



CD PROJEKT®

MANAGEMENT BOARD REPORT ON
CD PROJEKT CAPITAL GROUP
ACTIVITIES BETWEEN 1 JANUARY AND 30 JUNE 2018

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.

Table of contents



9	Brief description of the CD PROJEKT Capital Group
10	Activity profile
20	Growth prospects of the CD PROJEKT Capital Group
22	CD PROJEKT S.A. on the capital market
24	CD PROJEKT Capital Group activity profile
25	Organizational structure of the CD PROJEKT Capital Group
27	Disclosure of business segments, products, services, outlets, suppliers and customers
37	Description of external and internal factors affecting the CD PROJEKT Capital Group
39	Disclosure of significant agreements
40	Risk management at the Capital Group
41	Financial results of the CD PROJEKT Group
42	Overview of key economic and financial indicators disclosed in the consolidated and separate financial statement
60	Corporate governance
61	Entity contracted to audit financial statements
61	Shareholders controlling at least 5% of the vote at the General Meeting
62	Agreements which may result in changes in the proportions of shares held by shareholders and bondholders
62	Information regarding the purchase of own shares
63	Company shares held by members of the Management Board and the Supervisory Board
64	Composition of the Management Board of CD PROJEKT S.A.
65	Changes in Management Board composition
65	Composition of the Supervisory Board of CD PROJEKT S.A.
66	Changes in Supervisory Board composition
66	Changes in basic management practices at the Company and its Capital Group
66	Disclosure of significant legal proceedings



In June 2018 at E3 in Los Angeles
we unveiled a new trailer and gameplay footage from

CYBERPUNK

2077

25 million views

of Cyberpunk 2077 trailer



2 million viewers

tuned in live to the Microsoft press conference
which featured the debut of our trailer



Cyberpunk 2077 has received

100 awards

from global gaming media

Gameplay blew us away - [GameInformer](#)

Overwhelming with all its detail - [Gamespot](#)

A beautiful and sprawling RPG - [IGN](#)

It looks incredible - [VG247](#)

A stunning world to explore - [PC Gamer](#)



Cyberpunk 2077 featured on

11 gaming magazine covers





168 million PLN

in H1 2018 sales revenues

**52 million
PLN**

in H1 2018 net profit

31%


net profitability
in H1 2018

The market capitalization
of CD PROJEKT S.A. reached

19 billion PLN*

Company stock joined the

**WIG20
index****



CD PROJEKT S.A.
H1 2018 share price increase:

62%

* as of 1 August 2018

** CD PROJEKT S.A. stock became part of the WIG20 index on 16 March 2018 at the close of the trading day.



Total number of CD PROJEKT RED forum users
and social media profiles subscribers:

