i.e. 148 776 thousand PLN, assigned to reserve capital. The corresponding DPS (dividend per share) ratio was 1.05 PLN. The dividend date was set at 30 May 2017, with the payment occurring on 13 June 2017.

Following the annual review of the Warsaw Stock Exchange indices, CD PROJEKT S.A. **joined the WIG20 index** on 16 March 2018. WIG20 aggregates 20 of the largest and most liquid companies on the Warsaw market. CD PROJEKT S.A. contributes 3.38% to the value of the index. In the second part of 2017 CD PROJEKT also joined two prestigious international indices: FTSE Mid-Cap Index – Emerging Europe and MSCI Emerging Markets.

Brief description of the CD PROJEKT Capital Group

Activity profile



CD PROJEKT S.A. (also referred to as CD PROJEKT or the Company), headquartered in Warsaw, conducts business activities in the dynamically developing global digital entertainment segment. These activities have been ongoing for over 20 years and originally focused on the Polish market. The Company – then called CD PROJEKT – began by distributing foreign games in Poland (note that the corresponding activity segment, handled by the Group's cdp.pl subsidiary, was disaggregated in 2014). A pivotal moment in the Group's history came in 2002 with the establishment of the CD PROJEKT RED development studio, which initiated work on the Company's first major RPG¹ – *The Witcher*.



CD PROJEKT S.A. headquarters in Warsaw

The CD PROJEKT Group currently conducts operating activities in two key segments: CD PROJEKT RED and GOG.com.



CD PROJEKT S.A. headquarters in Warsaw

¹ Role Playing Game – a storyline-driven game based on a consistent narrative.

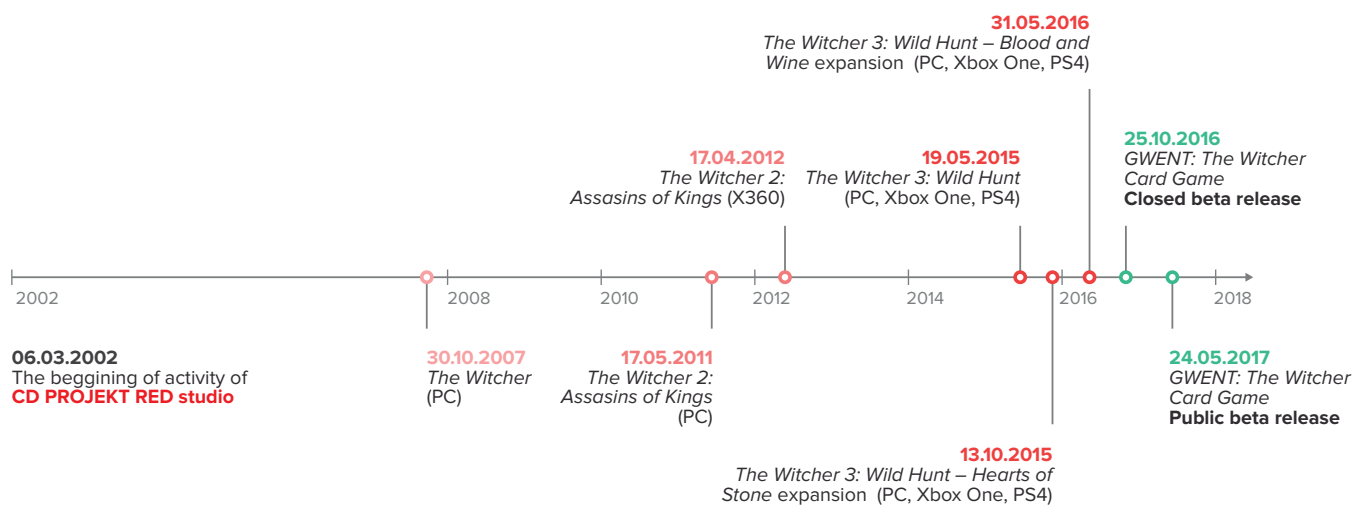
CD PROJEKT RED



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

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

Scheme 1 CD PROJEKT RED releases between 2007 and 2018



Source: Company data





CD PROJEKT S.A. has formed a consortium with GOG sp. z o.o. to carry out work on *GWENT: The Witcher Card Game*. *GWENT* is a free-to-play online game with support for microtransactions, providing both multiplayer and single-player gameplay. Since 24 May 2017 the game is in open beta phase, available to all users of PC, PlayStation 4 and Xbox One. Gamers may now choose from two supported gameplay modes – Constructed and Arena mode (added on 28 February 2018).

In 2018 the game will be extended with a robust single-player campaign providing multiple hours of gameplay – *Thronebreaker*, available for the PC, PlayStation 4 and Xbox One.

On 28 August 2017 the Chinese edition of *GWENT* was formally launched as a closed beta in the People's Republic of China.



More information concerning the game can be found at <http://www.playgwent.com>.

The largest unreleased project currently underway at CD PROJEKT RED is *Cyberpunk 2077*. No further information concerning the game has been published by the Company as of the publication date of this report.

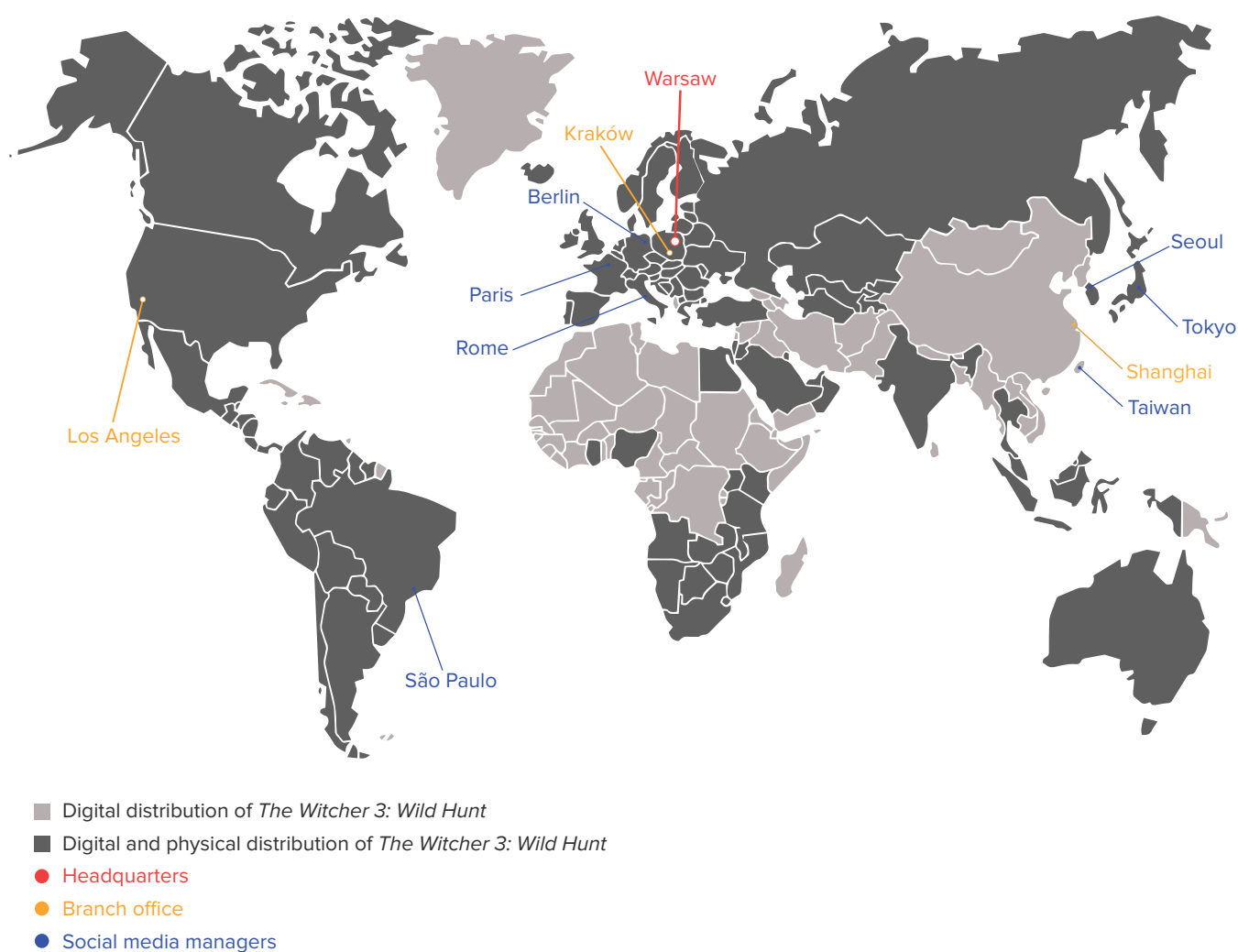
Sales of *The Witcher 3: Wild Hunt*, together with its expansion packs (as well as the *Game of the Year edition*) constituted the bulk of CD PROJEKT RED revenues throughout 2017.

In 2017 over 95% of CD PROJEKT S.A. sales revenues were generated by exports. The US market accounted for 54% of sales, while the EU contributed 24%.



Currently nearly 80% of sales in the CD PROJEKT RED segment are carried out using digital distribution channels, such as GOG.com, Steam, Origin, App Store, Google Store, PlayStation Store and Xbox Games Store.

Map 1 The CD PROJEKT Group around the world



Source: Company data

The Warsaw-based headquarters of CD PROJEKT S.A. are equipped, among others, with a full-fledged motion capture studio², nine sound recording studios, a video recording studio, three training rooms including a drawing room, two in-house canteens and a gym.



² The motion capture technology uses special cameras and sensors to accurately register the movements of a human actor and store them in computer memory for further processing. This enables computer-generated characters to act in a smooth, realistic fashion, replicating the original actor's personal style.

CD PROJEKT also operates an office in Kraków, staffed by an independent development team, as well as branches in Los Angeles and Shanghai, tasked with coordinating marketing and sales activities throughout the United States and China respectively. In addition, the Company employs local community managers in Germany, Japan, France, Italy, South Korea, Brazil and Taiwan.



CD PROJEKT Inc. headquarters in Los Angeles



CD PROJEKT Inc. headquarters in Los Angeles



CD PROJEKT Co. Ltd. headquarters in Shanghai



CD PROJEKT Co. Ltd. headquarters in Shanghai

GOG.com

The activities of the GOG.com segment focus on sales and delivery of games directly to the customer's digital devices through the proprietary GOG.com platform and the GOG Galaxy client application.

GOG.com is among the world's foremost digital distribution platforms, carrying over 2350 handpicked games from over 550 developers and publishers. All games are distributed free of cumbersome DRM³ restrictions.

The GOG.com platform is available in seven languages: English, German, French, Russian, Portuguese (Brazilian edition), Chinese (since 22 June 2017) and Polish (since 24 October 2017). Customers may remit payment in thirteen currencies and choose from a variety of convenient electronic payment methods, depending on their country of residence.

GOG.com has formed a consortium with CD PROJEKT to jointly develop and operate *GWENT: The Witcher Card Game*. In the framework of this consortium, GOG.com is responsible for the game's server infrastructure and networking features, as well as for handling in-game transactions and payments in the game's PC edition.



GOG sp. z o.o. headquarters in Warsaw



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

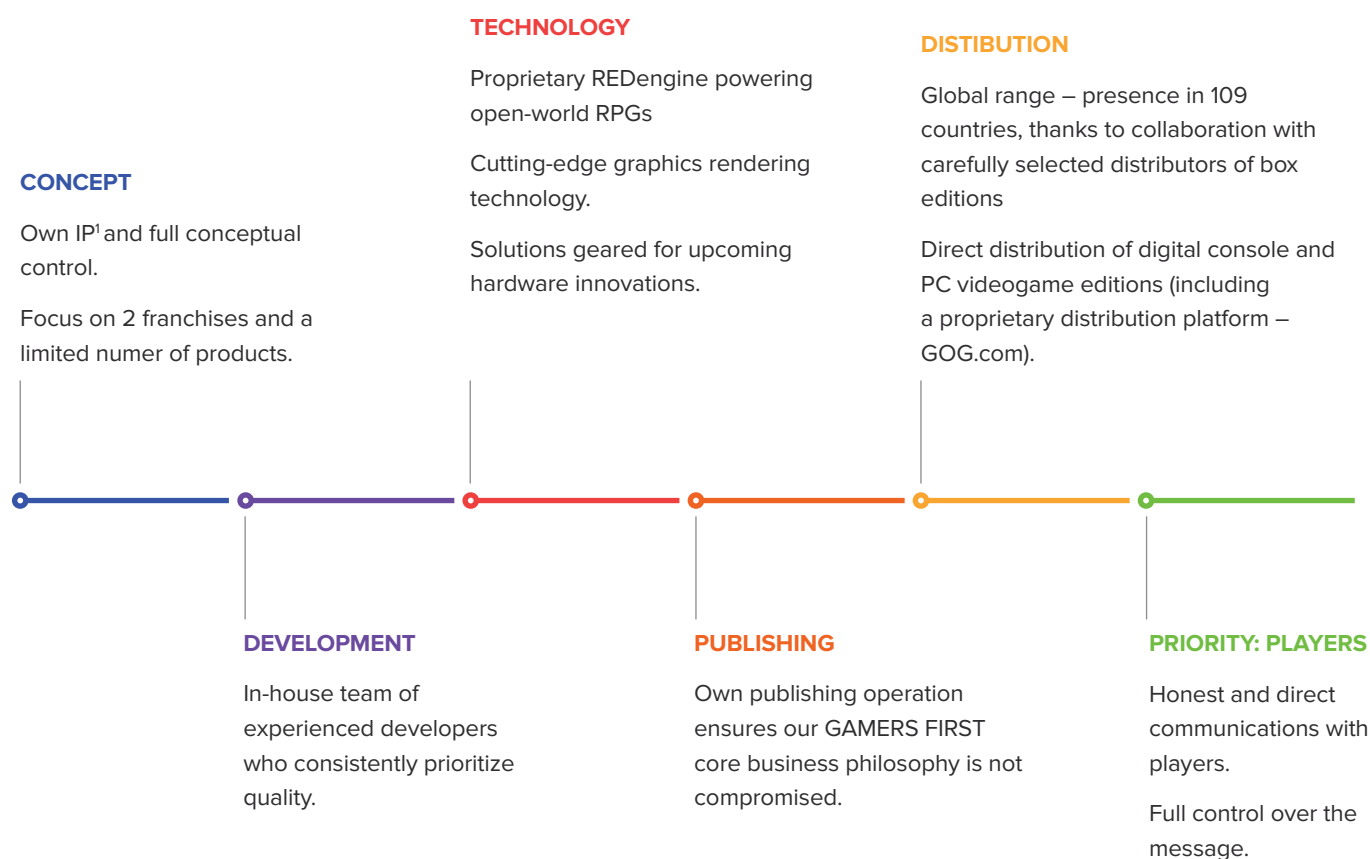
Business philosophy



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

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

Scheme 2 Videogame development business model at CD PROJEKT RED



¹ Proprietary brands *The Witcher* and *Cyberpunk*

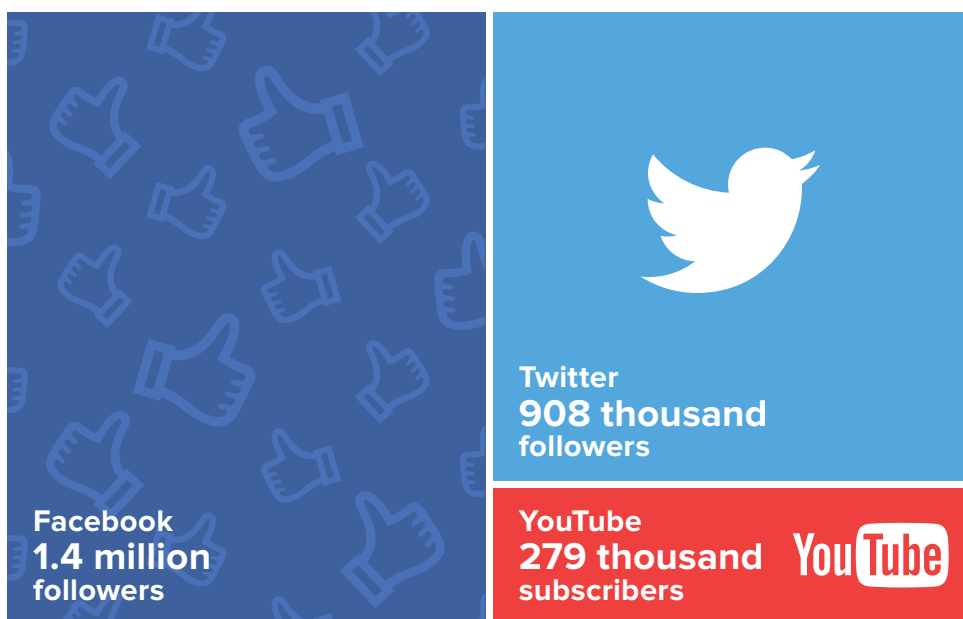
Source: Company data

CD PROJEKT RED attaches great weight to direct and honest communications with the global gaming community. This “Gamers first” approach consistently prioritizes customers’ needs in the course of the Studio’s daily activities. Player relations are carried out primarily through social media channels. We actively manage over 80 social media profiles.



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

Scheme 3 Popularity of *The Witcher* social media profile, maintained by CD PROJEKT RED, as of 12 March 2018 r.



Source: Company data

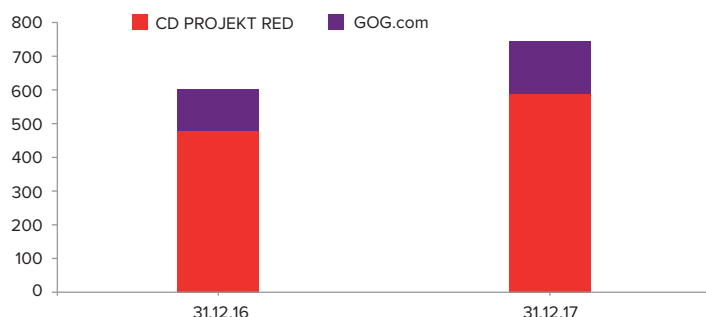
Our team



The videogame market is characterized by strong independence of cooperating individuals and businesses. This is particularly true for creative aspects of the production process, such as storyboarding, conceptual design, artistic vision, 2D and 3D model design, animation, programming, sound recording, gameplay design and many others. The outcomes of each stage often constitute creative works in their own right – at least in the sense of the relevant IPR legislation. Given the specific nature of our environment, the Group's products and services rely to a great extent on collaboration with individuals who are not bound by standard employment contracts. Accordingly, the Company has decided to extend the description of its workforce to include individuals who are not on the payroll, but nevertheless contribute to the videogames and other services offered by the Group. In light of the above, this section provides a comprehensive description of a team of independent specialists who regularly collaborate with the Group and who directly influence its operations and growth prospects, regardless of their contractual ties to the Group (employment contract, contract for work, contract of mandate, permanent collaboration, appointment or any other type of contract used in countries where the Group's foreign subsidiaries conduct their business), and the duration thereof (indefinite contract, fixed-term contract, project, trial period etc.)

As of 31 December 2017 the CD PROJEKT Capital Group employed 743 individuals for a y/y increase of 24%. 79% of the workforce comprises the CD PROJEKT RED segment while the remaining 21% is employed by GOG.com.

Figure 1 Employees and collaborators of the Capital Group CD PROJEKT (by activity segment) at the close of 2016 and 2017



Source: Company data

This dynamic growth of the Group's workforce over the past year is associated with a major upscaling of the Group's activity profile and ongoing development projects. The CD PROJEKT Capital Group strategy for 2016-2021 stipulates that by 2021 the Group will be managing two large and two smaller development teams, each working on a distinct project. Currently the majority of the team is based at the Warsaw headquarters of CD PROJEKT, while nearly 60 individuals are employed in Kraków. Additionally, CD PROJEKT operates branch offices in Los Angeles and Shanghai, tasked with coordinating marketing and sales activities in the United States and China respectively. The Group also employs local community managers in seven countries: Italy, Germany, France, Brazil, Japan, South Korea and Taiwan.

67% of the CD PROJEKT Capital Group workforce consists of developers working on future CD PROJEKT RED releases – *GWENT: The Witcher Card Game* and *Cyberpunk 2077*, as well as GOG.com developers working on (among others) further developments to the GOG.com platform

and the GOG Galaxy technology stack. 33% of the team does not directly deal with development of the Group's games and services.



CD PROJEKT RED stands apart from other videogame development studios in that it also operates an extensive marketing department. At the end of 2017 this department had a staff of 60. Marketing and PR activities are a crucial element of any videogame release, and a prerequisite of commercial success and critical acclaim. The CD PROJEKT RED marketing department issues general strategies and coordinates the marketing and promotional activities carried out by the Company's foreign partners. Our PR and social media experts directly liaise with the gaming community in 11 languages, which enables us to reach gamers throughout the world and deliver a consistent message. The CD PROJEKT RED segment also includes an internal publishing department, which oversees relations with business partners and controls sales of the Company's products. In addition, Group member companies employ a broad range of specialists in the field of accounting, finances, law, taxation, administration, HR, recruitment, payroll, training, systems management, investor relations and IT. Altogether, this team ensures smooth operation of the entire organization and provides the necessary support for developers of videogames and services created by the Group.

The diversity of our team is a great strength of CD PROJEKT. We stand for tolerance, since we believe that it is a crucial aspect of creative expression and innovation.

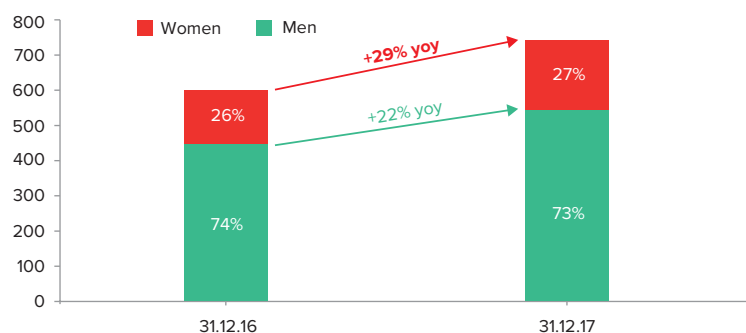




At the close of 2017 women represented 27% of the Capital Group workforce. This is substantially more than the Polish videogame industry average of 15%⁴.

Compared to 2016, the number of women in the CD PROJEKT Capital Group workforce increased by 29%, outpacing the Group's workforce expansion rate (24%). The number of women in managerial and executive positions at the Capital Group also increased, reaching 29% (4 percentage points increase).

Figure 2 CD PROJEKT Capital Group workforce by gender at the end of 2016 and 2017

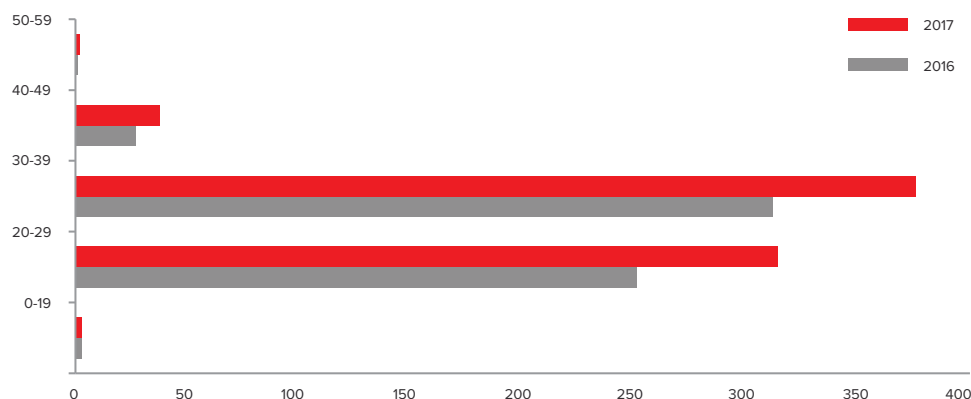


Source: Company data

The average age of CD PROJEKT Capital Group employees reflects current market trends around the world. More than half of the workforce (51%) falls within the 30-39 age bracket, while 43% of employees are aged 20-29.

In 2017 the average employee age was 31 at CD PROJEKT RED and 29 at GOG.com.

Figure 3 Capital Group workforce by age bracket at the close of 2016 and 2017



Source: Company data

⁴ Kondycja Polskiej Branży Gier 2017 (The State of the Polish Videogame Industry), Krakowski Park Technologiczny, p. 73, <https://www.cdprojekt.com/pl/wp-content/uploads-pl/2016/03/kondycja-polskiej-branzy-gier17.pdf>



Foreigners represent 18% of the CD PROJEKT workforce and 22% of its dev team. As of 31 December 2017 the Group employs individuals from 32 countries around the world. The largest foreign groups come from the United Kingdom (15 people), United States (11 people) and Canada (10 people). CD PROJEKT operates an internal relocation department which helps foreigners move to Poland and assists them during the initial months of their stay.

Attracting highly talented, passionate developers and ensuring retention of existing team members is an essential factor of the growth strategy and innovative edge of the CD PROJEKT Group. To achieve this goal, Group member companies strive to provide competitive employment conditions and opportunities for professional fulfillment.



Many professional development activities are available to members of the CD PROJEKT team, including participation in training sessions and conferences and Polish lessons for foreigners. Since 2016 CD PROJEKT RED has co-organized Promised Land – a major international art festival for creative industry professionals, held annually in the city of Łódź. The festival provides the opportunity to participate in numerous lectures and workshops conducted by professionals who work for renowned global creative brands. By the end of 2017 a total of 140 creative professionals employed by the CD PROJEKT Capital Group (67% of the Group's total creative workforce) took part in Promised Land.

We believe that people are the greatest strength and asset of CD PROJEKT.

In 2017 CD PROJEKT S.A. launched a 12-month managerial training program (Manager Academy) intended for both Polish and English-speaking participants. By the end of the year 42 employees have completed the program, while 65 are currently undergoing training.

In addition to the above, CD PROJEKT and GOG team members are provided with private healthcare and fitness programs. The Company organizes regular integration meetings, enabling its employees to get to know one another in a casual setting, outside of the work environment. In 2017 an in-house round-the-clock gym opened at the Group's Warsaw HQ, complete with a personal fitness trainer. The headquarters are also equipped with two canteens, one of which serves vegan meals.

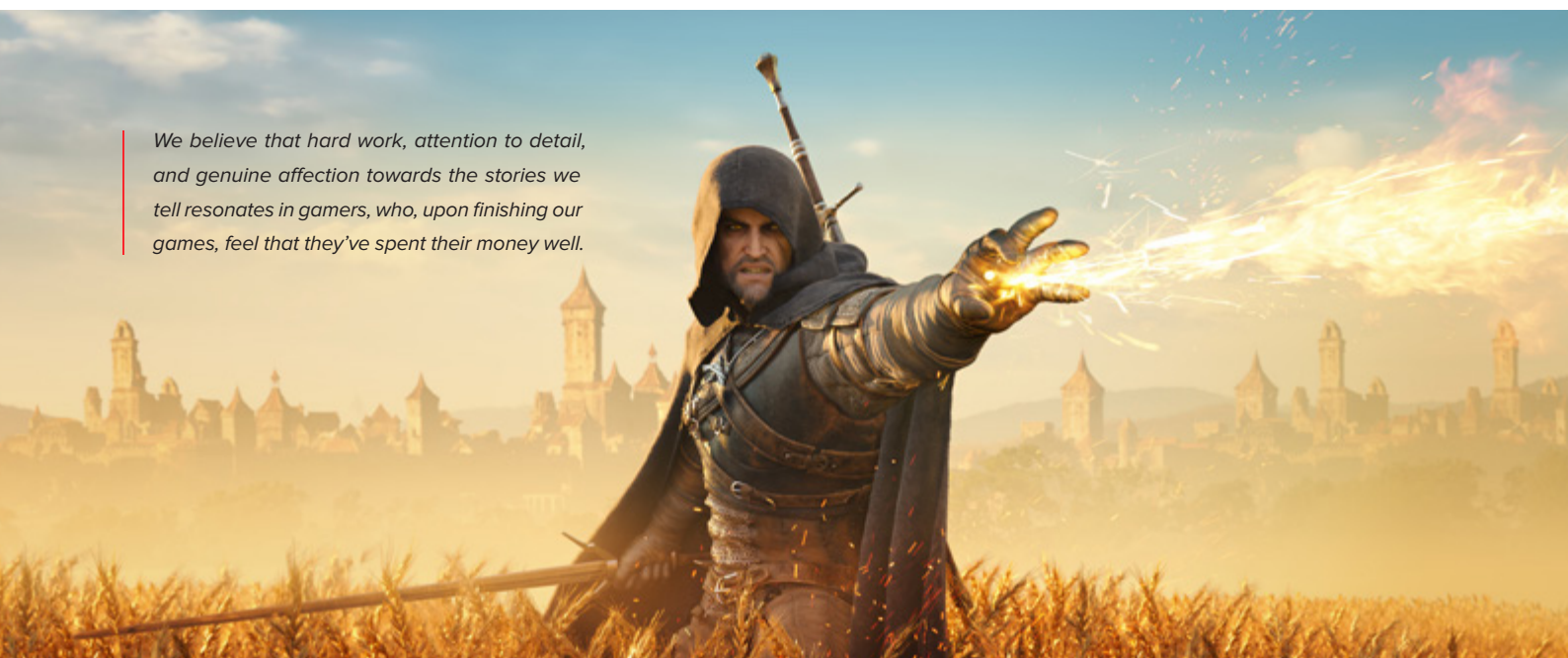


Capital Group growth outlook

CD PROJEKT Capital Group growth strategy for 2016-2021

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

We believe that hard work, attention to detail, and genuine affection towards the stories we tell resonates in gamers, who, upon finishing our games, feel that they've spent their money well.



Among the goals set for the CD PROJEKT RED segment in the 2017-2021 timeframe, the following are particularly notable:

- release of *Cyberpunk 2077*,
- release of another triple-A story-driven RPG,
- further development of the Company's brands, covering additional media types and products,
- continued sales support and active management of existing product portfolio,
- more than twofold growth of the CD PROJEKT RED workforce. Managing four independent teams charged with developing videogames in market segments heretofore unexplored by the studio,
- establishment of four local offices of CD PROJEKT RED, ensuring the presence of studio representatives in key territories,

With regard to the GOG.com segment, the following notable goals are scheduled for implementation between 2017 and 2021:

- releasing brand-new videogames from developers not affiliated with the CD PROJEKT Group, with full support for GOG Galaxy,
- developing technologies required by new CD PROJEKT RED releases, including bespoke solutions related to online gameplay and networking services,
- launching new language versions of the GOG.com platform.

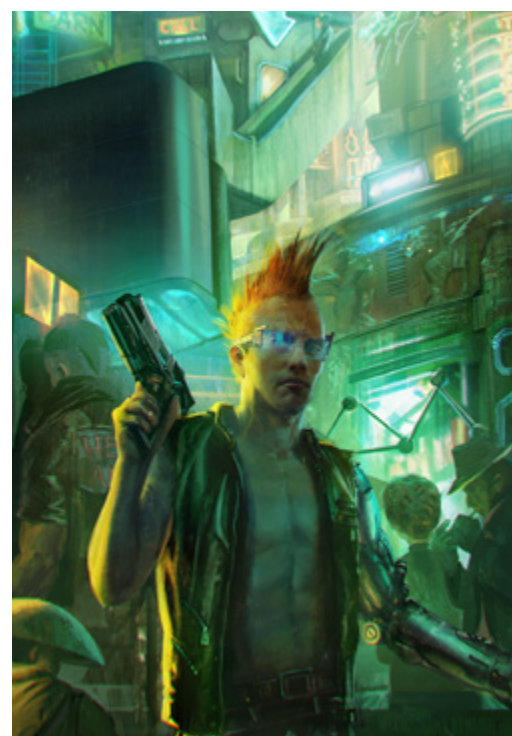
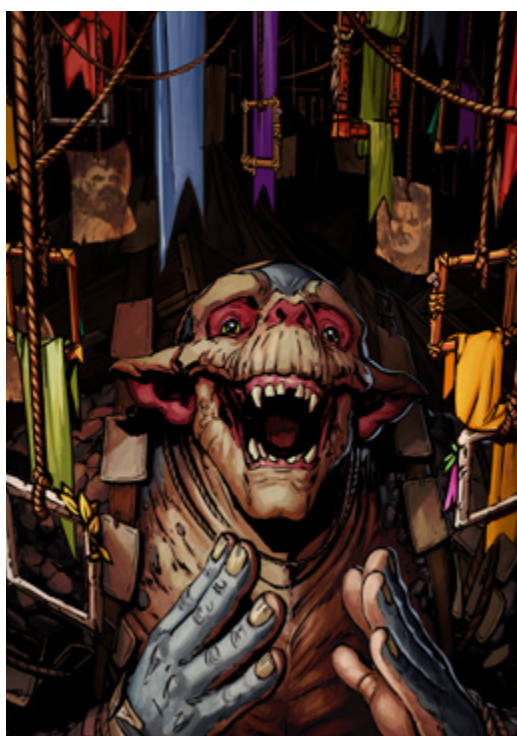


Incentive program for 2016-2021

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

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

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



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

The consolidated net profit of the CD PROJEKT Capital Group from continuing activities in the 2016-2017 period was 450 784 thousand PLN (with consolidated net earnings per share from continuing activities at 4.71 PLN). Between 30 December 2015 and 29 December 2017 the Company stock price increased by 337.9%, compared to a 37.2% increase in the WIG index.

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

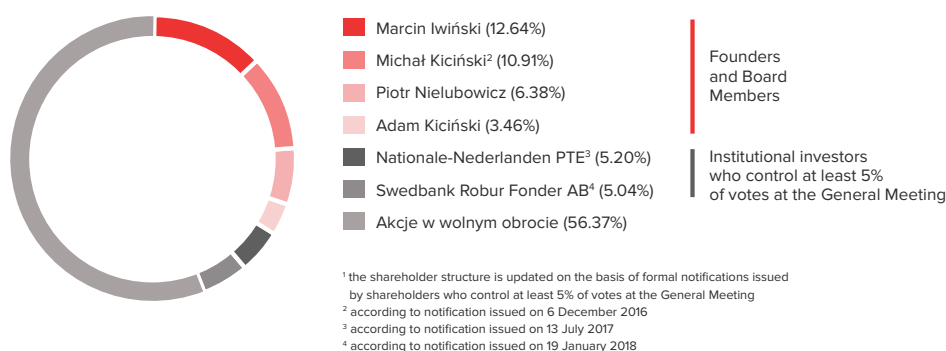


CD PROJEKT S.A. on the capital market

The CD PROJEKT brand has been present on the Warsaw stock exchange since 2010, when – as a result of an investment agreement concluded in 2009 by CDP Investment sp. z o.o.⁶ and Optimus S.A., along with their respective shareholders – Optimus purchased 100% of shares in CDP Investment while existing shareholders of CDP Investment acquired Optimus S.A. shares. The formal merger between both companies was carried out in December 2010.

As of the publication date of this report 96 120 000 Company shares are traded on the Main Market of the Warsaw Stock Exchange under the continuous trading system. Key shareholders of CD PROJEKT S.A. are its co-founders – Marcin Iwiński and Michał Kiciński. Other major shareholders who are also members of the Company's Management Board are Adam Kiciński – President of the Board, and Piotr Nielubowicz – Vice President and CFO. Free float accounts for 56.37% of shares of CD PROJEKT S.A. stock.

Figure 4 Company shareholder structure as of the publication date of this report¹



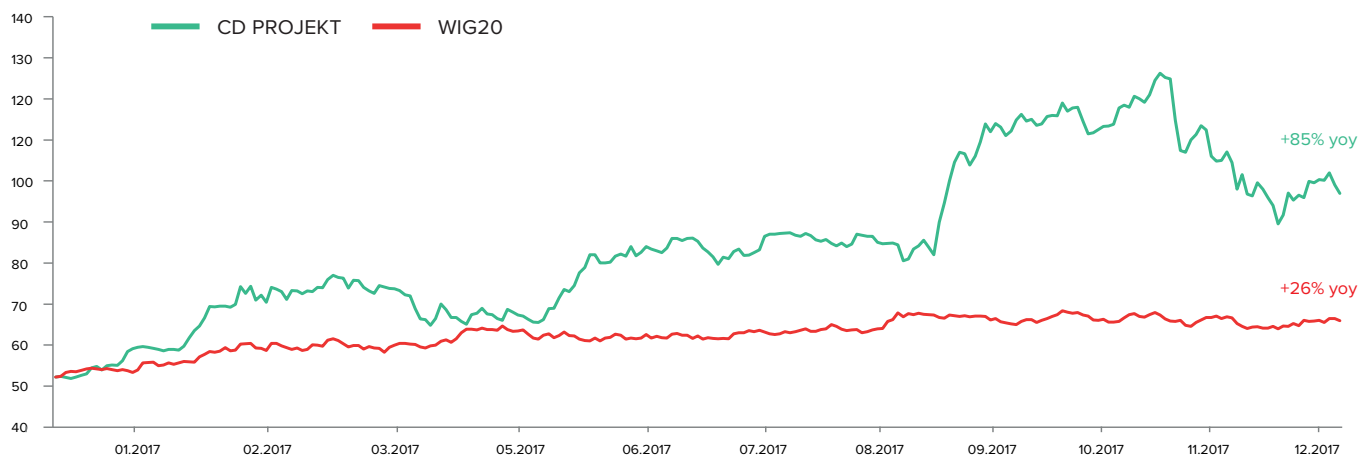
Source: Company data

Throughout 2017 CD PROJEKT S.A. participated in the WIG30 and WIG40 indices. In the second half of 2017 the Company was included in two prestigious international indices. On 15 September 2017, following the semiannual review of the FTSE Global Equity Index Series, CD PROJEKT S.A. joined the FTSE Mid-Cap Index – Emerging Europe. Two months later, on 30 November 2017, the Company joined the MSCI Emerging Markets index.

Following the annual review of the Warsaw Stock Exchange indices, CD PROJEKT S.A. joined the WIG20 index on 16 March 2018. WIG20 aggregates 20 of the largest and most liquid companies on the Warsaw market. CD PROJEKT S.A. contributes 3.38% to the value of the index.

⁶ Former name of the „CD PROJEKT” group holding company

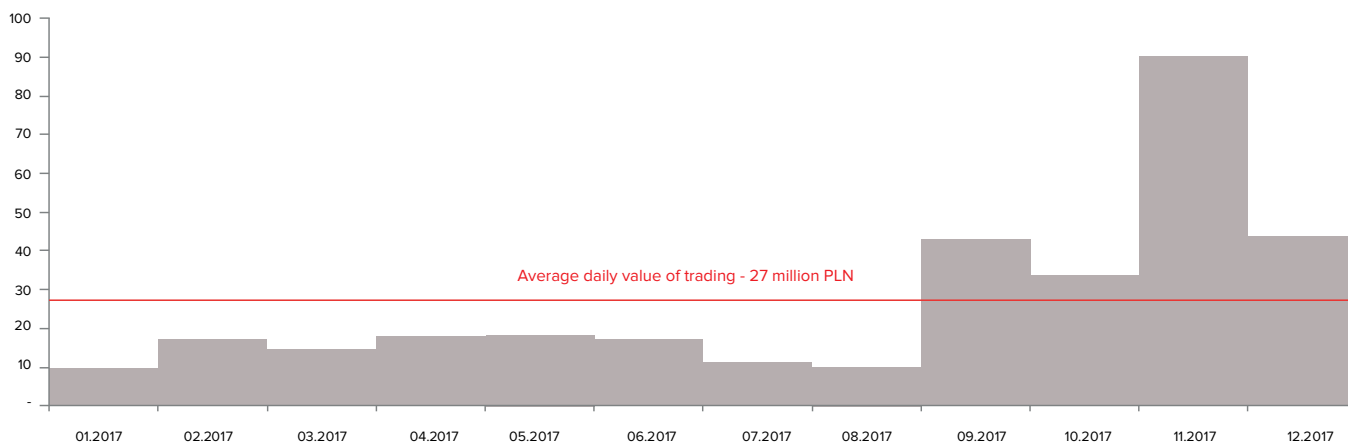
Figure 5 CD PROJEKT S.A. stock price and the WIG20 index between 1 January 2017 and 31 December 2017



Source: Company data

Between 1 January 2017 and 31 December 2017 the Company stock price fluctuated between 51.91 PLN (4 January 2017) and 126.25 PLN (8 November 2017). During this period the stock price increased by 85% to 97.00 PLN at the close of the trading day on 29 December 2017. Over the same period the WIG20 index increased by 26% and the main WIG index – by only 23%. As of the end of 2017 the Company market capitalization is 9.3 billion PLN.

Figure 6 Average daily trading value of CD PROJEKT shares (on monthly basis) between 1 January 2017 and 31 December 2017 (PLN millions)

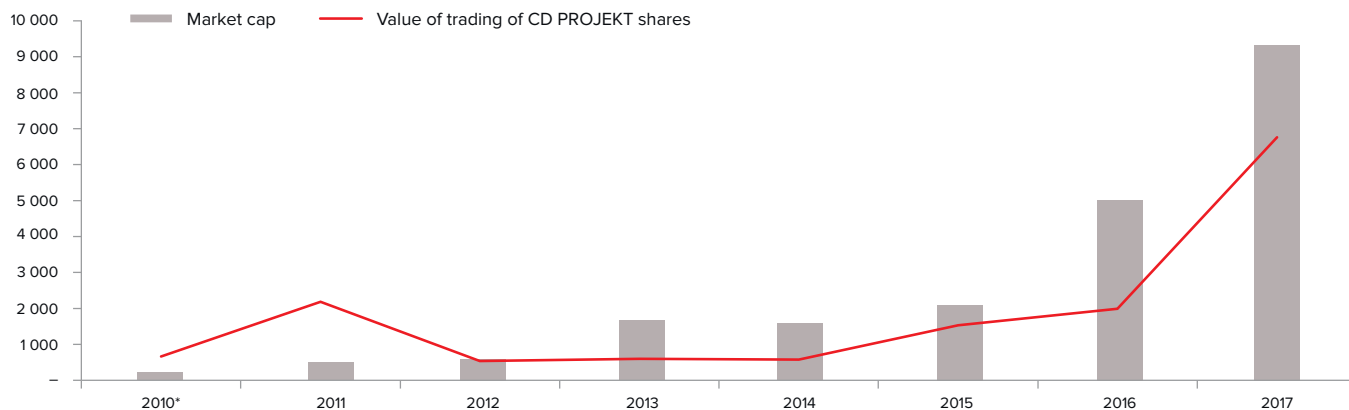


Source: Company data



In 2017 the liquidity of CD PROJEKT S.A. shares, measured as the total trading value of Company shares, increased substantially. The aggregate trading value for 2017 was 6.8 billion PLN, which is 240% more than in 2016. The average daily trading value was 27.0 million PLN, compared to 7.9 million PLN the year before. A substantial increase was also observed in the number of transactions per trading day, from 931 to 2435 at the close of 2017.

Figure 7 CD PROJEKT market capitalization and the total trading value of CD PROJEKT shares between 2010 and 2017 (PLN millions)



*Data for the period between 01.05.2010 and 31.12.2010

Source: Company data

On 19 May 2017, in Current report no. 7/2017 the Board of CD PROJEKT S.A. announced that it had concluded an agreement with Bank Zachodni WBK S.A. – Dom Maklerski BZ WBK, headquartered in Wrocław, under which BZ WBK has agreed to act as the Issuer's Animator at the Warsaw Stock Exchange. The duties of BZ WBK include acting in the capacity of a volume and liquidity animator, subject to the relevant provisions of the law, the Stock Exchange By-laws and any other regulations issued by the Financial Supervision Authority (KNF), the appropriate organs of the Stock Exchange and the National Depository for Securities S.A. According to the Current report no. 3/2018 the effective dissolution date of the agreement is 31 March 2018.

**Table 1** CD PROJEKT S.A. stock – key highlights

	2017	2016	Change
Net earnings per share (PLN)	2.08	2.63	-21%
Quantity of shares in trading (thousands) at end of year	96 120	96 120	-
Highest closing price during fiscal year (PLN)	126.25	53.68	135%
Lowest closing price during fiscal year (PLN)	51.91	20.60	152%
Price at beginning of period (PLN)	52.38	21.97	138%
Price at end of period (PLN)	97.00	52.20	86%
Average price during period (PLN)	84.85	32.57	161%
P/E index at end of period	46.64	20.02	133%
Market capitalization at end of period (PLN thousands)	9 323 640	5 017 464	86%
Average number of transactions per trading day	2 435	931	162%
Average daily trading value (PLN thousands)	27 043	7 925	241%
Average daily trading volume (shares)	298 164	235 292	27%

Source: Company data

As of the publication date of this report eight brokerage houses issue recommendations concerning Company stock. A full list of analysts and brokerage houses which issue recommendations concerning Company stock can be found on the CD PROJEKT website at <https://www.cdprojekt.com/en/investors/analysts/>.

Capital market communications

CD PROJEKT makes every effort to provide investors with reliable information concerning the Company's business activities. In this scope, the Company employs a wide selection of tools, targeted at individual investors, brokerage analysts and investment fund managers.

In 2017 two results conferences were organized for capital market stakeholders and financial media journalists. At each conference Board members presented Company results for 2016 and for the first half of 2017 respectively. The events were webcasted on the Company website along with a live English translation. Publication of the Group's financial results for 2016 was augmented by a live chat session aimed at individual investors. The session proved very popular: Board members fielded over 50 questions concerning the Group's results and growth strategy.

The Company also organized two teleconferences with market analysts and journalists, following publication of quarterly financial statements for the first and third quarter of 2017 respectively. In parallel, the Company website provided comments by Piotr Nielubowicz, Vice President and CFO, addressing the key factors which shaped the Group's financials during each reporting period.

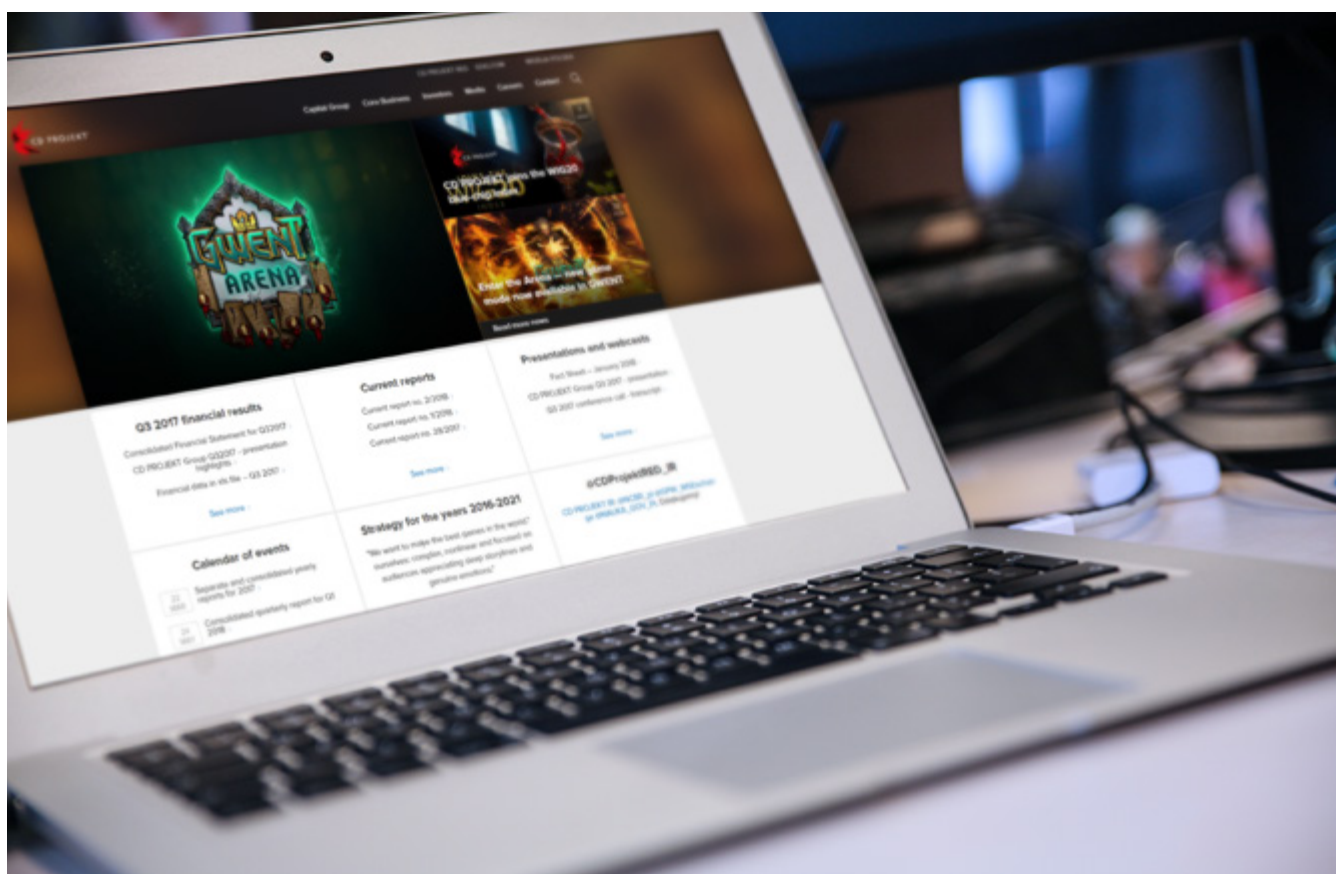


All documentation related to the Company's periodic reports can be found under the "Results Center" tab on the Company's corporate website (see <https://www.cdprojekt.com/en/investors/>). Additional video recordings are provided on the CD PROJEKT RED YouTube channel at <https://www.youtube.com/user/CDPRED/videos>.

In 2017 the Company organized numerous meetings of Board members and Investor Relations personnel with representatives of Polish and foreign investment funds, along with numerous meetings with analysts who issue recommendations concerning CD PROJEKT stock. The Board also took part in 4 investor conferences organized by Polish brokerage houses, and in 5 series of meetings with foreign investors, held in Prague, London, New York, Stockholm and Cologne.

The Company continued to address questions from individual investors via its corporate IR Forum. In 2017 CD PROJEKT S.A. representatives replied to over 50 specific questions.

The Investor Relations Department actively maintains the CD PROJEKT Twitter feed (@CDProjektRED_IR) with up-to-date information concerning key events which affect the CD PROJEKT Capital Group.



**CD PROJEKT
Capital Group
activities**



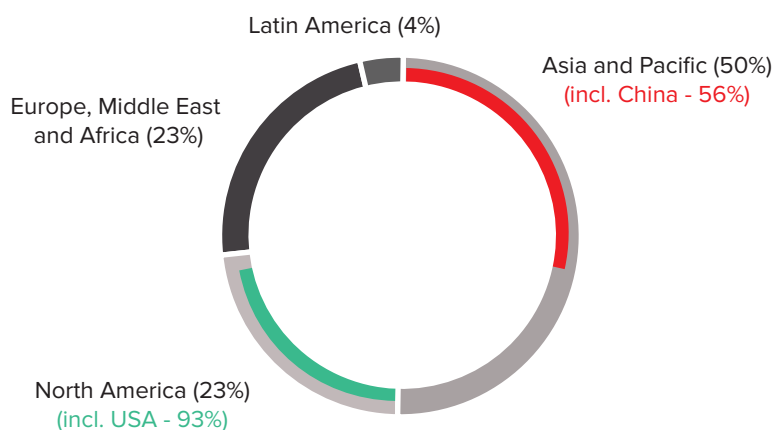
Market environment – global videogame industry

Newzoo market analysts⁷ estimate the volume of the global videogame market at 116 billion USD at the end of 2017, which represents a 10.7% increase over the 2016 year-end value. This is also in excess of original projections published at the beginning of 2017, where the market volume was expected to reach 108.9 billion USD by the end of the year. The stated reason for the revision was faster-than-expected growth of the mobile and PC videogame market.

Long-term projections remain very optimistic. In its annual Media & Entertainment Outlook⁸ report PwC singles out videogames as one of the main driving forces of the global market (next to online video content, online advertising and Internet access). Newzoo analysts estimate that between 2016 and 2020 the market will continue to grow at an annual pace of 8.2% CAGR, reaching 134.5 billion USD in 2019 (upward revision by 15.9 billion USD) and 143.5 billion USD in 2020.

In terms of territorial distribution, Asia and Pacific countries currently account for 57.8 billion USD, which already represents 50% of the global market volume.⁹ This corresponds to a y/y increase of 14.6%. The largest contribution to this figure is from China, with a market estimated at 32.5 billion USD. North America comes in second place, at 27.4 billion USD (5.1% y/y increase), of which 25.4 billion USD is attributable to the United States (second largest market globally). Europe, the Middle East and Africa are jointly comparable to North America in this respect, accounting for 23% of the global market volume, i.e. 26.4 billion USD.

Figure 8 2017 estimated global videogame market volume by territory (in %)



Source: Newzoo

No major changes occurred in 2017 at the top of the ranking: China continues to occupy first place and has solidified its lead over the United States (by 7.11 billion USD, compared to 0.9 billion USD in 2016 and 0.2 billion USD in 2015). Further down the list are Japan (14.04 billion USD), Germany (4.43 billion USD) and Great Britain (4.24 billion USD)¹⁰.

⁷ 2017 Global Games Market, Newzoo: <https://newzoo.com/resources/>, accessed on 15 March 2018

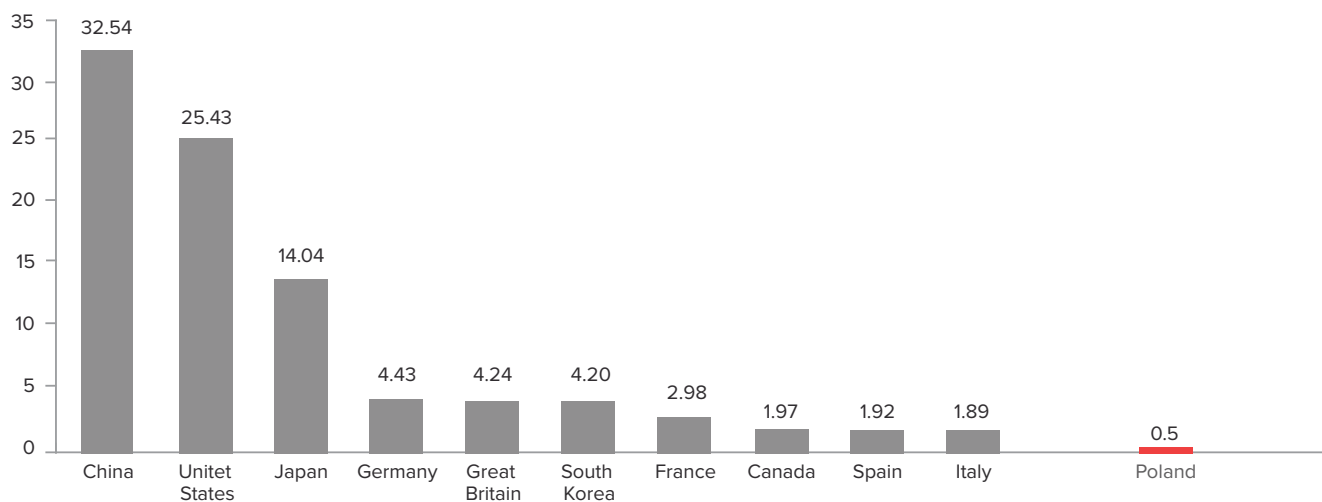
⁸ Curtain up! User experience takes center stage. Perspectives from the Global Entertainment and media Outlook 2017-2021, PwC, <https://www.pwc.com/gx/en/entertainment-media/pdf/outlook-2017-curtain-up.pdf>

⁹ <https://newzoo.com/resources/>, Newzoo, accessed on 15 March 2018

¹⁰ Top 100 Countries by Game Revenues, Newzoo, October 2017 r., <https://newzoo.com/insights/rankings/top-100-countries-by-game-revenues/>, accessed on 15 March 2018



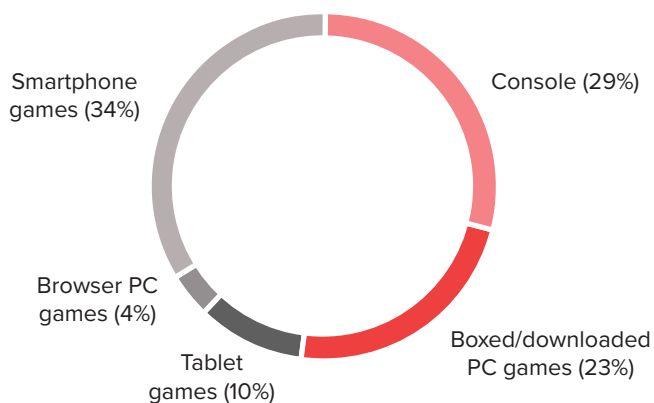
Figure 9 World's largest videogame markets in 2017 (USD billions)



Source: Newzoo

Poland's position remains unchanged – the country is ranked 23rd, with the domestic market valued at 504 million USD (17% y/y increase). In relative terms, the domestic videogame market remains small, contributing only 0.1% to the national GDP – compared to 0.13% for the United States, 0.23% for China and 0.26% for Japan and South Korea.¹¹

Figure 10 2017 global videogame market by platform (in %)



Source: Newzoo

With regard to client devices, smartphones currently have the largest market share (34%¹²). Gaming consoles come in second place (29%), followed by PCs (23%, representing both digital

¹¹ Kondycja Polskiej Branży Gier 2017 (The State of the Polish Videogame Industry), Krakowski Park Technologiczny, p. 10, <https://www.cdprojekt.com/pl/wp-content/uploads-pl/2016/03/kondycja-polskiej-branzy-gier17.pdf>

¹² New Gaming Boom: Newzoo Ups Its 2017 Global Games Market Estimate to \$116.0Bn Growing to \$143.5Bn in 2020, 28 November 2017, Newzoo, accessed on 15 March 2018, <https://newzoo.com/insights/articles/new-gaming-boom-newzoo-ups-its-2017-global-games-market-estimate-to-116-0bn-growing-to-143-5bn-in-2020/>

and physical game editions). Altogether, according to Newzoo analysts, portable devices (i.e. smartphones and tablets) account for 44% of the total market volume, which corresponds to 50.4 billion USD in sales. This segment has seen dynamic growth in the recent years (approximately 23.3% y/y), far outpacing console games (3.7%) and PC games (1.4%).¹³ According to analysts by 2020 mobile games will constitute more than 50% of the global market.



The digital distribution market continues to gather strength, attracting scores of new customers, as evidenced by its increasing share in the total market volume.¹⁴ According to data published by the Entertainment Software Association (ESA), in 2010 69% of all games sold in the USA were box editions, while in 2016 this segment shrank to 26%.¹⁵ The PwC report entitled “Global Entertainment and Media Outlook 2014-2019” suggests that migration of customers towards digital distribution channels is ongoing and expected to persist in the future.

Another rapidly growing market segment is esports. SuperData analysts predict that its volume will reach 1.5 billion USD in 2017 and 2.3 billion USD by 2022.¹⁶ The reported increased popularity of esports goes in hand with expansion of online streaming platforms and channels which focus on esports events. The largest and most popular such platform – Twitch – currently accounts for 54% of the online videogame streaming market segment. YouTube comes in second, at 22%. Notably, Twitch users are more engaged and, on average, spend more money on accessing content than their YouTube counterparts.¹⁷

¹³ Here, the concept of “PC gaming” is understood to mean PC games distributed as box sets or digitally, as well as browser games.

¹⁴ Digital distribution covers subscriptions, full versions of videogames distributed digitally, expansion packs, mobile applications and social games.

¹⁵ Essential Facts 2017, Entertainment Software Association, <http://www.theesa.com/article/two-thirds-american-households-regularly-play-video-games/>

¹⁶ Esports Market Report: Courtside—Playmakers of 2017, SuperData, December 2017, accessed on 15 March 2018

¹⁷ SuperData, Year in review, <https://www.superdataresearch.com/market-data/market-brief-year-in-review/>, accessed on 15 March 2018



Organizational structure of the CD PROJEKT Capital Group

As of 31 December 2017 the CD PROJEKT Capital Group consists of the parent entity – CD PROJEKT S.A. and three subsidiaries – GOG sp. z o.o., CD PROJEKT Inc. and CDPROJEKT Co. Ltd.

Scheme 4 CD PROJEKT Capital Group structure as of the end of 2017



Source: Company data

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 as relates to *GWENT*.

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.

Table 2 Summary of business activities of the parent company and other members of the CD PROJEKT Capital Group as of 31 December 2017



Spółka	Przedmiot działalności
CD PROJEKT S.A.	The core activities of the company, carried out by its CD PROJEKT RED studio, include development of videogames, publishing its own videogames, selling the associated distribution rights as well as manufacturing, selling and/or licensing tie-in products which exploit the popularity of brands owned by the company. CD PROJEKT S.A. also acts as the holding company of the CD PROJEKT Capital Group and coordinates the activities of other companies belonging to the Group.
GOG sp. z o.o.	This company concerns itself with online distribution of videogames, enabling customers from around the world to purchase games, remit payment and download game binaries to their personal devices. To this end the company owns and maintains the global digital distribution platform at GOG.com. In addition, GOG sp. z o.o. has formed a consortium with CD PROJEKT S.A. to develop and operate <i>GWENT: The Witcher Card Game</i> . Within the framework of this consortium, GOG sp. z o.o. is responsible for the game's online features and handling in-game transactions in the PC edition.
CD PROJEKT Inc.	This company coordinates publishing and promotional activities covering the Group's own products and the GOG.com platform throughout North America. To facilitate this goal, the company operates an office in Los Angeles.
CD PROJEKT Co. Ltd.	This company coordinates publishing and promotional activities covering the Group's products in the People's Republic of China, which includes managing a local team tasked with coordinating publishing and promotional activities related to <i>GWENT: The Witcher Card Game</i> .

Źródło: Spółka

As of 31 December 2017, all existing member companies of the CD PROJEKT Capital Group, except for CD PROJEKT Co. Ltd., are subject to full consolidation. Details can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2017.



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

In 2017 the Capital Group conducted business activities in two business segments¹⁸:

- CD PROJEKT RED,
- GOG.com.

CD PROJEKT RED segment

Target and scope of business activities

Videogame development is the main area of activity of the CD PROJEKT RED studio, a distinct operating segment of the CD PROJEKT Capital Group. The activity covers creation and publication of videogames, licensing the associated distribution rights and manufacturing tie-in products which exploit the commercial appeal of brands owned by the Company. In the scope of its publishing activities the Company also assumes responsibility for its promotional and advertising campaigns, and maintains direct relations with the player base through regular participation in trade fairs, as well as via electronic and social media channels.

Key products

Videogame development commenced in 2002 and initially focused on the studio's RPG debut: *The Witcher*. This game, set in Andrzej Sapkowski's fantasy world, was released in 2007 to global acclaim, garnering over 100 awards and accolades. The Studio followed up in May 2011 with its second release – *The Witcher 2: Assassins of Kings* for the PC. In April 2012 an extended edition of *The Witcher 2* was released for the PC and Xbox 360. Both *The Witcher* and *The Witcher 2 Extended Edition* are now also available for Apple and Linux machines.

In addition to both aforementioned games, the Company's portfolio also includes *The Witcher 3: Wild Hunt*, which launched on 19 May 2015, along with two expansion packs – *Hearts of Stone* (released on 13 October 2015) and *Blood and Wine* (released on 31 May 2016). In June 2016 the Company publicly announced an upcoming videogame set in *The Witcher* universe – *GWENT*, an online multiplayer card game with microtransaction support. Public beta tests of *GWENT* commenced on 24 May 2017, while on 28 August 2017, having secured all the necessary official permits, the Company launched *GWENT* as a closed beta in the People's Republic of China.

¹⁸ As a result of the disaggregation of the activities of cdp.pl sp. z o.o. and subsequent sale of the control share in this entity, as well as major upscaling of CD PROJEKT RED activities, in 2016 a range of business processes previously included in the "Other activities" segment were integrated with the common organizational structures of CD PROJEKT S.A., whose own business activities were subsumed under the CD PROJEKT RED segment. Consequently, the Management Board decided to discontinue separate presentation of "Other activities", effective on 1 January 2017. Starting with 1 January 2017, all activities of the CD PROJEKT Capital Group are carried out and reported within two distinct segments – CD PROJEKT RED and GOG.com. Together, these segments represent the entirety of the Group's activities.



The Company is actively developing its franchise and expanding its list of tie-in products set in *The Witcher* universe, often in collaboration with external partners. Examples of such products include *The Witcher Adventure Game* (a board game also available as a digital release for PCs and tablets), three series of comic books published by Dark Horse Comics, an official Prima Strategy Guide, a book titled *The Witcher Universe: Compendium*, three sets of collectible figurines and numerous *Witcher*-themed gadgets and apparel distributed internationally by www.witcherstore.com. Soundtracks from all three games, as well as from *GWENT*, are available on Spotify, Apple Music, Google Play Music and other distribution platforms. In 2017 two editions of *The Witcher 3* soundtrack were published as vinyl records.

Kluczowe źródła przychodów

Sales of CD PROJEKT RED games are mainly carried out under the following business models:

- territorial distribution rights (for box and digital editions), accounted for post factum on the basis of monthly or quarterly sales reports submitted by the Company's business partners, or license reports. This includes optional microtransactions supported by *GWENT: The Witcher Card Game* (kegs, meteorite powder, and – starting on 28 February 2018 – access to a new gameplay mode called the Arena);
- supplies of physical box editions to the Company's business partners for retail resale;
- supplies of batches of activation codes which permit the game to be downloaded and installed.

Sales of CD PROJEKT S.A. products are governed by several dozen long-term licensing and distribution agreements concluded with publishers and distributors, both global (e.g. BANDAI NAMCO Entertainment Europe S.A.S., Microsoft, Sony, VALVE Corporation, Warner Bros. Home Entertainment) and domestic (including GOG sp. z o.o. and cdp.pl sp. z o.o.) Digital distribution agreements are typically settled in monthly cycles, while distribution of physical videogame editions relies on quarterly reporting and settlement cycles. Depending on the specific partner or contract, the Company also collects licensing reports – these are submitted 30, 45 or 60 days following the end of each reporting period (typically each month or quarter).

In 2017 the bulk of CD PROJEKT RED revenues were associated with sales of *The Witcher 3: Wild Hunt*, along with its two expansion packs – *Hearts of Stone and Blood and Wine*¹⁹. The Company also continued to obtain revenues from sales of *The Witcher* and *The Witcher 2: Assassins of Kings*, which continue to attract gamer interest and generate a steady stream of revenues.

The segment's results are also influenced by *GWENT*, which remains in its beta phase. In 2017 the main sources of revenues associated with *GWENT* came from sales of cards (kegs) and, to a lesser degree – vanity items (e.g. animated versions of existing cards). On 28 February 2018 a new monetization system was added with the introduction of the Arena mode. Access to this gameplay feature costs 6.99 PLN (equivalent to 150 gold, which is the in-game currency).

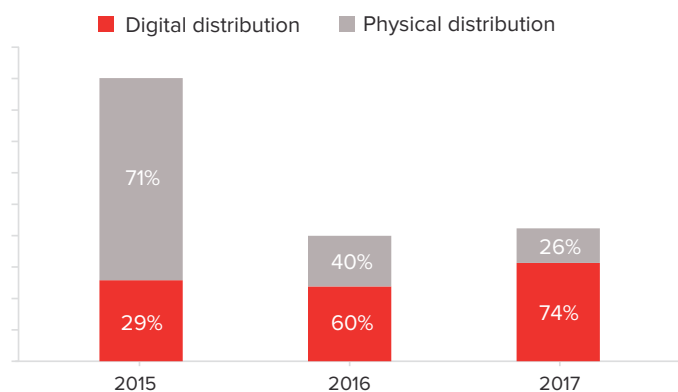
In relations to *GWENT* the Company also intends to engage in distributing single-player campaigns providing multiple hours of gameplay, such as the *Thronebreaker* campaign announced for release in 2018.

At the end of 2017 over 74% of revenues from sales of *The Witcher 3: Wild Hunt* and its expansion packs were generated by digital distribution channels.

¹⁹ Also available as the *Game of the Year Edition* bundle (since August 2016)



Figure 11 *The Witcher 3: Wild Hunt* – copies sold by distribution channel; 2015-2017

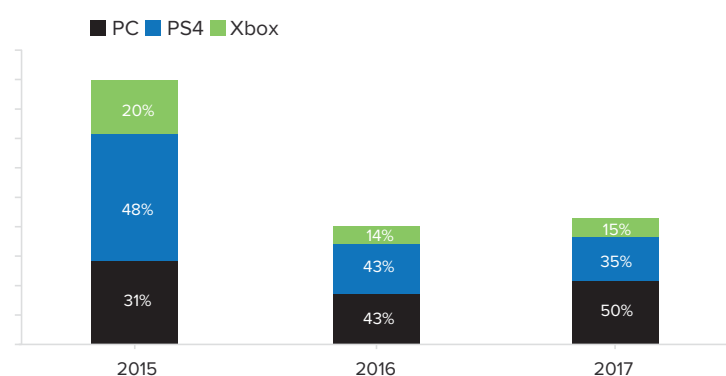


Source: Company data

The reported major contribution of digital distribution channels is due to observed global shift towards purchases of digital versions of games at the expense of box set purchases, as well as due to the extended lifespan of digital games compared to their physical counterparts.

In 2017 PCs accounted for the largest share in the total sales volume of *The Witcher 3* (50%). The second most popular platform was PlayStation 4 (35%), with Xbox One in third place (15%).

Figure 12 *The Witcher 3: Wild Hunt* – copies sold by hardware platform; 2015-2017

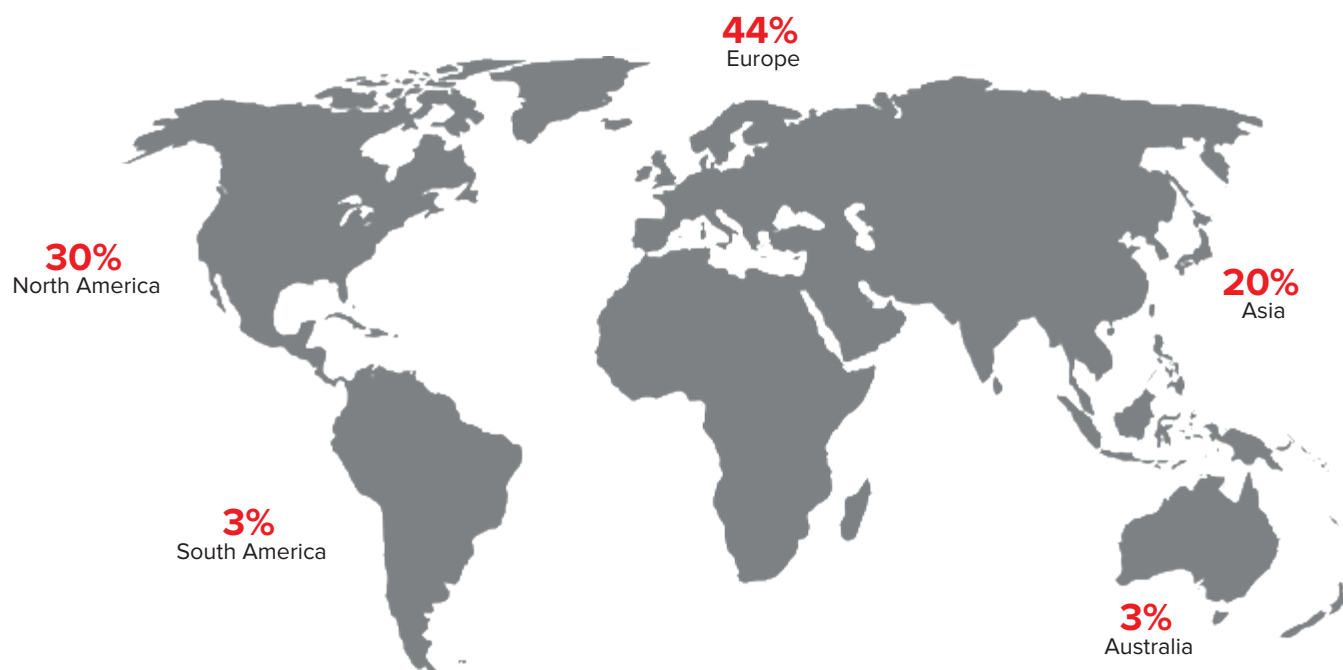


Source: Company data

In 2017 44% of all purchases of *The Witcher 3: Wild Hunt* were made in Europe, 30% in North America and 20% in Asia.



Map 2 Sales of *The Witcher 3: Wild Hunt* in 2017 by territory (copies sold)



Key suppliers and clients

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

In 2017 sales to one client exceeded 10% of the Group's consolidated sales revenues and totaled 113 477 thousand PLN (24.6% of the Group's revenues). This client is not affiliated with CD PROJEKT S.A. or any of its subsidiaries. No other client accounted for more than 10% of the Group's consolidated sales revenues.

The videogame development process relies on certain bought-in tools and technological solutions; however, these do not result in significant concentration of supply. No supplier accounted for more than 10% of the consolidated revenues of the Capital Group

Key product and marketing events

From the marketing perspective, 2017 was the year of *GWENT* at CD PROJEKT RED. In parallel, the studio continued work on its other major future release – *Cyberpunk 2077*.



GWENT: product development

From the product development perspective, the highlight of 2017 was the launch (on 24 May) of the public beta testing campaign of *GWENT*. This game was provided free of any restrictions to all users of PC, Xbox One and PlayStation 4. The launch was accompanied by another slew of changes and updates, including animated versions of all cards, new starter decks and a system of challenges aimed at introducing newcomers to the rules and mechanics of *GWENT*.

Throughout 2017 the *GWENT* team focused on fine-tuning the gameplay balance and mechanisms. Key changes and updates rolled out in this period include:

- update of 6 February 2017, incorporating, among others, UI modifications and gameplay improvements, including balance changes. This update also added a new faction – Nilfgaard, with over 60 new cards (including some additional cards for existing factions);
- update of 20 June 2017, which streamlined matchmaking features and introduced changes in ranking systems;
- update of 29 August 2017 which, in addition to adding 30 new cards, focused on the game's social features. Player profiles were added, as was support for messaging and notifications. An entirely new gameplay mode – Pro Ladder – was also rolled out in late August, intended as part of the esports features of *GWENT*. Finally, a fresh starter pack for new players was added to the store;
- holiday update of 19 December 2017, with more than 100 new cards, new gameplay mechanisms and new unit skills. A new daily quest feature was added, enabling players to earn additional rewards. Deck design and card exchange/draw UIs were reworked.

Following the end of the reporting period, on 9 February 2018, a balancing update was released, which also included gameplay improvements and updated card descriptions. Four days later, on 13 February 2018, the Company announced the Arena – a new paid gameplay mode. The Arena itself debuted on 28 February 2018. Unlike Pro Ladder ranked battles, Arena battles enable players to freely design their decks using all cards provided by the game. This new feature was met with great interest on the part of gamers. Following establishment of the Live Ops team (in late 2017) tasked with regularly launching new *GWENT* events, the recent months saw an increase in the frequency of one-off events, such as the special offer celebrating the Lunar New Year, and a series of faction duels.

In 2017 CD PROJEKT RED continued with its development work on *Thronebreaker*, a single-player RPG campaign offering multiple hours of gameplay. Its launch was originally scheduled for 2017 (as announced at gamescom in Cologne); however, seeing the significant potential of the new product, the Company decided to expand it even further, and, consequently, the launch was postponed until 2018. The game will be available for the PC, Xbox One and PlayStation 4.

On 28 August 2017, having obtained all the required official permits, The Company initiated beta tests of *GWENT: The Witcher Card Game* in the People's Republic of China.

GWENT: marketing activities

In 2017 the marketing activities of CD PROJEKT RED focused mainly on attracting new players to *GWENT: The Witcher Card Game*, and on maintaining the game's popularity among players who already participate in the public beta.

In this scope the most important marketing activity of the first quarter of 2017 involved publicizing the first major update of the year, which expanded the game with a new faction – Nilfgaard. During this period the *GWENT* marketing campaign was carried out primarily by social media,



and covered key markets, including the United States, Germany, the United Kingdom, France, Brazil, Russia, Poland and Australia.

In the second quarter of 2017 the highlight of the global marketing strategy was the launch of public beta tests of *GWENT*. A broad marketing and advertising campaign was conducted to accompany this event, with a greatly expanded pool of targeted media (now including digital distribution platforms, such as Xbox Store and PlayStation Store), enabling the Company to reach a much larger group of potential customers. In addition, marketing activities were initiated in new markets – such as Japan, where the launch of the public beta coincided with the release of a localized Japanese edition of *GWENT*. In parallel with these activities, the first official *GWENT Challenger* tournament was organized in Katowice on 13 May 2017.

In Q3 and Q4 2017 marketing events, conducted mainly using online channels, focused on spreading awareness of the *GWENT* holiday update, and on promoting the second *GWENT Challenger* tournament, held on 16-17 December at the Moszna Castle as part of the *GWENT Masters* esports series.

CD PROJEKT RED maintains communication with *GWENT* players in 10 languages (Polish, English, Russian, German, French, Italian, Spanish, Portuguese/Brazilian, Japanese and Chinese), using thirty social media profiles and accounts. As of 12 March 2018 the *GWENT* Facebook fanpage has been followed by 541 thousand users.

GWENT: Participation in trade fairs

In March 2017 *GWENT* was presented at PAX East in Boston, one of the world's largest trade fairs. In May and July 2017 the game was showcased in China at Gamesfusion and Chinajoy respectively. At the latter event, the stand operated by the game's Chinese distributor (GAEA), was visited by over 60 thousand participants. Active promotion of *GWENT* at the fair resulted in over 4.5 million social media posts devoted to the game.

On 22-26 August 2017 CD PROJEKT took part in one of the world's largest gaming fairs – gamescom in Cologne. In the business sector, which operated during the first three days of the fair, over 900 journalists, influencers and business partners from around the world viewed a presentation of *Thronebraker* – the upcoming single-player campaign for *GWENT* – and learned about CD PROJEKT's esports plans associated with the *GWENT Masters* tournament series. *GWENT* was also showcased at a large stand in the well-attended public zone, with a series of *GWENT Open* matches organized during the fair in support of the game's esports campaign.

In the final quarters of 2017 *GWENT* was presented at the largest gaming fair in Poland – Poznań Gaming Arena (October 2017), as well as at Brasil Game Show (Brazil; September 2017) and in Paris at Paris Games Week (Paris; November 2017).

Altogether during 2017 CD PROJEKT showcased *GWENT: The Witcher Card Games* at seven major gaming fairs.



GWENT: esports events

At gamescom in Cologne CD PROJEKT announced *GWENT Masters* – a series of professional esports events culminating in the *GWENT* World Championship series in early 2019. *GWENT Masters* bases on Pro Ladder – a competitive mode which is entirely distinct from standard *GWENT* gameplay features. The Pro Ladder mode is organized into bimonthly cycles.

At present, *GWENT Masters* events are divided into three tiers:

- *GWENT Open* – the prize pool for each of the eight Open tournaments is 25 thousand USD. Two Open tournaments were held in 2017 (in August and November respectively);
- *GWENT Challenger* – four Challenger tournaments are scheduled to take place (organized every other season) with a prize pool of 100 thousand USD per tournament. Two Challenger tournaments were held in 2017 (in May and December respectively).
- *GWENT World Masters* – culmination of the *GWENT Masters* series, with the world's top players vying for the title of *GWENT* World Champion. The prize pool for this event will be 250 thousand USD.

The aggregate *GWENT Masters* prize pool is 850 thousand USD.

GWENT: The Witcher Card Game has its own official Twitch profile, with links to game streams, including broadcasts of esports tournaments. In addition, *GWENT* is streamed by players themselves, using their own private channels. In 2017 *GWENT* was streamed on over 21 thousand channels worldwide, to over 5.8 million unique viewers who spent 822 million minutes in total spectating the game. According to data published by the Twitch service, *GWENT* was among the 10 most frequently spectated new games of 2017²⁰.

The Witcher 3: Wild Hunt for PlayStation 4 Pro and Xbox One X

The updated release of *The Witcher 3: Wild Hunt* for PlayStation 4 Pro, launched in October 2017, added support for 4K resolution, higher-quality texture filtering and ambient occlusion effects, along with performance improvements. The corresponding Xbox One X release enabled selection between two graphics settings: 4K or Performance. The former prioritizes the appeal of the game's visuals, while the latter is geared for fluent gameplay. With these releases *The Witcher 3: Wild Hunt* has joined the narrow circle of games capable of fully utilizing the technical capabilities of the most recent 4K gaming consoles.

10th anniversary of The Witcher series

On 3 September, at PAX West in Seattle, the Company held a special discussion panel, celebrating the 10th anniversary of the release of its first game featuring the adventures of Geralt of Rivia. During this event CD PROJEKT RED representatives reminisced about the birth of *The Witcher* trilogy and the challenges faced while working on *The Witcher* games.

As of the publication date of this report over 33 million copies of *The Witcher games*²¹ have been sold worldwide. Additionally, in 2017 *The Witcher 3: Wild Hunt* topped the GOG.com bestseller ranking and was among the best-selling games on Steam.

²⁰ Twitch 2017 Year in Review.

²¹ Including *The Witcher*, *The Witcher 2: Assassins of Kings* and *The Witcher 3: Wild Hunt*



GOG.com segment

The GOG.com platform was launched in August 2008. Its initial mission was to revitalize major PC cult classics and offer them for sale to international clients with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. In addition to English, the platform is now offered in French, German, Russian, Portuguese (Brazilian edition), Chinese (since 22 June 2017) and Polish (since 24 October 2017) – this includes full game localizations as well as dedicated customer support and integration with locally popular payment channels (accepting payments in thirteen currencies. Since 2012 GOG.com carries games for Apple computers while in 2014 its catalogue was expanded with releases for the Linux OS.

GOG.com activities focus on:

- digital distribution of videogames via the Company's proprietary GOG.com distribution platform and the GOG Galaxy application, on the basis of contracts signed by GOG sp. z o.o. with producers, IPR holders and external publishers. The platform enables customers to purchase games, remit payment and download game files to their personal devices.
- development and support for the Company's proprietary GOG Galaxy client to provide user-friendly and straightforward purchase, launch and update features for all games in the GOG.com catalogue, and to facilitate cross-platform gameplay. GOG Galaxy is currently responsible for all networking features of *GWENT*, including in-game sales and payment processing in the PC edition.
- collaboration with CD PROJEKT S.A. in the framework of a consortium set up to develop and operate *GWENT: The Witcher Card Game*. In this scope, GOG sp. z o.o. is responsible for delivering the required IT infrastructure and implementing networking features.

Payments collected by GOG sp. z o.o. from customers are split with the Company's suppliers as agreed upon in distribution contracts. Typical contracts require the Company to submit sales reports in monthly or quarterly cycles, not later than 30 days following the close of the given reporting period. With regard to certain older products, the company may be contractually permitted to adapt them to the requirements of modern operating systems, or to enable multiplayer gameplay if such features were originally provided by the given game.

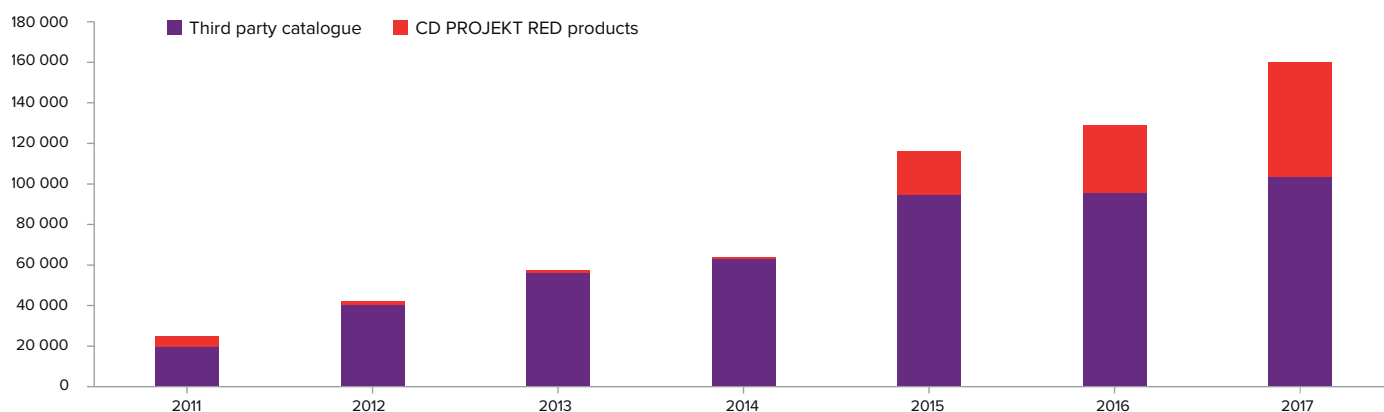


Key products

As of the publication date of this report, the GOG.com catalogue comprises over 2350 products from more than 550 publishers and producers of videogames, including such well-known brands as Activision, Bethesda, Disney, Electronic Arts, Ubisoft and Warner Bros. The key difference between GOG.com and its competitors (i.e. other independent platforms – Steam, Gamersgate, Humble Bundle etc.) is its set of core principles. As a rule, the Company ensures that all of its games are free of cumbersome DRM measures. Products offered on GOG.com are richly featured and usually include bonus content such as soundtracks, maps and wallpapers. GOG Ltd. also ensures full compatibility of its games with popular versions of the MS Windows, Mac OS and Linux operating systems, and provides technical support in case of installation problems. If a game cannot be made to run on the user's computer, it can be returned within 30 days of purchase for a full refund. Owing to these values GOG.com has become one of the most popular digital videogame distribution platforms in the world.

The Group uses GOG.com to market its own products directly to end users – this includes *The Witcher* and *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt* (along with its expansion packs – *Hearts of Stone* and *Blood and Wine*, also offered as a *Game of the Year Edition*) and *The Witcher Adventure Game*. Owing to GOG Galaxy support for *GWENT* networking features, distribution of *GWENT* to PC users can take advantage of the sales and payment mechanisms offered by GOG.com.

Figure 13 The share of CD PROJEKT RED products in sales of GOG.com and GOG Galaxy (PLN thousands)





Key sources of revenue

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

In 2017 the largest contribution to the total revenues of GOG.com was from *GWENT: The Witcher Card Game*.

Prior to the transnational merger between GOG Ltd. and GOG Poland sp. z o.o. (carried out on 31 October 2017) the revenues of GOG.com associated with *GWENT* comprised:

- all revenues from in-game sales carried out in the PC edition, processed by GOG Ltd. and subsequently split with CD PROJEKT S.A. in the framework of the project consortium which consisted of GOG Poland sp. z o.o. and CD PROJEKT S.A.,
- the GOG Poland sp. z o.o. share of revenues from in-game sales carried out in all of the game's editions (on all platforms).

Following the merger (i.e. since 31 October 2017), the revenues of the GOG.com segment comprise:

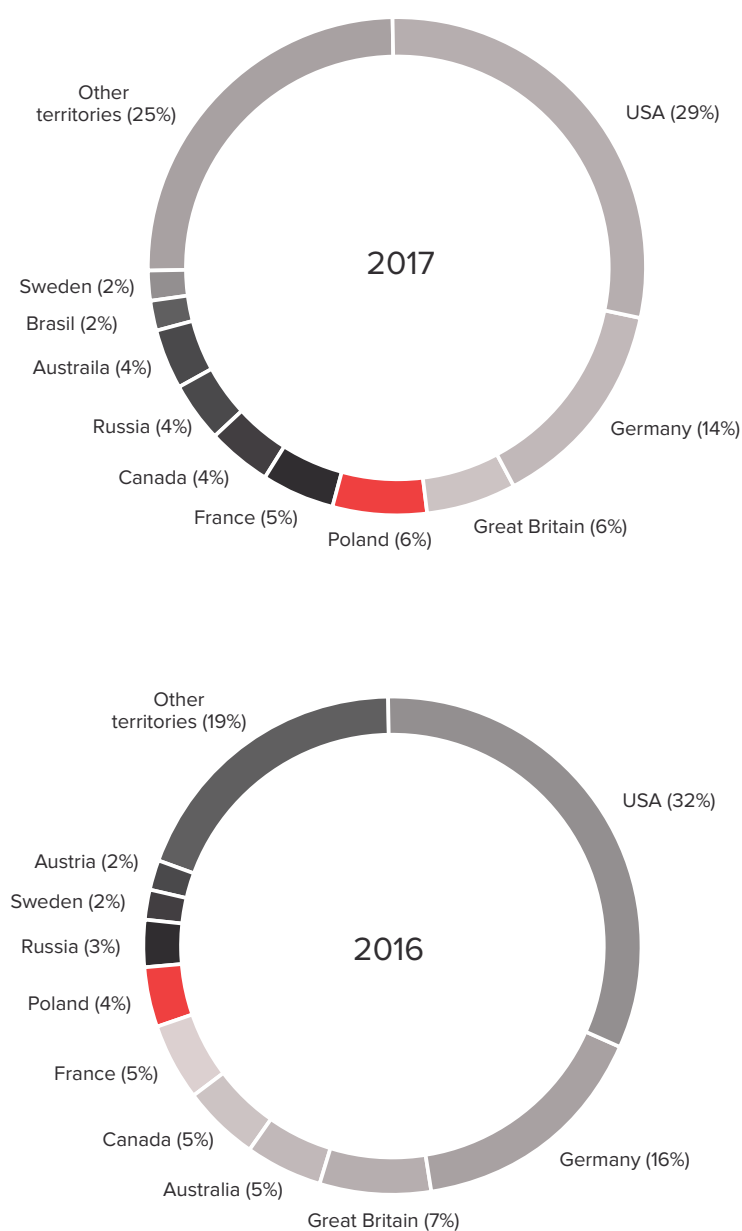
- the GOG sp. z o.o. share of revenues from in-game sales to final customers in the PC edition (excluding the Chinese market), as stipulated in the consortium agreement,
- the GOG sp. z o.o. share of revenues from in-game sales handled by external partners, as stipulated in the consortium agreement.



Key suppliers and clients

Following its creation, GOG.com quickly secured a strong position on the global digital entertainment market, establishing itself as one of the foremost digital distributors in the world. GOG.com markets games via online channels directly to millions of individual users worldwide. As such, the Company does not have key clients in the usual sense of the term.

Figure 14 GOG.com and GOG Galaxy sales revenues in 2016 and 2017 by territory.





When comparing the geographical distribution of GOG.com sales revenues in 2017 and 2016 it should be noted that 2017 revenues include all revenues obtained by GOG.com from monetization of *GWENT: The Witcher Card Game* for the PC, which has been undergoing beta tests – both closed and open (since 24 May 2017) – throughout the current reporting period. In contrast, during 2016 *GWENT* monetization revenues were recognized only during the fourth quarter (since the release of the closed beta on 25 October 2016).

Similarly to the preceding year, US customers provided the largest contribution to GOG.com sales revenues (29%), although a reduction by 3 percentage points was observed in comparison with 2016. Further down the list are Germany (14% vs. 16% in 2016), the United Kingdom (6% vs. 7% in 2016) and Poland (6% vs. 4% in 2016). For the first time the ranking includes Brazil, with a 2% share in GOG.com 2017 sales revenues.

The observed uptick in sales to non-English speaking countries is a result of marketing activities targeted at new customer groups: rollout of additional language localizations of the GOG.com platform, support for local currencies and payment channels, as well as native marketing and customer support. With regard to 2017, the effects of these activities were felt most of all in Brazil and Poland (note that the Polish edition of GOG.com launched during the reporting period, with support for payments in Polish Zlotys).

The observed change in geographical distribution of GOG.com revenues is also associated with monetization of *GWENT: The Witcher Card Game*.

At the end of 2017 the GOG.com catalogue comprised games from over 550 suppliers. No single supplier accounted for more than 10% of the consolidated sales revenues of the Capital Group.

Key product and marketing events

GOG Galaxy update

In April 2017 GOG.com published an updated version of the GOG Galaxy client. Update 1.2 introduced support for cloud-based savegames, both in new releases and in classic games which had not previously provided such an option. The client interface was enriched with customization options, enabling users to turn selected features on and off. Additionally, the CPU and memory footprint of the client software was reduced by adding a hibernation mode.

New games in the GOG.com catalogue

In 2017 more than 500 games were added to the GOG.com catalogue – an expansion by nearly 25%. Highlights of the year included popular new releases: *Divinity: Original Sin 2*, *Hellblade: Senua's Sacrifice*, *Torment: Tides of Numenera*, *Absolver*, *Cuphead*, *ELEX* and *Little Nightmares*. A large batch of classic games was also added, including *Fallout 3*, *Fallout: New Vegas*, *Saints Row 4*, *Mafia* and *Dragon's Dogma*, with many games – such as *SWAT 4*, *Homeworld: Cataclysm* or the *Jazz Jackrabbit* series – covered by exclusive distribution rights.



Sales support

With regard to digital distribution sales support focuses primarily on securing distribution rights to new, appealing videogames, and on seasonal sales campaigns. Starting in 2017 GOG.com introduced a new schedule of weekly sales, which last from Monday until the following Monday, and are expanded with additional games each Friday.

In this scope, the most important event of 2017 was the annual summer sale held in June. This two-week event involved over 1500 games, with discounts reaching 90% on games included in specially prepared bundles.

The end of November is traditionally marked by the “Black Friday” discount drive. On GOG.com the corresponding sale began several days in advance to enable customers to pick up selected games at bargain prices. Over 500 games were included in the sale and anyone who spent at least 15 USD received a free copy of *StarCrawlers*. The GOG Connect service was active during the event, enabling customers who had linked their Steam accounts with GOG.com accounts to unlock games on GOG.com.

The largest promotional event of the final quarter was the annual Winter Sale which kicked off on 12 December and lasted two weeks. In addition to discounts on over 1000 games, two free games were offered: *Grim Fandango: Remastered* and *Oxenfree*. Customers who spent more than 15 or 40 USD received two additional free games – *Hard West* and *Master of Orion* respectively.

New language versions of GOG.com

On 22 June 2017 the Chinese version of GOG.com was launched. Additionally on 24 October 2017 the Polish localization of the GOG.com platform was officially rolled out. To mark the occasion, GOG.com added numerous Polish releases to its catalogue (including *Crime Cities*, *Schizm* and *Reah*). Polish-speaking customer support was launched, prices adjusted to reflect the condition of the Polish market and a Polish Facebook fanpage created. Customers were also in for several surprises: four free games, including Polish classics – *A.D. 2044*, *Sołtys* and *Skaut Kwatermaster* – and a sale on games with the best Polish localizations.

The launch met with widespread acclaim among domestic journalists, influencers and gamers. It triggered an influx of new Polish customers and drove up sales on the Polish market.

GWENT: The Witcher Card Game – launch of the public beta phase

With regard to GOG.com revenues, by far the most important product of 2017 was *GWENT: The Witcher Card Game*. A key milestone was reached on 24 May 2017, with the launch of the open beta, which immediately registered as a quantitative leap in revenues associated with this project. Another important event from the point of view of revenues was the holiday update released on 19 December 2017, expanding the game with over 100 cards, new gameplay mechanics and new unit skills.



Key corporate events

In March 2017 CD PROJEKT S.A. was once again named Stock Exchange Company of the Year by capital market experts, as revealed in the prestigious annual ranking published by Puls Biznesu. The Company carried two categories – “Innovation” and “Growth prospects”, and was the runner-up in three additional categories – “Management excellence”, “Investor relations” and “Success in the past year”. In addition, users of two financial portals – pb.pl and bankier.pl – voted to present the Company with the prestigious 2016 WSE Master award.

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 as relates to *GWENT*.

On 23 May 2017 the General Meeting of CD PROJEKT S.A. voted to appropriate the Company’s net profit for 2016 (totaling 249 702 thousand PLN) in such a way that 100 926 thousand PLN would be returned to shareholders as a dividend, with the remainder, i.e. 148 776 thousand PLN assigned to reserve capital. The corresponding DPS (dividend per share) ratio was 1.05 PLN. The dividend date was set at 30 May 2017, with the payment occurring on 13 June 2017.

On 11 October 2017 the Supervisory Board of CD PROJEKT S.A. appointed Mr. Oleg Klapovskiy to the Management Board of the Company as a Board Member, effective on 11 October 2017. Mr. Klapovskiy co-manages the GOG.com segment and is primarily responsible for cooperation with the Company’s foreign partners, setting the GOG.com sales policy and supervising daily operations. He also participates in planning and implementing monetization policies in the framework of the *GWENT* project consortium.

Events following the balance sheet date

On 19 January 2018 the Company received a notice from Swedbank Robur Fonder AB with a registered office in Sweden, to the effect that, as a result of a purchase of Company stock, the investment funders controlled by the notifying entity increased their share of votes controlled at the Company’s General Meeting to above 5%. According to the notice, following settlement of the transaction on 18 January 2018, the investment funds controlled by Swedbank Robur Fonder AB jointly held 4 844 406 shares of Company stock, which represented 5.04% of the Company share capital. Further details can be found in [Current Report no. 2/2018](#).

Following the annual review of the Warsaw Stock Exchange indices, CD PROJEKT S.A. joined the WIG20 index on 16 March 2018. WIG20 aggregates 20 of the largest and most liquid companies on the Warsaw market. CD PROJEKT S.A. contributes 3.38% to the value of the index.



On 28 November 2017 the Company took part in a call for bids to acquire the commercial property located at Jagiellońska 76 in Warsaw, directly adjacent to the Company's current registered office. In the course of this process the bid submitted by the Company was deemed best and a preliminary purchase agreement was duly signed on 11 January 2018. In line with this agreement, the Company remitted an advance payment in the amount of 1 666 666.65 PLN. As of the submission date of this report, outstanding payments associated with the aforementioned purchase agreement amount to 9 444 444.35 PLN. The corresponding final agreement should be signed and ownership of the property transferred to the Company by 11 January 2019, pending approval of the sale of the property by the State Solicitors' Office.

On 20 March 2018 a conditional preliminary agreement was concluded, specifying the conditions under which CD PROJEKT would acquire the Strange New Things (SNT) development studio, based in Wrocław.

Acquiring SNT will bolster the CD PROJEKT RED team with nearly 20 specialists possessing extensive videogame development experience. This investment is also regarded as the foundation upon which the Wrocław branch of CD PROJEKT RED will be based. The new branch is expected to carry out tasks related to *Cyberpunk 2077*.

Given the to-date activity profile of SNT and the value of the transaction, this agreement does not meet formal significance criteria under the disclosure regulations in force at the Company. Acquisition will proceed by purchasing the relevant enterprise from Strange New Things sp. z o.o. sp. k. The transaction may be partly settled in CD PROJEKT stock (21 105 shares) previously bought back by the Company on the open market and covered by a lock-up period, subject to General Meeting approval.



Disclosure of seasonal or cyclical activities

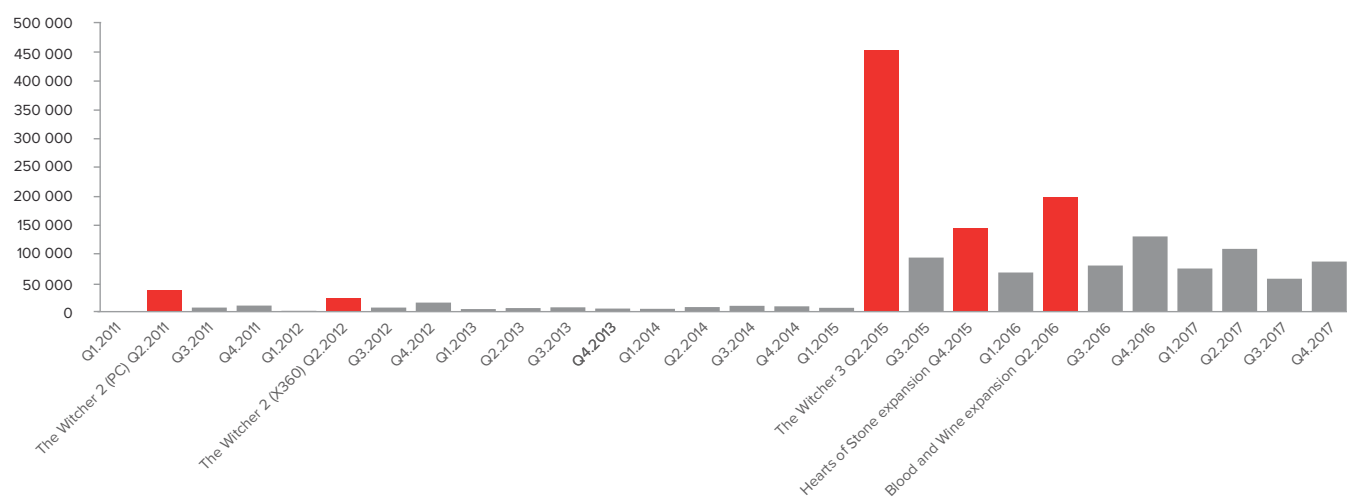
CD PROJEKT RED

CD PROJEKT RED usually takes between 2 and 4 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released. *The Witcher 2* debuted on the PC in May 2011 while the Xbox 360 edition was released on 17 April 2012. The release of CD PROJEKT RED's newest game – *The Witcher 3: Wild Hunt* – took place on 19 May 2015. Sales of the base game were bolstered by two expansion packs: *Hearts of Stone* and *Blood and Wine* (both released within twelve months of the original launch) as well as by *The Witcher 3: Wild Hunt – Game of the Year Edition*, released in August 2016.

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

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

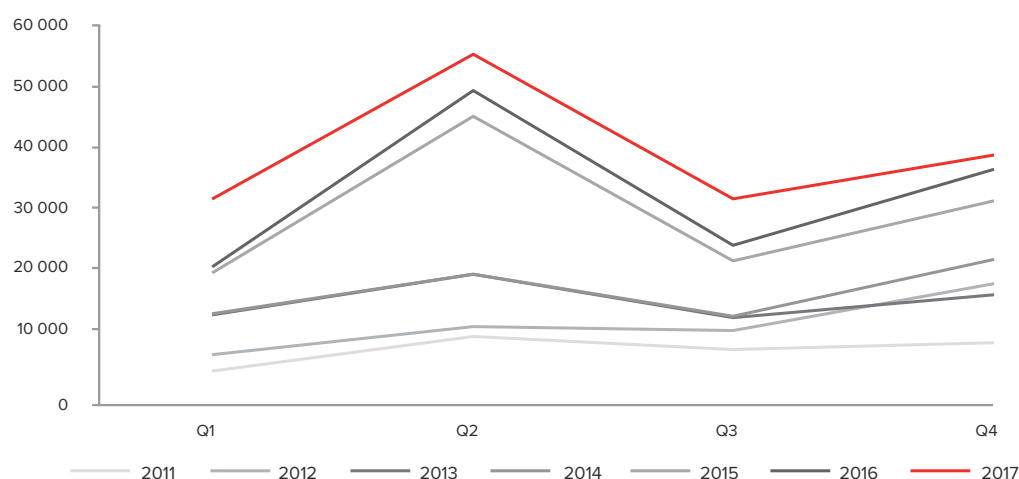
Figure 15 CD PROJEKT RED release quarters – sales of products, materials and services in 2011-2017 (PLN thousands)



GOG.com

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

Figure 16 Revenues from GOG.com sales to external clients, by quarter (2011-2017; PLN thousands)



Source: Company data

The reported high revenues of GOG.com in the second quarter of 2015 were chiefly due to the launch of *The Witcher 3: Wild Hunt*, while the most important release of the second quarter of 2016 was *Blood and Wine* – an expansion pack for *The Witcher 3*.

In the second quarter of 2017 revenues spiked as a result of microtransactions carried out in *GWENT: The Witcher Card Game* for the PC, released as an open beta on 24 May 2017 and supported by GOG Galaxy.



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

The activities of CD PROJEKT Capital Group member companies are affected by external factors such as the global macroeconomic conditions, legal reforms and changes in taxation. In this sense, CD PROJEKT is in a similar position to many other companies conducting business on domestic and international markets. Key internal and external factors which may prove detrimental to the Group's activities and growth prospects are listed in the risk assessment section below.

With regard to the first quarter of 2018 and later periods, the CD PROJEKT Capital Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.com. A description of further growth plans can be found in the Strategy of the CD PROJEKT Capital Group for the years 2016-2021, announced in March 2016. The full text of this document is available on the Company's corporate website at <https://www.cdprojekt.com/en/capital-group/strategy/>.

CD PROJEKT RED

Key factors which will determine activities in the CD PROJEKT RED segment include ongoing projects, the scale of development work associated with those projects and their perceived popularity among players. The Company is currently working on *GWENT: The Witcher Card Game*. Its popularity among gamers depends, among others, on the following factors:

- Activities of the Live Ops team, formed in late 2017 and tasked with enriching the game with periodic events and adapting it in accordance with community needs, to ensure player retention and active participation;
- Frequency of releasing new gameplay modes, card sets, attractive visual add-ons and updates;
- Popularity of the new gameplay mode – Arena – rolled out on 28 February 2018 and targeted at players not interested in professional ranked gameplay;
- Release of *Thronebreaker* – a complex single-player story-driven campaign, scheduled for release in 2018. Favorable reviews of this campaign may, on the one hand, induce *GWENT* players to purchase existing RPGs which detail the adventures of Geralt of Rivia, while on the other hand convincing fans of *The Witcher* RPG trilogy to explore the world of *Thronebreaker* and try their hand at *GWENT*.
- Player interest in the official *GWENT* Masters esports series. Success of successive stages of the series scheduled for 2018 (including *GWENT Open* and *GWENT Challenger* tournaments, leading up to the *GWENT* World Championship event), measured as the number of spectators and total viewing time, would likely drive up interest in the game itself. On the other hand, esports activities will incur additional costs related to the organization and promotion of *GWENT* tournaments throughout 2018.
- Community relations and cost-effectiveness of the *GWENT* marketing campaign, in-game events and further extensions.

In its bid to attract as many potential players to *GWENT* as possible, the Company has initiated cooperation with a Chinese partner. The agreement with GAEA will enable CD PROJEKT RED to undertake wide-ranging publishing, localization, promotional and sales-related activities on the



vast Chinese market. The agreement stipulates minimum guarantees payable to CD PROJEKT in advance of future sales revenues generated by *GWENT* on the Chinese market. If the eventual licensing royalties due to CD PROJEKT exceed these minimum guarantees, the difference will be recognized as Company receivables in future reporting periods. The launch of the *GWENT* closed beta marks the beginning of the game's monetization activities in China.

GWENT is also the first multiplayer release produced by CD PROJEKT in the framework of a consortium with GOG, where each partner contributes technological solutions while gathering knowledge and experience related to provisioning of online services. Acquiring such technologies and know-how is strategically important for the Group in the context of future projects.

The Company believes that preserving the observed growth dynamics and expansion of its activity profile will depend on further enhancement of its world-class videogame development skillset and on maintaining effective communication channels with the global gaming community. Managing two separate major franchises (*The Witcher* and *Cyberpunk*), along with several independent development teams, enables the Company to conduct parallel work on several projects and smoothen its long-term release schedule. This migration towards a dual-franchise model supported by several independent product lines also permits optimization of manufacturing and financial activities, mitigates important risk factors and makes it easier for Company employees to seek professional fulfillment.

The capability to maintain teams of world-class specialists and creative artists, and to attract further talent both in Poland and abroad, is of critical importance for the Company and its Capital Group. The growing workforce and upscaling of development projects call for effective management of publishing and development activities both at the Company's Warsaw headquarters and across its multiple branch offices.

The commercial success of each product releases by the Company is crucial if the Company is to continue being regarded by customers as a developer of hotly anticipated top-notch entertainment products. It also underpins the value and recognition of Company brands and trademarks, such as *The Witcher*, *Cyberpunk* and CD PROJEKT RED, upon which the long-term development strategy of the Company and its Capital Group is founded.

GOG.com

In the GOG.com segment which handles global digital distribution, maintaining the current high sales volume should be supported by the customers' increasing tendency to turn to online channels for purchases. In the near term GOG.com growth will depend on expanding its catalogue and seeking additional brand-new products. In April 2017 GOG rolled out an updated version of its GOG Galaxy technology stack, which supports (among others) unhindered online multiplayer gaming. Its favorable reception on the part of publishers and developers of videogames may translate into an increased number of products which rely on GOG Galaxy, and therefore positively affect future GOG.com revenues. In addition, releasing additional products with built-in GOG Galaxy multiplayer support may induce more gamers to take up interest in the GOG.com catalogue.

GOG sp. z o.o. is in talks with leading global videogame publishers and continues to expand its portfolio. Each new release on GOG.com contributes to the platform's popularity and drives up sales. In addition to adding new products GOG sp. z o.o. also seeks to increase its user base by attracting new players – those who have not yet set up a GOG.com account. The company has been successful in this regard, owing to its PR activities and synergies resulting from cooperation with CD PROJEKT S.A. The GOG.com customer pool continues to grow at a steady pace.



Further growth of activities in the GOG.com segment, including the potential to acquire unique know-how and experience, and to fully exploit the Company's technological expertise, will be influenced by the Company's involvement in the *GWENT* project, where GOG.com is responsible for networking and user support. *GWENT*'s market success should translate into better market recognition of GOG.com, allowing the Company to reach new potential customers around the world. Participation in the development of *GWENT* and applying GOG Galaxy to provide networking features in a free-to-play online game also marks a set of conceptual and technological breakthroughs for GOG sp. z o.o. The resulting technologies and experience will, in the Board's opinion, strongly affect future growth prospects of GOG.com in the context of this heretofore unexplored market segment.

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

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

Since 2008 CD PROJEKT RED has ceaselessly worked on its proprietary game engine – REDengine. The engine supports development of RPGs with advanced graphics and complex storylines, targeted for the PC and home game consoles. Since 2013 it supports creation of open-world games, while in 2015 it added the ability to enrich products with add-ons and expansions. REDengine is also why *The Witcher* has become a benchmark of the capabilities of modern videogame platforms. CD PROJEKT RED is currently working on the fourth generation of REDengine. Thanks to increased R&D investments, the studio has managed to considerably improve the functionality and user-friendliness of its videogame editors, which translates into increased productivity on the part of developers. Additionally, many core modules of the engine have been thoroughly refactored in order to provide enthralling RPG visuals.

The innovative potential of REDengine 4 and other supporting technologies created by CD PROJEKT RED has been acknowledged by international experts evaluating proposals in the GameINN Sectoral Programme – as a result, all four R&D projects proposed by the Studio were approved.

These four projects are currently ongoing at CD PROJEKT RED and concern important aspects of modern RPGs, such as:

- creating huge, open and „living” worlds,
- increasing the quality and efficiency of complex facial and corporal animations,
- producing top-quality cinematic cutscenes,
- implementing unique multiplayer gameplay features.



The resulting technologies are expected to be applied in future AAA releases developed by CD PROJEKT RED, starting with *Cyberpunk 2077*. Altogether, CD PROJEKT RED has secured up to 22.2 million PLN in grant funding under the GameINN project.

CD PROJEKT RED also maintains a parallel development team which continues to work on *GWENT*. To ensure that this product meets stringent quality requirements, a series of custom improvements have been implemented in the Unity engine, upon which *GWENT* is based. Examples include: a card editor, a localization tool, an in-game purchase system, an UI manager and a proprietary technology for managing multiplayer battles.

In the first edition of the GameINN programme GOG Poland sp. z o.o. secured 1.2 million PLN in R&D grants (maximum obtainable amount) for its generic cross-platform multiplayer gameplay systems supporting the leading gaming consoles and popular PC operating systems. The project was officially launched in September 2016. Throughout 2017 GOG Poland sp. z o.o. took an active part in developing *GWENT* by providing technological solutions in support of multiplayer gameplay and the game's online features.

During the period covered by this report GOG.com also undertook work aimed at enhancing its financial reporting system. Improvements include easier access to financial data for Company partners and additional data analytics tools (used e.g. to track customer activity).

In 2017 CD PROJEKT S.A. representatives chaired the Polish Games Association (PG), which brings together the largest and most widely recognized videogame developers in Poland. The mission of the Association is to support growth and increase the competitiveness of the Polish videogame industry on the global stage. In the course of its activities, the Association liaises with public authorities, entrepreneurs, non-profit organizations and also – as a member of the European Game Developers Federation – with similar groups in other countries. In 2017 PG initiated a survey of employee compensation schemes in the industry, with conclusions presented in the annual State of the Polish Video Game Industry '17 report.



Disclosure of significant agreements

No significant agreements were concluded by the Group in 2017.

Risk management at the Capital Group

The CD PROJEKT Capital Group carries out ongoing assessment and mitigation of risk factors which may affect its financial or material standing. The Group is exposed to common risks typical for commercial entities which carry out economic activities in Poland, export products and maintain subsidiaries (including foreign subsidiaries), and also risks specific to the electronic entertainment industry.

Pursuing complex, innovative projects which call for multiple iterations to ensure that the final product meets the stated requirements involves higher-than-average operating risk. With each product release, the Group gains valuable publishing and development experience, enabling it to adapt its practices in the scope of project management, progress monitoring and risk mitigation.

Risks associated with customers

In the CD PROJEKT RED segment, the pool of customers consists of distributors and publishers who purchase licenses to publish and distribute Company products. Efficient cooperation with customers is dependent upon many factors, including the appeal of the product, customers' own publishing plans and customers' preferences in specific countries. CD PROJEKT S.A. makes every effort to ensure that its products are characterized by high quality, rendering them more desirable to final customers and increasing licensee and distributor retention.

In the scope of products and services offered by the Group the final customers are natural persons with access to the retail market. Demand for products and services may fluctuate depending on market trends or sudden changes in perception among key demographics. Internet discussion forums and other social media provide customers with the ability to easily communicate with one another and influence each other's opinions. Unforeseen changes in perception among final customers and trendsetters are beyond the Group's control. Group members strive to maintain open channels of communication with final customers (this includes social media activity and in-house customer support). In line with the Group's philosophy, the Company and its subsidiaries emphasize open, honest and diligent communications as a foundation for mutual trust and long-term customer relations.

Risk of losing key suppliers

In the CD PROJEKT RED segment the Company relies on external suppliers for certain components required in the development of games, such as physics systems, audio libraries and other specialized software.



Given that a wide range of commercial development tools is available the Company actively monitors the market and may take steps to replace selected components or tools used in the production process, should such changes become necessary.

The operations of GOG sp. z o.o. depend on cooperation with developers, producers and publishers who supply final products and with whom publishing, distribution and retail sale agreements are negotiated. The Company mitigates the risk of losing suppliers by maintaining good trade relations and by working to diversify its supply chains and attract new suppliers.

Risk of technical malfunctions and data loss

The activities of the Group are dependent upon correct operation of IT systems, computers and servers. Outages and technical malfunctions may render the Group unable to perform its daily activities and may disrupt the operation of the Group's online services. Data storage and data processing carries the risk of theft or leakage of critical information. Technical issues affecting the Group's data storage services, or access by unauthorized parties may result in data loss, reduced sales revenues and unforeseen costs or penalties. Such occurrences may also negatively impact the Group's reputation and undermine customer trust.

In order to facilitate uninterrupted operation of its technical infrastructure and mitigate the associated risks the Group has deployed a range of safeguards and backup systems ensuring constant supply of electrical power. All devices hosted in the Group's main server room are backed up by UPS to protect against power surges and outages. Additionally, the Group has purchased a generator to supply power to its critical systems in the event of a blackout. The main server room is equipped with an automatic fire suppression system. Critical data is automatically backed up to an offsite facility and many key operations are performed using redundant systems, enabling automatic failover and uninterrupted operation in the event of a technical malfunction.

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

Risk associated with processing of personal data

Processing personal data is regulated by the relevant legislation, including Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (also referred to as the General Data Protection Regulation or GDPR), which is scheduled for unconditional entry into force in Poland on 28 May 2017. The Group is setting up a new legal, organizational and technical framework which will enable secure processing of personal data, in compliance with the new Regulation.

In case the aforementioned framework proves unsatisfactory, leakage, corruption or loss of personal data may ensue, whether due to system malfunction, human error or malicious actions by third parties.

Infringement of data protection legislation may result in financial penalties imposed by the relevant authorities, and may also impact the Group's reputation and undermine customer trust. Beginning on 25 May 2018 the potential consequences of such infringement will become much more severe, due to the raise in penalty caps and an expansion of remedial



prerogatives appertaining to authorities. Exercise of these prerogatives has the potential to negatively impact the financial standing of the Group's member companies, and hamper their ongoing and future activities.

With regard to processing of personal data, CD PROJEKT Capital Group member companies are assisted by internal mechanisms in place at the Capital Group, as well as by external entities. Despite introduction of formalized procedures regulating access to such data, the risks associated with operating activities (including malfunctions in IT systems used to process personal data) cannot be entirely eliminated.

Risk of incorrectly estimating demand and future sales

Developing, publishing and distributing products, whether proprietary or licensed, requires that their sales volume be estimated before the given product is released. In practice, individual products differ greatly with respect to their revenue generation potential.

Group members apply their longstanding experience to determine the commercial potential of each product they release, however the risk of incorrectly estimating demand and sales volume cannot be entirely eliminated.

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

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

Risk of delays in videogame development

Postponed releases are a commonplace occurrence in the videogame industry. Developing games is a highly complex and costly activity, based – to a large extent – on creative effort. This increases the likelihood of incorrect estimation of the required workload, delays due to technical issues in the programming layer (e.g. failure to meet quality assurance criteria or technical glitches), or problems caused by insufficient funding.

With respect to products purchased by GOG Ltd. Group members have no control over delays arising on the supplier side. With respect to development of proprietary products by CD PROJEKT S.A. the company actively manages its development schedule in order to minimize the likelihood of delays. Acting to further improve the effectiveness of videogame development

the Company has deployed a standardized and semiautomatic production management system, which enforces best practices in the area of detailed control over the range and course of ongoing development work.



Risks associated with certification

Development of games for “closed” platforms, such as gaming consoles or iOS devices, and publishing games on markets where the binding legislation calls for certification (e.g. China) requires direct cooperation with the entity responsible for certification. This process involves validation of the game, and applies to any new releases thereof, to expansion packs and to other forms of additional content. Termination of cooperation between the developer and the platform proprietor is a significant risk, as are delays in the certification process or denial of certification. Each of those events may adversely impact the revenue stream for a given game.

CD PROJEKT S.A. devotes substantial effort to meeting its contractual obligations due to platform proprietors as well as legal requirements, and consistently prioritizes the quality of its products.

Risk associated with infringement of intellectual property rights, patents and trademarks

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

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

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

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

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

Group revenues are also negatively affected by the actions of parties who distribute its products – either directly or over the Internet – without the owner’s consent, thus violating intellectual property laws. Group members have no direct control over the scale of such illegal distribution. Insofar as possible, Group members try to attract customers by releasing products



in various price brackets, published in an appealing manner and therefore providing good value for money – both via services operated by GOG sp. z o.o. and with regard to the Group's own products marketed domestically and globally.

The Group continuously revises the legal safeguards present in third-party contracts, and registers its trademarks throughout the European Union and elsewhere. The Group also takes action to combat infringement of intellectual property rights – among others, by monitoring online auction portals and distribution platforms in Europe, the United States and Asia.

Risks associated with the inability to recruit skilled professionals

The activities and growth prospects of CD PROJEKT Capital Group member companies are greatly dependent on maintaining an experienced, knowledgeable and motivated workforce. As the Polish videogame industry is arguably less than 20 years old, Polish universities and vocational training schools have not yet had time to train a sufficient number of professionals specializing in videogame development. Current activities of the Group, as well as its future development plans, call for further recruitment of employees, both Polish and foreign.

The inability to attract world-class specialists, or the loss of experienced employees, might impact the quality and release schedule of Group products, and therefore also the Group's financial result.

Member companies work to expand their internal HR and recruitment departments in order to mitigate this risk. They provide employees with good employment conditions, competitive salaries, bonuses, incentive programs (such as profit shares) and other benefits, including private healthcare, two in-house canteens, an in-house gym and passes for external clubs and sports venues. The Group has also implemented a relocation program for foreign employees in order to ease their immigration and settlement in Poland.

Risk of insolvency and credit risk

The Group compares its results to annual plans which include liquidity goals. Such evaluation is performed on a monthly basis.

In order to minimize the risk of customer insolvency the Company performs ongoing monitoring of the collection of receivables. Debt collection is subcontracted to specialized third parties. The Group identifies key customers whose total share in the Group's revenue stream exceeds 10%. In 2017, owing principally to the activities of GOG.com, one third of the Group's consolidated sales revenues came directly from retail sales of the Group's products and services to final customers.

The Group actively manages its liquid assets and monitors its debt in relation to the Group's equity and financial results, both current and projected.

As of the publication date of this report CD PROJEKT is not in debt due to any credit or loan agreements, and has set aside provisions in cash. Surplus cash is deposited in banks which cooperate with the Group or invested in low-risk financial instruments (in line with the principle of diversifying the deposit and investment portfolio). The Group performs ongoing management of its liquid assets in order to meet any liabilities arising from its ordinary activities and permit unhindered continuation of videogame development and publishing projects



Risks associated with credit agreements and interest rate risks

In order to carry out their activities Group members may, in the future, require access to sources of financing, including bank credit agreements, third-party loans, lease agreements or bonds. In 2017 no Group member had any outstanding liabilities due to bank credit agreements, third-party loans or bonds. Several vehicle lease agreements were in force; however, their aggregate value was much lower than the Group's positive cash account balance.

The Group invests most of its surplus cash in short-term bank deposits. Consequently, lower interest rates may have a negative impact on the financial revenues obtained by the Group.

Risks associated with sureties

Certain pooling agreements concluded by CD PROJEKT Capital Group member companies may involve guarantees or sureties. These provisions may potentially compel each guarantor to cover the liabilities of other parties to whom guarantees or sureties have been contractually pledged. Detailed information regarding the scope of guarantees and sureties granted by each member of the CD PROJEKT Capital Group can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2017, in the section titled "Conditional liabilities from guarantees and collateral pledged".

Asset impairment tests

In accordance with the International Financial Reporting Standards, the Group conducts periodic asset impairment tests. Positive results of future tests cannot be guaranteed.

Risks associated with PLN strengthening against USD and EUR

Due to the global scope of its activities the Capital Group obtains most of its revenues in foreign currencies. Consequently, the Group is subject to risks associated with sudden changes in exchange rates, particularly the strengthening of PLN against foreign currencies.

A significant portion of publishing and distribution agreements to which CD PROJEKT S.A. is a party (as a videogame developer) is denominated in foreign currencies – typically in USD or EUR. As a result, the strengthening of PLN against foreign currencies is regarded as an unfavorable circumstance by the Group, reducing its revenues from distribution and licensing contracts. CD PROJEKT S.A. tries to mitigate exchange rate risks, however such risks cannot be entirely eliminated.

GOG sp. z o.o. revenues are denominated primarily in USD, and to a lesser extent in EUR, GBP, AUD, PLN and RUB, while expenses are mostly borne in USD, EUR and PLN. Accordingly, the strengthening of PLN or EUR against the currencies in which GOG sp. z o.o. obtains revenues is viewed as an unfavorable circumstance by the Group, reducing the profitability of GOG sp. z o.o.

Risks associated with changes in macroeconomic conditions

The overall condition of the global economy, including political and economic crises as well as deterioration of economic conditions both in Poland and worldwide, may have a negative impact on the Group's financial standing.



A negative macroeconomic or political outlook may hinder access to sources of financing, induce consumers to adopt a conservative stance, or result in restrictions upon the sale of products as a result of economic sanctions, thereby negatively affecting product sales. Group members monitor the impact of global economic conditions upon their respective markets and adjust their actions accordingly.

Risks associated with the emergence of new technologies

The digital entertainment segment which is the Group's primary area of activity is characterized by dynamic changes in the applied technologies and IT solutions. This rapid pace of development necessitates frequent corrective actions, development of novel systems and increasing sophistication of the products offered. Technological changes may also influence the means by which games and other products are delivered to the final customer, as well as the capabilities of gaming platforms.

Since 2008 CD PROJEKT RED has been developing its proprietary videogame engine called REDengine, which supports creation of cutting-edge expansive RPGs for the PC and the current generations of gaming consoles. Successive iterations have enriched the engine with – among others – support for nonlinear storytelling, efficient management of expansions and performance optimizations. The studio is currently working on the fourth version of REDengine in effort to expand the boundaries of what modern AAA games are capable of.

Developing videogames for the most modern hardware platforms is a major asset of the Company, as evidenced by the great marketing success of *The Witcher 3: Wild Hunt*, but it also entails certain risks associated with vendor lock-in in a dynamically changing environment.

CD PROJEKT Capital Group member companies monitor technological progress to forestall risks to their own activities, and adapt their strategies to acknowledge breakthroughs in videogame development or distribution processes.

Risks associated with legislative changes, fiscal regulations and conflicts of jurisdiction

Legal regulations, both in Poland and abroad, are subject to frequent changes. These changes, as well as the variability in the interpretation of existing law, constitute a risk which manifests itself e.g. with regard to taxation, trade regulations, intellectual property law, labor law and capital market law. Any change in legislation has the potential to negatively impact Group activities by incurring administrative penalties, increasing operating costs or invalidating projections concerning future events. Legislative changes may also impact the legal environment in which the Group conducts its operations. Introduction of new regulations may be associated with inconsistent case law and conflicting or outright unfavorable interpretations by public administration bodies.

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

Significant recent changes in domestic legal regulations include the following:

- Since 3 July 2016 all capital market participants are bound by Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (also referred to as the Market Abuse Regulation; MAR),
- Since 16 July 2016 Polish law incorporates the provisions of the General Anti-Avoidance Rule (GAAR), introduced with the intention to combat tax avoidance.



On 25 May 2018 the General Data Protection Regulation (GDPR) – a new EU regulation concerning protection of personal data – will enter into force in Poland.

To mitigate risks associated with the above-mentioned regulations, CD PROJEKT Capital Group member companies have instituted internal procedures which aim to supervise business processes and ensure that all legal requirements are properly discharged.

Members of the CD PROJEKT Capital Group are subject to legal regulations in countries where they distribute their products as well as – to some extent – in countries in which they purchase or license products and technologies used in the videogame development process. Large portions of sale, purchase and licensing agreements concluded with foreign parties are governed by foreign law. This creates the risk of incorrect interpretations of foreign law or of the provisions of contracts governed by foreign law. Such exposure to multiple legal systems also carries the risk of potential inadvertent breaches of foreign law. In order to mitigate this risk, Group members employ the services of foreign legal consultants who specialize in the relevant fields.

Risks associated with competitors' actions

The Group's performance is affected by its competitors' strategies, financial standing and the ability to procure financing on favorable terms. The Group mitigates this risk by implementing an active publishing policy and prioritizing the quality of its own products and services.

Risks associated with stock market conditions / stock manipulation attempts

The price of CD PROJEKT S.A. stock on the Warsaw Stock Exchange naturally fluctuates. Stock prices may change due to many factors, only some of which are within the Group's control – e.g. the Group's financial standing, its growth prospects and general condition of the capital market. Stock prices may also be affected by the actions of third parties who spread false information or rumors with the intent to deceive other market players as to the Group's financial position or activities (i.e. engage in stock manipulation).

Insofar as is possible, CD PROJEKT strives to provide investors with equal access to reliable information concerning the Company in the form of current and periodic reports, news published on the Company website at www.cdprojekt.com, the @CDProjektRED_IR Twitter feed, regular meetings with investors and market analysts, and a live investor forum hosted at www.cdprojekt.com (in Polish only).

Risk of loss of reputation

Good reputation of the Company and of its subsidiaries may induce customers to purchase products and services offered by the Group, improve its growth prospects and enable it to attract and retain skilled employees, collaborators, subcontractors and business partners. It may also translate into favorable opinions regarding the Group on the part of its market environment and other stakeholders. Loss of reputation may occur as a result of factors both within and beyond the Group's control. Such loss would have a negative effect on the Company and its subsidiaries, and consequently, might impact their financial standing.

The Management Board believes that a fair and equitable approach to employees, gamers and business partners, intensive and honest communication with customers, and focus on the quality of

all products and services offered, are the foundation upon which the Group's long-term reputation is based. All these priorities are enshrined in the Group's business philosophy, which forms part of the CD PROJEKT Capital Group Strategy for the Years 2016 - 2021, as formally approved by the Board.



Financial results of the CD PROJEKT Capital Group



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

Description and assessment of factors and unusual circumstances affecting the Group's financial result in 2017

The most important contribution to results reported by the Capital Group in 2017 was from ongoing sales of *The Witcher 3: Wild Hunt* and the game's two expansion packs (also available as the *Game of the Year Edition* bundle). The second most important product was *GWENT: The Witcher Card Game*, released as a public beta on 24 May 2017. This release brought a quantitative leap in revenues generated by that project. The reported value of revenues associated with *GWENT* in 2017 comprises revenues from in-game micropayments attributable to the Group, as well as a portion of minimum guarantees payable to the Group in conjunction with the game's future release on the Chinese market. As of the publication date of this report, *GWENT* remains in its public beta phase.

Compared to the financial statements for 2016 and previous periods, the Group introduced an organizational change whereby the "Other activities" segment (previously disaggregated) was folded into the CD PROJEKT RED segment. The rationale for this change is explained elsewhere in this report, in conjunction with the description of the Group's activity segments.

In late October 2017 a transnational merger was carried out between two CD PROJEKT S.A. subsidiaries, namely GOG Poland sp. z o.o. and GOG Ltd. The effect of this merger on *GWENT* consortium settlements and, consequently, on the Group's financial results is explained in the commentary section elsewhere in this report.

In June 2017 CD PROJEKT S.A. paid out its first ever dividend in the amount of 100 926 thousand PLN.

No other unusual circumstances affecting the Group were reported in 2017.

Consolidated profit and loss account – selected highlight



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

	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
Value 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



Clarifications regarding the consolidated profit and loss account

In 2017 the Capital Group reported 463 184 thousand PLN in sales revenues, which is 20.7% less than during the preceding year, during which the Group released *Blood and Wine* (a major expansion pack for *The Witcher 3*) along with the *Game of the Year Edition* bundle, comprising the base game and both of its expansion packs. From the perspective of sales, the most important new event occurring in 2017 was the launch of the open beta of *GWENT: The Witcher Card Game* - the Group's first free-to-play videogame. As of the publication date of this report *GWENT* remains in open beta.

The largest contribution to CD PROJEKT Capital Group sales revenues was from the CD PROJEKT RED segment, at 330 304 thousand PLN, of which 319 481 thousand PLN (96.7%) came from sales of products; mostly licensing royalties associated with distribution of *The Witcher 3: Wild Hunt* and its two expansion packs – *Hearts of Stone* and *Blood and Wine* – as well as revenues generated by *GWENT: The Witcher Card Game*. CD PROJEKT RED also obtained 6 586 thousand PLN in revenues from sales of goods and materials; mostly components of the studio's box set releases.

GOG.com reported 169 550 thousand PLN in 2017 sales revenues, which is 27.0% more than during the previous year. Note that – owing to the release of a major expansion pack for *The Witcher 3: Wild Hunt* – 2016 had been the best year in the history of GOG.com. In terms of revenues the most important product of 2017 in the GOG.com segment was *GWENT: The Witcher Card Game*.

The cost of products, services, goods and materials sold was a major cost item, at 82 174 thousand PLN, most of which comes from the value of goods and materials sold by GOG.com (107 029 thousand PLN of which 32 798 PLN represented intragroup purchases which are subject to consolidation eliminations).

The observed increase in sales margins in both segments – CD PROJEKT RED and GOG.com – translated into an increase in the Group's gross profitability (i.e. the share of gross profit on sales in the Group's aggregate sales revenues), from 80.6% in 2016 to 82.3% in 2017.

The aggregate gross profit on sales of the CD PROJEKT Capital Group in 2017 was 381 010 thousand PLN, compared to 470 665 thousand PLN the year before, which, as already remarked, saw the release of *Blood and Wine* and *The Witcher 3: Game of the Year Edition*.

The selling costs reported in the profit and loss account comprised mainly advertising and promotional expenses borne in each of the Group's activity segments, including in particular the costs of promoting the digital release of *GWENT*, where the Group directly handles most promotional activities and bears the relevant expenses. This line item also aggregates expenses and provisions associated with compensation dependent on the Group's financial result, as well as the costs of bought-in services which qualify as selling costs. The bulk of the reported amount (70 032 thousand PLN) was attributable to the CD PROJEKT RED segment, with the consolidated selling costs at 110 673 thousand PLN (27 835 thousand PLN less than in 2016).

General and administrative expenses were reported at 32 228 thousand PLN and include mostly compensation (including incentive program valuation costs), in addition to bought-in services which qualify as general and administrative expenses. These expenses increased by 6 889 thousand PLN compared to 2016 as a result of the Group's recruitment drive and a general increase in salaries (including incentive program valuation costs), as well as the reported upscaling of the Group's business activities.



The surplus of financial revenues over financial expenses was 6 465 thousand PLN. The Group obtained 10 425 thousand PLN in interest on short-term bank deposits. Regarding expenses, the bulk of the reported figure was from surplus negative exchange rate differences (4 303 thousand PLN in 2017).

The Group's pre-tax profit was 247 405 thousand PLN and a corporate income tax of 47 135 thousand PLN was levied, which corresponds to an effective tax rate of 19.1%.

Altogether, the consolidated net profit of the CD PROJEKT Capital Group in 2017 was 200 270 thousand PLN, i.e. 20.1% less than in 2016.

Net profitability (share of net profit in the Group's sales revenues) was slightly higher than during the previous year (43.2% compared to 42.9% in 2016).

Segmented consolidated profit and loss account – selected highlights



Table 4 Breakdown of sales revenues, cost items and financial results into activity segments.

	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
Value 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
Profit (loss) from continuing operations	184 272	15 998	-	200 270
Net profit (loss)	184 272	15 998	-	200 270



Clarifications regarding the segmented consolidated profit and loss account

The CD PROJEKT RED segment reported 184 272 thousand PLN in net profit, while the net profit of GOG.com was 15 998 thousand PLN.

The most significant contribution to the net result of CD PROJEKT RED was from continuing sales of *The Witcher 3: Wild Hunt* and its expansion packs. Regarding GOG.com, the most important product was *GWENT: The Witcher Card Game*. Additionally, the CD PROJEKT RED segment (and, where digital distribution is concerned, also the GOG.com segment) continued to distribute the Group's earlier products, i.e. *The Witcher*, and *The Witcher 2: Assassins of Kings*, in addition to a range of tie-in products released in conjunction with the global launch of *The Witcher 3: Wild Hunt*.

Of note are the highest-ever sales revenues reported by GOG.com. This figure comprises revenues from sales of all games from the GOG.com catalogue as well as of *GWENT*.

A change in recognizing revenues obtained by GOG.com and CD PROJEKT RED in association with *GWENT* was introduced with 2017 following the transnational merger between GOG Ltd. and GOG sp. z o.o.

Up until the merger GOG Ltd. had not been a *GWENT* project consortium partner: the consortium consisted only of CD PROJEKT S.A. and GOG Poland sp. z o.o. Consequently, prior to the merger, GOG Ltd. revenues from sales of virtual goods in *GWENT* to end users were disclosed entirely in the GOG.com activity segment and not shared with consortium partners. Instead, GOG Ltd. recognized licensing royalties payable to its supplier, i.e. the consortium. These royalties were then proportionally split between CD PROJEKT S.A. and GOG Poland sp. z o.o. in line with the consortium agreement, with the GOG Poland sp. z o.o. share aggregated with results of the GOG.com segment, subject to the appropriate consolidation eliminations.

Following the merger, the entirety of retail sales carried out in the framework of *GWENT* is recognized as revenues from sales of products attributable to the consortium, and split appropriately between consortium partners: CD PROJEKT S.A. and GOG Sp. z o.o. The result is that *GWENT* sales revenues reported in the GOG.com segment will decrease while those reported in the CD PROJEKT RED are set to increase. Given that all transactions carried out between Group members are subject to consolidation eliminations, the presented merger and inclusion of all GOG Ltd. activities in the *GWENT* project consortium will have no effect on the Group's consolidated sales revenues.

A notable event for both segments was the launch of the so-called open (or public) beta of *GWENT: The Witcher Card Game* on 24 May 2017. The game was made freely available to all interested parties, which resulted in a quantitative leap in *GWENT* revenues obtained by CD PROJEKT RED and GOG.com. Over the course of the year (where *GWENT* remained in closed beta during the five initial months and was released as an open beta thereafter) the aggregate revenues produced by the game exceeded the relevant expenses (mostly associated with promotion, advertising, esports activities and actions undertaken to bring the product to new markets). Thus, the *GWENT* project had a positive impact on the results of both activity segments, both in 2017 and incrementally. As of the publication date of this report, *GWENT* consortium partners (CD PROJEKT S.A. and GOG sp. z o.o.) continue to bear capitalized expenses associated with the project, with the goal of concluding the beta testing phase, releasing *GWENT* as a full-fledged product and begin discounting its development costs.

Separate profit and loss account of CD PROJEKT S.A. – selected highlights



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

	Note	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016*
Sales revenues	1	328 235	476 152
Revenues from sales of products		319 481	457 700
Revenues from sales of services		2 168	2 216
Revenues from sales of goods and materials		6 586	16 236
Cost of products, goods and materials sold	3	9 011	50 566
Cost of products and services sold		2 608	35 073
Value of goods and materials sold		6 403	15 493
Gross profit (loss) from sales		319 224	425 586
Other operating revenues	1,4	6 114	2 954
Selling costs	3	75 714	106 014
General and administrative costs	3	23 359	20 633
Other operating expenses	4	3 640	5 650
Operating profit (loss)		222 625	296 243
Financial revenues	1,5	10 789	12 909
Financial expenses	5	4 070	191
Profit (loss) before taxation		229 344	308 961
Income tax	6	44 731	59 259
Net profit (loss)		184 613	249 702
Net earnings per share (in PLN)			
Basic for the reporting period	8	1.92	2.62
Diluted for the reporting period	8	1.85	2.58

*adjusted data

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



CD PROJEKT S.A. is both the parent entity of the CD PROJEKT Capital Group and its largest member company. Thus, when excluding information related to the GOG.com segment and the contribution of the financial results of CD PROJEKT Inc. (a foreign subsidiary of the Company), the remaining commentary will necessarily focus on the activities and results of CD PROJEKT S.A. itself.

In 2017 the sales revenues of CD PROJEKT S.A. were 328 235 thousand PLN, which is 31.1% less than in 2016. The Company's net result, at 184 613 thousand PLN, corresponded to 73.9% of the net result obtained in 2016. The Issuer's net profitability in 2017 was 56.2% compared to 52.4% the year before.

Consolidated statement of financial position of the CD PROJEKT Capital Group

Table 6 Consolidated statement of financial position of the CD PROJEKT Capital Group – selected highlights

	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
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

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

Assets

At the end of 2017 the Group held 18 832 thousand PLN in tangible assets, which is 4 409 thousand PLN more than at the end of 2016. The reported figure mainly comprises office space at facilities where the Group conducts its operations (Buildings and Structures line item; total value: 9 675 thousand PLN), along with Machinery and Equipment (7 046 thousand PLN), i.e. computers, servers and other electronic devices used in the videogame development process, including the furnishings of the Company's proprietary motion capture studio. The reported increase in the value of tangible assets resulted from ongoing improvements and adaptation



of office space and videogame development facilities, as well as from purchases of electronic equipment and office equipment associated with the upscaling of the Group's activities.

With regard to intangibles, their aggregate value was reported at 46 853 thousand PLN and includes the CD PROJEKT brand name and *The Witcher* trademark (jointly valued at 32 199 thousand PLN). In addition, this section aggregates the value of computer software held by the Group (at 7 188 thousand PLN) and the value of the Group's intellectual property rights (at 6 530 thousand PLN). The consolidated figure did not undergo significant changes compared to the end of 2016.

Expenditures on development projects are reported as a separate line item in the Fixed Assets section. At the end of 2017 their value was 142 486 thousand PLN, most of which was attributable to the parent Company. Given that the development costs of the Group's earlier releases (e.g. *The Witcher*, *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt*, *Hearts of Stone* and *Blood and Wine*) had been fully discounted in the previous reporting periods, the reported value of expenditures associated with these projects was 0 PLN both on 31 December 2016 and on 31 December 2017. Thus, the entirety of the current figure corresponds to ongoing development work – particularly *Cyberpunk 2077* and *GWENT: The Witcher Card Game*. On a year-over-year basis the reported development expenditures increased by 80 475 thousand PLN.

An important component of the Group's fixed assets is its goodwill, valued at 46 417 thousand PLN. 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. The reported figure follows from the merger between the parent entity and the CDP Investment Capital Group which occurred on 30 April 2010. No changes in the Group's goodwill were reported in 2017.

Consolidated trade receivables were valued at 46 261 thousand PLN, most of which (37 253 thousand PLN) was attributable to the CD PROJEKT RED segment. Within the CD PROJEKT RED segment itself, the bulk of the reported trade receivables arise from licensing reports covering the fourth quarter of 2017 and received after the close of the reporting period (total value: 34 956 thousand PLN).

The Group's other receivables, at 17 582 thousand PLN, shrank by 2 686 thousand PLN compared to the end of 2016. Most of this figure corresponds to withholding tax deducted at source by the foreign business partners of CD PROJEKT S.A., set against the income tax and VAT reported in the annual financial statement.

The consolidated value of prepaid expenses was 14 296 thousand PLN and did not undergo appreciable changes throughout the year. Most of this figure is associated with minimum guarantees paid by GOG.com to its foreign suppliers and not aggregated with the profit and loss account as of the balance sheet date (12 714 thousand PLN on 31 December 2017).

The aggregate balance of cash and cash equivalents, including bank deposits with maturity periods beyond 3 months was 647 516 thousand PLN at the end of the year, and increased by 50 312 thousand PLN compared to 31 December 2016 – this despite the dividend payment (100 926 thousand PLN) and 76 625 thousand PLN spent on ongoing development projects. Most of these monetary assets were held by CD PROJEKT S.A. (599 540 thousand PLN) and GOG sp. z o.o. (47 976 thousand PLN).

At the end of 2017 the Group's consolidated fixed assets were worth 84 891 thousand PLN more than at the end of 2016 (49.7% increase), mostly due to ongoing development expenses



associated with future releases. Current assets increased in value by 21 662 thousand PLN (3.1%), primarily due to creation of additional bank deposits. At the end of 2017 fixed assets comprised 26.0% of the Group's total assets, with the remaining 74.0% made up of working assets.

Equity and liabilities

Equity accounted for 90.0% of the Capital Group's year-end aggregate equity and liabilities, with the remaining 10.0% made up of long- and short-term liabilities. The corresponding 2016 breakdown was 88.8% and 11.2% respectively.

The reported increase in the Group's consolidated equity, by 105 961 thousand PLN compared to the end of 2016, was due to the year-end net profit (200 270 thousand PLN), offset by the dividend paid out from 2016 net profit (100 926 thousand PLN).

Trade liabilities, valued at 37 374 thousand PLN at the end of the year comprised mostly GOG.com liabilities (29 429 thousand PLN, including 1 351 thousand PLN in intragroup liabilities subject to consolidation eliminations). CD PROJEKT RED trade liabilities were valued at 9 256 thousand PLN. The Group's consolidated trade liabilities increased by 9 468 thousand PLN compared to 31 December 2016, mostly as a result of increased Q4 sales of products licensed from external suppliers and distributed by GOG.com, as well as due to the general upscaling of CD PROJEKT S.A. development and promotional activities.

The Group's other liabilities were reported at 6 770 thousand PLN, which is 3 057 thousand PLN less than at the end of 2016 (31.1% decrease). This change was mostly due to settlement of advance payments received from foreign clients during the preceding year.

Year-end provisions, at 43 640 thousand PLN, were lower by 1 391 thousand PLN compared to 2016. The reported figure comprises provisions for future liabilities, including compensation dependent on the Group's financial result in 2017.

A breakdown of the Group's financial statement into activity segments is provided as part of the Group's consolidated financial statement for 2017.

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

Despite having paid out a dividend in the amount of 100 926, the Group reported an increase in its equity by 105 961 thousand PLN (13.6% compared to 31 December 2016). As of 31 December 2017 equity accounts for 90% of the Group's asset/liability balance. The aggregate value of short- and long-term liabilities (i.e. the remaining 10%) did not change significantly and was reported at 98 614 thousand PLN.

At the end of 2017 the Group had no outstanding debt under any credit or loan agreement.

The Group's year-end balance of cash and cash equivalents, including bank deposits with maturity periods beyond 3 months, was 647 516 thousand PLN, i.e. 50 312 PLN more than at the end of 2016. Altogether, cash, near-cash and short-term bank deposits constituted 66.0% of the Group's year-end assets.

The Group typically invests its surplus cash into overnight or short-term bank deposits. The total balance of bank deposits with maturity periods beyond 3 months was 580 529 thousand PLN at the end of 2017.



The Group's consolidated trade receivables shrank by 25 293 thousand (35.3%) during 2017. This value comprises mostly CD PROJEKT S.A. receivables associated with Q4 licensing reports and collected after the close of the reporting period (34 956 thousand PLN). The reported decrease is due to slower sales of CD PROJEKT RED products in the fourth quarter compared to Q4 2016 (marked by the release of *The Witcher 3: Wild Hunt – Game of the Year Edition*) as well as due to digital distribution (with its correspondingly shorter receivable collection periods) gradually expanding at the expense of traditional distribution channels.

Expenditures on development projects are an important and continually growing component of the Group's total assets. The reported value of 142 486 thousand PLN marks a major increase (by 80 475 thousand PLN) compared to the end of the previous year, and is mainly due to ongoing work on future releases – including *Cyberpunk 2077* and *GWENT: The Witcher Card Game*. These development projects also constitute the main investments of the Capital Group and have a major impact on the reported cash flows from investment activities.

Statement of financial position of CD PROJEKT S.A. – selected highlights

Table 7 Statement of financial position of CD PROJEKT S.A. – selected highlights

	note	31.12.2017	31.12.2016*
FIXED ASSETS		252 551	169 607
Tangible assets	12	15 649	10 952
Intangibles	13	85 155	84 075
Expenditures on development projects	13	135 229	60 049
Investments in subsidiaries	16	16 023	13 850
Other financial assets	18	-	194
Other long-term receivables	17	495	487
CURRENT ASSETS		660 004	658 922
Inventories	20	323	401
Trade receivables	22	37 058	73 372
Other receivables	23	22 219	23 701
Other financial assets	41	444	53
Prepaid expenses	24	932	1 012
Cash and cash equivalents	25	18 499	180 548
Bank deposits (maturity beyond 3 months)	41	580 529	379 835
TOTAL ASSETS		912 555	828 529

*adjusted data



	note	31.12.2017	31.12.2016
EQUITY		851 680	757 576
Equity attributable to equity holders of parent entity		851 680	757 576
Share capital	26	96 120	96 120
Supplementary capital	28	539 294	390 518
Other reserve capital	28	15 212	4 795
Retained earnings	29	16 441	16 441
Net profit (loss) for the reporting period		184 613	249 702
LONG-TERM LIABILITIES		5 280	8 705
Other financial liabilities	31,37	148	76
Deferred income tax liabilities	6	3 071	7 638
Deferred revenues	38	1 983	937
Provisions for employee benefits and similar liabilities	39	78	54
SHORT-TERM LIABILITIES		55 595	62 248
Other financial liabilities	31,37	190	63
Trade liabilities	33	9 972	7 204
Current income tax liabilities		2 158	3 678
Other liabilities	34,35	1 650	7 035
Deferred revenues	38	586	587
Provisions for employee benefits and similar liabilities	39	1	182
Other provisions	40	41 038	43 499
TOTAL EQUITY AND LIABILITIES		912 555	828 529

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



CD PROJEKT S.A. is both the parent entity of the CD PROJEKT Capital Group and its largest member company. Thus, when excluding information related to the GOG.com segment and the contribution of the financial results of CD PROJEKT Inc. (a foreign subsidiary of the Company), the remaining commentary will necessarily focus on the activities and results of CD PROJEKT S.A. itself.

The year-end balance sheet total of CD PROJEKT S.A. was lower than the corresponding balance sheet total of the Capital Group by 68 958 thousand PLN (7.0%). At the end of 2016 the difference was 46 431 thousand PLN (5.3%). Thus, in spite of the reported significant dividend, CD PROJEKT S.A. continues to comprise the bulk of the Group's balance sheet total.

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

- Goodwill – defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. In the separate statement it is reported as an intangible (at 39 147 thousand PLN) while in the consolidated statement it is disaggregated in the Fixed Assets section (at 46 417 thousand PLN).
- Investments in affiliates – CD PROJEKT S.A., which fully owns other member companies of the Group, discloses investments in these companies (at 16 023 thousand PLN in 2017) in its separate statement. In the consolidated statement these investments are subject to consolidation eliminations.
- Prepaid expenses, total value of cash and cash equivalents, trade receivables, equity and trade liabilities – in the separate statement all these line items exclude contributions from other members of the Capital Group, including in particular from GOG sp. z o.o.

Consolidated statement of cash flows of the CD PROJEKT Capital Group – selected highlights



Table 8 Consolidated statement of cash flows – selected highlights

	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

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

In 2017 the CD PROJEKT Capital Group generated 231 688 thousand PLN in positive cash flows from operating activities that is 27 768 (10.7%) less than during the previous year, which notably saw the release of *Blood and Wine* (a major expansion pack for *The Witcher 3*) as well as *The Witcher 3 Game of the Year Edition* bundle. The aggregate value of cash flows from operating activities was 31 418 thousand PLN greater than the net profit for the reporting period.

The most important adjustment to cash flows from operating activities was due to a reduction in the balance of trade receivables (by 27 971 thousand PLN), resulting from collection of trade receivables reported at the end of 2016.

Another adjustment, in the amount of 10 425 thousand PLN, concerned exclusion of interest on bank deposits, currently reported as part of the Group's investment activities.

Due to intensive ongoing work on future releases and an active cash allocation policy the Group reported 280 265 thousand PLN in negative cash flows from investment activities. The bulk of this figure is associated with opening new bank deposits with maturity periods beyond 3 months (with an aggregate value of 1 292 076 thousand PLN). This is reported as "outflows", offsetting "inflows" from maturation of earlier bank deposits (at 1 091 382 thousand PLN), for a net negative balance of 200 694 thousand PLN. This figure corresponds to the reported increase in the balance of bank deposits with maturity periods beyond 3 months.

Additionally, in the scope of its investment activities, the Group incurred development expenses valued at 76 625 thousand PLN, compared to 55 605 thousand PLN in 2016. This increase is associated with the upscaling of development activities carried out by CD PROJEKT S.A. and GOG sp. z o.o. in relation to the Group's future releases – including *Cyberpunk 2077* and *GWENT: The Witcher Card Game*. Another important contribution to the reported balance came from purchases of fixed assets and intangibles, at 13 436 thousand PLN, reflecting expenses related to adaptation of new office and social space, purchases of computer software, electronics and



technical equipment, as well as other investment expenses associated with ongoing activities in each of the Group's activity segments.

Other inflows from investment activities, at 10 425 thousand PLN, comprised mainly interest on bank deposits collected by the Group.

Following the payment of a dividend in the amount of 100 926 thousand PLN, the Group reported 101 805 thousand PLN in net negative cash flows from financial activities.

At the end of 2017 the balance of the Group's cash assets (excluding bank deposits with maturity periods beyond 3 months) decreased by 150 382 while the balance of the aforementioned bank deposits increased by 200 694 thousand PLN compared to the end of 2016. During this period the Group paid out 100 926 in a dividend and incurred 76 625 thousand PLN in development expenses. Consequently, positive cash flows from other activities (adjusted for dividends, development expenses and the balance of new and mature bank deposits) reported by the Group in 2017 were reported at 227 863 thousand PLN, which is 27 593 thousand PLN more than the Group's consolidated net profit in 2017.

At the end of 2017 the Group held 66 987 thousand PLN in cash assets and 580 529 thousand PLN in bank deposits with maturity periods longer than 3 months. The Group had no outstanding debt under any credit or loan agreement.

Separate statement of cash flows of CD PROJEKT S.A. – selected highlights



Table 9 Separate statement of cash flows of CD PROJEKT S.A. – selected highlights

	note	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016*
OPERATING ACTIVITIES			
Net profit (loss)		184 613	249 702
Total adjustments:	52	36 633	(2 106)
Depreciation of fixed assets and intangibles		1 892	2 160
Depreciation of development projects		-	31 398
Exchange rate profit (loss)		92	-
Interest and profit sharing (dividends)		(10 358)	(10 828)
Profit (loss) from investment activities		908	329
Change in provisions		(2 618)	(10 917)
Change in inventories		78	217
Change in receivables		36 793	17 348
Change in liabilities excluding credits and loans		(306)	(41 967)
Change in other assets and liabilities		1 125	365
Other adjustments		9 027	9 789
Cash flows from operating activities		221 246	247 596
Income tax on pre-tax profit (loss)		44 731	59 259
Income tax (paid)/reimbursed		(50 908)	(59 987)
Net cash flows from operating activities		215 069	246 868
INVESTMENT ACTIVITIES			
Inflows	52	1 103 322	612 380
Disposal of intangibles and fixed assets		63	55
Disposal of financial assets		-	85
Repayment of long-term loans granted		1 519	-
Closing bank deposits (maturity beyond 3 months)		1 091 382	601 408
Other inflows from investment activities		10 358	10 832
Outflows		1 377 570	762 651
Purchases of intangibles and fixed assets		12 312	9 478
Expenditures on development projects		71 127	53 938
Long-term loans granted		2 055	-
Opening bank deposits (maturity beyond 3 months)		1 292 076	699 235
Net cash flows from investment activities		(274 248)	(150 271)



FINANCIAL ACTIVITIES

Inflows	-	5 031
Net inflows from issue of securities (stock) and other equity instruments, and from capital contributions	-	5 031
Outflows	102 870	5 294
Increase in share capital of subsidiary company	452	4 000
Dividends and other payments due to equity holders	100 926	-
Payment of liabilities under financial lease agreements	427	499
Interest payments	-	4
Other outflows (incl. cash pool transactions)	1 065	791
Net cash flows from financial activities	(102 870)	(263)
Total net cash flows	(162 049)	96 334
Change in cash and cash equivalents on balance sheet	(162 049)	96 334
Cash and cash equivalents at beginning of period	180 548	84 214
Cash and cash equivalents at end of period	18 499	180 548

**adjusted data*

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

CD PROJEKT S.A. is both the parent company of the CD PROJEKT Capital Group and its largest member company, with the greatest impact on the Capital Group's cash flows. The balance of the Company's cash flows in 2017 corresponded to 107.8% of the balance of the Capital Group's consolidated cash flows. CD PROJEKT S.A. had a 91.1% share in the Group's cash flows during this period.

Comments regarding the feasibility of investment plans

As noted above, at the end of 2017 the Group had no outstanding debt under any credit or loan agreements, and held 647 516 thousand PLN in cash assets and bank deposits.

Future investment plans are set to be financed from the Group's own funds and from expected positive cash flows from future operating activities. Ongoing development of new games may, starting at a certain stage in their development stage, be financed with prepayments remitted by publishers or distributors in accordance with licensing and distribution contracts concluded with the Group.

As of the publication date of this report the Group does not anticipate any difficulties in securing adequate funding for its future activities

Disclosure of credits and loans in 2017

Throughout 2017 the Group had no outstanding debt under any credit or loan agreement.



Disclosure of credits and loans granted in 2017

In 2017 no member company of the CD PROJEKT Capital Group granted any credits or loans to external entities. Group member companies granted loans to one another under the groupwide cash pooling agreement; however in November 2017 this agreement was dissolved and, as of the publication date of this report, Group member companies do not intend to renew it.

Disclosure of guarantees and sureties granted in 2017, and other off-balance sheet items

Information regarding guarantees, sureties and other off-balance sheet items can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2017.

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

Between 2015 and 2017, owing to the success of *The Witcher 3: Wild Hunt* and its expansion packs – *Hearts of Stone* and *Blood and Wine* – the Group reported a major leap in revenues, net profit, positive cash flows, equity and cash assets, both within its CD PROJEKT RED segment and the Group as a whole. During the current reporting period the parent Company focused on expanding its development capabilities by recruiting additional specialists and putting in place the necessary infrastructure. GOG.com also expanded its activities, as evidenced by its increasing revenues. The current economic and financial standing of the CD PROJEKT Capital Group may be regarded as stable.

Description of the expected future economic and financial standing of the CD PROJEKT Capital Group

The stellar reception of *The Witcher 3: Wild Hunt* among gamers and gaming media alike – attested to by over 250 Game of the Year awards – should result in long-term popularity, enabling the game to continue generating revenues and positive cash flows for the Company and its Capital Group. This record-breaking pool of awards, coupled with the launch of two expansion packs – *Hearts of Stone* and *Blood and Wine* – enabled the Company to re-release *The Witcher 3* as a *Game of the Year (GOTY) Edition* bundle, comprising the base game along with both expansion packs. This release debuted in August 2016 and will, in future reporting periods, constitute the “core” edition of *The Witcher 3*. All expenses associated with the development of *The Witcher 3* and its expansions have been fully discounted in the previous years – this should ensure high profit margins on future sales and generate substantial positive cash flows for the Capital Group.

Another important factor which will shape future economic and financial prospects of the Capital Group is the ongoing development of *GWENT: The Witcher Card Game*. This activity is carried out by a consortium consisting of CD PROJEKT S.A. and GOG sp. z o.o. In the Board’s opinion the game – in addition to its great marketing potential – enables the Group to enter a new market segment (free-to-play online games with optional microtransactions), establish itself in a new territory (with a direct presence in China) and engage in a new type of activity (esports events). This will produce new skills and experience, which should assist the Group in its future game development and publishing endeavors.



It should be noted that pursuing the abovementioned goals will call for substantial expenses in future reporting periods, particularly as relates to development and promotion of new releases – including *GWENT: The Witcher Card Game* and *Cyberpunk 2077*.

The Group anticipates further growth of its GOG.com segment, owing – among others – to technological improvements and the GOG Galaxy platform.

As of the publication date of this report the Board regards the economic and financial standing of the Group as advantageous, and does not foresee any threats to the Group's liquidity.

Disclosure of transactions with affiliates

In 2017 the CD PROJEKT Capital Group engaged mainly in the following types of transactions with affiliates:

- sales of licenses between CD PROJEKT S.A., GOG Ltd. and GOG sp. z o.o. (formerly GOG Poland sp. z o.o.), as required by these companies' respective business profiles,
- intragroup loans and groupwide consolidation of bank accounts under a cash pooling agreement (until November 2017),
- procurement of accounting, HR, legal, financial, administrative and managerial services from CD PROJEKT S.A. by its subsidiaries,
- subletting of office space,
- procurement of GOG Poland sp. z o.o. (presently GOG sp. z o.o.) services by GOG Ltd. in the scope of maintenance of the GOG.com platform (until October 2017),
- procurement of CD PROJEKT Inc. services by CD PROJEKT S.A., GOG Ltd. and GOG sp. z o.o. in the scope of coordinating promotional and publishing activities in North America,
- procurement of CD PROJEKT Co., Ltd. services by CD PROJEKT S.A., GOG Ltd. and GOG sp. z o.o. in the scope of coordinating promotional and publishing activities in China,
- other minor transactions associated with day-to-day activities (e.g. re-invoicing joint expenses).

Transactions between affiliates are concluded on market terms as required by the business profiles of each member of the CD PROJEKT Capital Group. A detailed description of procedures which govern transactions between affiliates is included in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2017.

Since 2016 CD PROJEKT S.A. and GOG sp. z o.o. have been jointly developing *GWENT: The Witcher Card Game*. This cooperation continued in 2017 and it is the intent of both parties to carry out collaborative activities in the scope of post-release support and further expansion of the game. According to the consortium agreement, each company bears a portion of *GWENT* project expenses, and is entitled to a share of the associated revenues.

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

As of the end of 2017, the largest contribution to the Group's consolidated assets is from bank deposits with maturity periods beyond 3 months (580 529 thousand PLN), created as a means of allocating surplus cash. The aggregate value of cash and cash equivalents (including deposits) on 31 December 2017 was 647 516 thousand PLN.

The business activities of the Capital Group, and particularly of CD PROJEKT S.A., is directly tied to developing and publishing videogames. Development of new videogames constitutes



the main source of revenues for the Group and its parent Company. In 2017 development was carried out in Warsaw and in Kraków. The associated expenses are listed in the Fixed Assets section as Expenditures on development projects. These expenditures totaled 142 486 thousand PLN in 2017, which represents an increase by 80 475 thousand PLN compared to the end of 2016 – chiefly as a result of the ongoing development of *Cyberpunk 2077* and *GWENT: The Witcher Card Game*. At the end of 2017 development expenses in the CD PROJEKT RED segment were estimated at 135 210 thousand PLN, while those in the GOG.com segment – at 7 276 thousand PLN.

Important fixed assets reported in the Group's statement of financial position for 31 December 2017 include intangibles, valued at 46 853 thousand PLN – mainly the CD PROJEKT brand name and *The Witcher* trademark. Additionally, in its statement of financial position the Group reports goodwill, which is calculated as the positive difference between the cost of establishing a business combination and the Company's share in the net fair value of all assets and liabilities of the controlled entity on the date of acquisition. The reported value of the Group's goodwill stands at 46 417 thousand PLN.

At the end of 2017 the Group held 18 832 thousand PLN in fixed assets. The largest contribution to this figure is from adaptation of the Group's office space (aggregated with the Buildings and structures line item, at 9 675 thousand PLN), and from computers, servers and technical infrastructure (Machinery and equipment, at 7 046 thousand PLN).

Throughout 2017 member companies of the CD PROJEKT Capital Group financed their activities and investment projects mostly with their own resources.

The CD PROJEKT Capital Group includes two whole owned foreign subsidiaries: CD PROJEKT Inc. and CD PROJEKT Co., Ltd., in addition to a wholly owned domestic subsidiary – GOG sp. z o.o.

Aggregate investments in foreign and domestic subsidiaries, reported in the separate financial statement of CD PROJEKT S.A. (the Group's holding company), were valued at 16 023 thousand PLN.

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

The CD PROJEKT Capital Group had never published financial projections for 2017. Accordingly, no description of the significant differences between the Group's actual results and earlier projections is provided.

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

Between 1 January and 31 December 2017 the Company did not issue any new shares. In 2016, due to the attainment of the goals of the 2012-2015 incentive program, CD PROJEKT S.A. issued 1 170 000 shares, with an issue price of 4.30 PLN per share, as specified in the relevant resolution of the General Meeting of Shareholders of 16 December 2011. Total revenues from issue of shares under the abovementioned incentive program in 2016 were 5 031 thousand PLN, which corresponded to less than 1% of the Group's consolidated cash assets at the end of 2016. These revenues were appropriated to finance the core activities of CD PROJEKT S.A.

Corporate Governance



Entity contracted to audit financial statements

On 23 May 2017 the Supervisory Board of CD PROJEKT S.A. concurred with the recommendation submitted by the Management Board of the Company 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 (current report no. 12/2017). Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. is listed in the registry of entities authorized to perform audits of financial statements, maintained by the National Chamber of Statutory Auditors (no. 130).

Detailed information concerning the compensation due to the entity charged with reviewing and auditing the Company's financial statements for 2017 can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2017 (see note no. 52).

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

Shareholders controlling at least 5% of the vote at the General Meeting

The Company's share capital amounts to 96 120 000 PLN, divided into 96 120 000 shares with a nominal value of 1 PLN per share.

The shareholder structure is determined on the basis of formal notices issued by shareholders who control at least 5% of the total number of votes at the General Meeting of Shareholders.



Table 10 Shareholders controlling at least 5% of the vote at the general meeting as of the publication date of this statement

	Number of shares	% of share capital	Number of votes at the GM	% of total number of votes at the GM
Marcin Iwiński	12 150 000	12.64%	12 150 000	12.64%
Michał Kiciński ¹	10 486 106	10.91%	10 486 106	10.91%
Piotr Nielubowicz	6 135 197	6.38%	6 135 197	6.38%
Nationale-Nederlanden PTE ²	4 998 520	5.20%	4 998 520	5.20%
Swedbank Robur Fonder AB ³	4 844 406	5.04%	4 844 406	5.04%
Pozostały akcjonariat	57 505 771	59.83%	57 505 771	59.83%

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

² as disclosed in Current Report no. 15/2017 of 13 July 2017

³ as disclosed in Current Report no. 2/2018 of 19 January 2018

The percentage share in the Company's share capital and in the total number of votes at the General Meeting is calculated on the basis of the most recent notices received from Company shareholders as of the publication date of this report.

On 13 July 2017, in [Current Report no. 15/2017](#), the Company announced that a notice had been filed by a Company shareholder to the effect that, as a result of a purchase of CD PROJEKT S.A. stock the following funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny ("OFE") and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny ("DFE") increased their joint share in CD PROJEKT S.A. share capital from 4.99% to 5.20%, which corresponds to 4 998 520 shares of CD PROJEKT S.A. stock.

On 16 October 2017, in [Current Report no. 26/2017](#), the Company announced that a notice had been filed by a Company shareholder to the effect that, as a result of a sale of CD PROJEKT S.A. stock, the investment fund Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK managed by Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. decreased its share in CD PROJEKT S.A. share capital from 5.01% to 4.88%, which corresponds to 4 693 642 shares of CD PROJEKT S.A. stock.

On 19 January 2018, following the balance sheet date, the Company received a notice from Swedbank Robur Fonder AB with a registered office in Sweden, to the effect that, as a result of a purchase of Company stock, the investment funders controlled by the notifying entity increased their share of votes controlled at the Company's General Meeting to above 5%. According to the notice, following settlement of the transaction on 18 January 2018, the investment funds controlled by Swedbank Robur Fonder AB jointly held 4 844 406 shares of Company stock, which represented 5.04% of the Company share capital. Further details can be found in [Current Report no. 2/2018](#).



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

In 2016 the Company instituted an incentive program for its key employees and collaborators.

Implementation of the incentive program may result in changes in the proportion of shares held by Company shareholders. As of 31 December 2017 warrants have been granted to program participants entitling them to claim up to 5 790 000 Company shares, depending on the manner in which the program is implemented. The total number of warrants which may potentially be assigned under the incentive program is 6 000 000.

Information regarding the purchase of own shares

The Company has never held its own shares.

Information regarding the control system of employee share programs

The incentive program under which Company shares may be awarded, covering the years 2016-2021, was approved by the General Meeting of Shareholders on 24 May 2016. A detailed set of terms and conditions was endorsed by the Supervisory Board and subsequently approved by the Management Board on 5 July 2016. Implementation of the program is directly supervised by the Supervisory Board and Management Board of CD PROJEKT S.A..



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

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

Name	Position	as of 01.01.2017	as of 31.12.2017	as of 22.03.2018
Adam Kiciński	President of the Board	3 322 481	3 322 481	3 322 481
Marcin Iwiński	Vice President of the Board	12 150 000	12 150 000	12 150 000
Piotr Nielubowicz	Vice President of the Board	6 135 197	6 135 197	6 135 197
Adam Badowski	Board Member	150 000	150 000	150 000
Michał Nowakowski	Board Member	101 149	101 149	101 149
Piotr Karwowski	Board Member	8 000	8 000	8 000
Oleg Klapovskiy ¹	Board Member	N/A	1 042	1 042
Katarzyna Szwarc	Chairwoman of the Supervisory Board	10 010	10 010	10 010
Maciej Nielubowicz ²	Supervisory Board Member	N/A	51	51

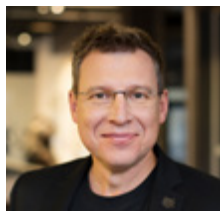
¹ Appointed to the Board on 11 October 2017

² Appointed to the Supervisory Board on 11 October 2017

Members of the managerial and supervisory bodies of CD PROJEKT S.A. do not hold any shares of the Company's subsidiaries.



Composition of the Management Board of CD PROJEKT S.A.



Adam Kiciński

President of the Board

Oversees formulation of the Company's and its Capital Group's business strategies and supports their practical implementation. Coordinates Company activities in the scope of investor relations.



Marcin Iwiński

Vice President for International Affairs

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



Piotr Nielubowicz

Vice President and CFO

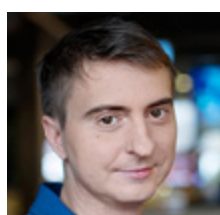
Coordinates the Company's financial and accounting branches; ensures that the Company meets its financial reporting obligations. Participates in investor relations.



Adam Badowski

Board Member

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



Michał Nowakowski

Board Member

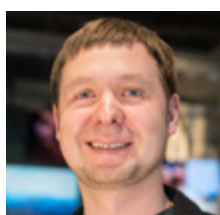
Oversees formulation and implementation of the Company's sales policies.



Piotr Karwowski

Board Member

Co-manages the GOG.com segment, assuming responsibility for design and development of the GOG.com platform and of the GOG Galaxy technology stack. Oversees the Group's online services and its network presence.



Oleg Klapovskiy

Board Member

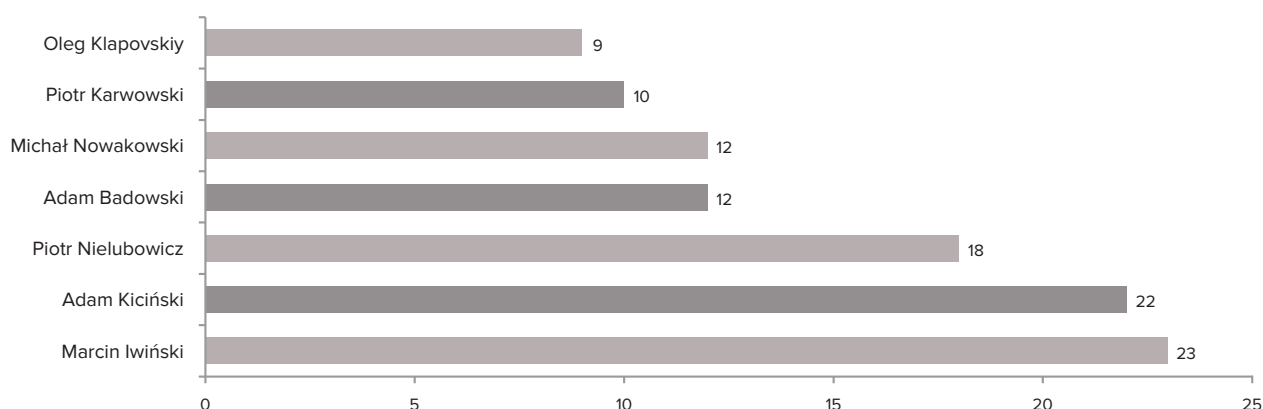
Co-manages the GOG.com segment, assuming responsibility for cooperation with foreign business partners, the segment's sales policy and its daily activities. Participates in planning and implementing monetization strategies in the framework of the *GWENT* project.



Management Board members represent the Company and its Management Board. Management Board members cooperate with each other, share information regarding important matters affecting the Company, jointly manage the Company and jointly bear the associated responsibility. The Management Board, acting as a collective body, formulates the Company's strategies, develops its financial plans and manages the Company in such a way as to ensure implementation of these strategies and plans. The Management Board has embraced the concept of collective management in order to enhance its own capabilities for strategic thinking, build upon its positive energy and uphold the belief that nothing is truly impossible.

Deep mutual trust, coupled with a shared set of core beliefs and ethics, enable the Management Board to discharge its duties efficiently and without undue bureaucracy.

Figure 17 Tenure of current members of the Management Board as holders of managerial positions within the CD PROJEKT Capital Group (in years)



Changes in Management Board composition

In Current Report no. 11/2017 of 23 May 2017 the Company announced that the Supervisory Board of the Company had reappointed all Board members for another four-year term.

On 11 October 2017 the Company appointed Mr. Oleg Klapovskiy to the Board, as announced in Current Report no. 24/2017.



Supervisory Board of CD PROJEKT S.A.

Katarzyna Szwarc	<i>Chairwoman of the Supervisory Board and of the Audit Committee</i>
Piotr Pągowski	<i>Deputy Chairman of the Supervisory Board</i>
Maciej Nielubowicz	<i>Secretary of the Supervisory Board, Member of the Audit Committee</i>
Michał Bień	<i>Supervisory Board Member, Member of the Audit Committee</i>
Krzysztof Kilian	<i>Supervisory Board Member</i>

Changes in Supervisory Board composition

In Current Report no. 16/2017 of 11 September 2017 the Board of the Company announced that Mr. Maciej Majewski had resigned from the Supervisory Board effective on the date of the next General Meeting. As stated in the formal notice, the resignation was due to personal reasons.

As disclosed in Current Report no. 22/2017 of 11 October 2017, the Extraordinary General Meeting of Shareholders appointed Mr. Maciej Nielubowicz to the Supervisory Board of the Company.



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

Adam Kiciński, President of the Board

Mr. Kiciński's compensation paid by CD PROJEKT S.A. in 2016 was 420 thousand PLN, all of which represented his base salary. In 2017 this base salary remained unchanged at 420 thousand PLN. In 2017 Mr. Kiciński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2016, was 7 165 thousand PLN, while the portion associated with the net result of the Capital Group for 2017 was 5 331 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Marcin Iwiński, Vice President of the Board

Mr. Iwiński's compensation paid by CD PROJEKT S.A. in 2016 was 334 thousand PLN, all of which represented his base salary. In 2017 this base salary was increased to 336 thousand PLN. In 2017 Mr. Iwiński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2016, was 7 165 thousand PLN, while the portion associated with the net result of the Capital Group for 2017 was 5 331 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Piotr Nielubowicz, Vice President of the Board

Mr. Nielubowicz's compensation paid by CD PROJEKT S.A. in 2016 was 345 thousand PLN, all of which represented his base salary. In 2017 this base salary was increased to 348 thousand PLN. In 2016 Mr. Nielubowicz also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2016, was 7 165 thousand PLN, while the portion associated with the net result of the Capital Group for 2017 was 5 331 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Adam Badowski, Board Member

Mr. Badowski's compensation paid by CD PROJEKT S.A. in 2016 was 396 thousand PLN, all of which represented his base salary. In 2017 this base salary remained unchanged at 396 thousand PLN. In 2017 Mr. Badowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the aggregate net result of the CD PROJEKT RED and GOG.com segments for 2016 was 4 080 thousand PLN, while the portion associated with the net result of the Capital Group for 2017 was 2 995 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.



Michał Nowakowski, Board Member

Mr. Nowakowski's compensation paid by CD PROJEKT S.A. in 2016 was 364 thousand PLN, all of which represented his base salary. In 2017 this base salary was lowered to 360 thousand PLN. In 2017 Mr. Nowakowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the aggregate net result of the CD PROJEKT RED and GOG.com segments for 2016 was 4 080 thousand PLN, while the portion associated with the net result of the Capital Group for 2017 was 2 995 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Piotr Karwowski, Board Member

Mr. Karwowski's compensation paid by CD PROJEKT S.A. in 2016 was 60 thousand PLN, all of which represented his base salary. In 2017 this base salary remained unchanged at 60 thousand PLN. Mr. Karwowski does not participate in the incentive program in force at CD PROJEKT S.A., however he does participate in the incentive program at GOG sp. z o.o. as a board member thereof. His compensation, disbursed by GOG sp. z o.o. in association with the aforementioned function, is disclosed in the table below.

Oleg Klapovskiy, Board Member

Mr. Klapovskiy's compensation paid by CD PROJEKT S.A. for the period between his appointment (11 October 2017) and 31 December 2017 was 15 thousand PLN. Mr. Klapovskiy does not participate in the incentive program in force at CD PROJEKT S.A., however he does participate in the incentive program at GOG sp. z o.o. as a board member thereof. He has not been assigned any additional compensation by GOG sp. z o.o. for the period between his appointment to the Board of CD PROJEKT S.A. (11 October 2017) and 31 December 2017.

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

Name	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Marcin Iwiński	24	24
Piotr Karwowski	360	495
Oleg Klapovskiy (for the period from 11.10.2017 to 31.12.2017)	66	-



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

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

Name	Position	Warrants realised	Value of corresponding benefits	
			01.01.2017– 31.12.2017	01.01.2016– 31.12.2016
Adam Kiciński	President of the Board	200 thousand	-	85
Marcin Iwiński	Vice President of the Board	150 thousand	-	1 465
Piotr Nielubowicz	Vice President of the Board	150 thousand	-	64
Adam Badowski	Board Member	150 thousand	-	64
Michał Nowakowski	Board Member	100 thousand	-	43
Piotr Karwowski	Board Member	20 thousand	-	-159

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

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

members of the Management Board were granted subscription warrants which entitled them to claim Company shares issued as a conditional increase in the Company share capital. These shares were duly issued and claimed by the entitled parties as shown in the table above.

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



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

Name	Position	Warrants granted	Value of corresponding benefits	
			01.01.2017– 31.12.2017	01.01.2016– 31.12.2016
Adam Kiciński	President of the Board	800 thousand	1378	676
Marcin Iwiński	Vice President of the Board	800 thousand	1378	676
Piotr Nielubowicz	Vice President of the Board	800 thousand	1378	676
Adam Badowski	Board Member	600 thousand	1034	507
Michał Nowakowski	Board Member	600 thousand	1034	507
Piotr Karwowski	Board Member	200 thousand	345	169
Oleg Klapovskiy*	Board Member	200 thousand	76*	-

* for the period between 11.10.2017 and 31.12.2017.

The value of potential benefits payable to Management Board in light of their participation in incentive programs settled in Company shares is based on the fair value of assigned entitlements as calculated by a licensed actuary. These values have been duly recognized as Company expenses in the years 2017 and 2016 respectively.

Assignment of bonuses to Management Board members – general rules

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

Compensation of Supervisory Board Members

Table 15 Compensation of members of the Supervisory Board of CD PROJEKT S.A. in 2017 and 2016 (gross figures; PLN thousands)

Name	01.01.2017– 31.12.2017	01.01.2016 – 31.12.2016
Katarzyna Szwarc – Chairwoman of the Supervisory Board	96	91
Piotr Pągowski – Deputy Chairman of the Supervisory Board	48	39
Maciej Majewski – Supervisory Board Secretary (until 11.10.2017)	37	39
Krzysztof Kilian – Supervisory Board Member	48	39
Michał Bień – Supervisory Board Member (since 24.05.2016)	48	29
Maciej Nielubowicz – Supervisory Board Secretary (since 11.10.2017)	11	-
Grzegorz Kujawski – Supervisory Board Member (until 28.04.2016)	-	0



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

As of 31 December 2017 the Company had no such liabilities.

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

As of 31 December 2017 and as of the preparation date of this report all members of the Company's managing and supervisory bodies discharged their duties on the basis of General Meeting appointments and there were no provisions in force regulating compensation in the event of their resignation or dismissal.

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

In 2017 there were no significant transactions between the Company and members of its managing and supervisory bodies. This does not include medical insurance premiums, use of company cars, reimbursement of official expenses and minor purchases of Capital Group products by members of the Management Board and Supervisory Board.

Changes in basic management practices at the Company and its Capital Group

In addition to changes described elsewhere in this report, concerning:

- registration and establishment of CD PROJEKT Co. Ltd. in Shanghai (wholly owned by CD PROJEKT S.A.)
- transnational merger between GOG Ltd. and GOG Poland sp. z o.o. under the name GOG sp. z o.o.

no other significant changes in the basic management practices at the Company and its Capital Group occurred in 2017.



Corporate governance policies

CD PROJEKT S.A. follows the corporate governance policies listed in the “Best Practice for WSE Listed Companies 2016” document, published as an attachment to Resolution no. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2017 can be found on the Company website at www.cdprojekt.com.

Legal proceedings

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

Litigation in which CD PROJEKT S.A. is the plaintiff or claimant

CD PROJEKT S.A. (formerly Optimus S.A.) vs. State Treasury

On 15 February 2006 the Management Board of Optimus S.A. filed a complaint in the District Court for the City of Kraków, 1st Civil Department seeking monetary damages from the State Treasury in the amount of 35 650.6 thousand PLN in relation to decisions issued by the Inspector of Treasury Control concerning VAT liabilities allegedly incurred by the Company's legal predecessor. On 24 November 2003 the Supreme Administrative Court in Warsaw vacated these decisions as unlawful.

On 9 December 2008 the District Court for the City of Kraków issued an interlocutory judgment holding the Optimus claim valid in rem. This judgment concerned the validity of the Company's claim for monetary damages. On 19 May 2009 this judgment was vacated by the Appellate Court for the City of Kraków, 1st Civil Department, which remanded the case to the District Court for further proceedings.

On 1 August 2014 the District Court for the City of Kraków issued a final judgment closing the proceedings in the court of first instance. The District Court's judgment awarded the Company 1 090.5 thousand PLN plus statutory interest for the period between 15 November 2005 and the remittance date, dismissing the lawsuit on all other counts.

On 9 October 2014 the Company filed an appeal against the District Court's judgment with regard to those sections in which the District Court dismissed the Company's claims, and also the section concerning the cost of legal proceedings associated with the case. A parallel appeal against the section in which the District Court affirms the Company's claims was filed by the State Treasury.

The case is currently pending before the Appellate Court in Kraków, which, having heard statements by both Parties and by the court expert whose opinion constituted the grounds for the judgment of the court of first instance, has decided to appoint another expert to prepare a second opinion.

Criminal proceedings in which CD PROJEKT S.A. is recognized as the victim



Case against Michał Lorenc, Piotr Lewandowski and Michał Dębski

In case no. XVIII K 126/09, following indictment filed by the District Attorney in the District Court for the City of Warsaw, on 27 October 2016 the District Court convicted Mr. Michał Lorenc, Mr. Piotr Lewandowski and Mr. Michał Dębski of violating sections 296 §1, 296 §3 and others of the Penal Code. Having found the defendants guilty, the Court awarded the Company 210 thousand PLN in damages under Art. 46 of the Penal Code. According to the operative part of the judgement total losses sustained by the Company as a result of the defendants' actions were estimated at not less than 16 million PLN (this figure follows from standard regulations applicable to criminal trials). The Company subsequently filed an appeal against the judgment, contesting, among others, the amount of damages awarded to the Company. On 26 October 2017 the Appellate Court vacated the judgment of the court of first instance and remanded the case to be retried in full. The Company acted as an auxiliary prosecutor in the court.

No significant court proceedings, arbitration proceedings or administrative proceedings involving the Company or its subsidiaries were initiated during the reporting period.

Adam Kiciński President of the Board	Marcin Iwiński Vice President of the Board	Piotr Nielubowicz Vice President of the Board	Adam Badowski Board Member	Michał Nowakowski Board Member	Piotr Karwowski Board Member	Oleg Klapovskiy Board Member
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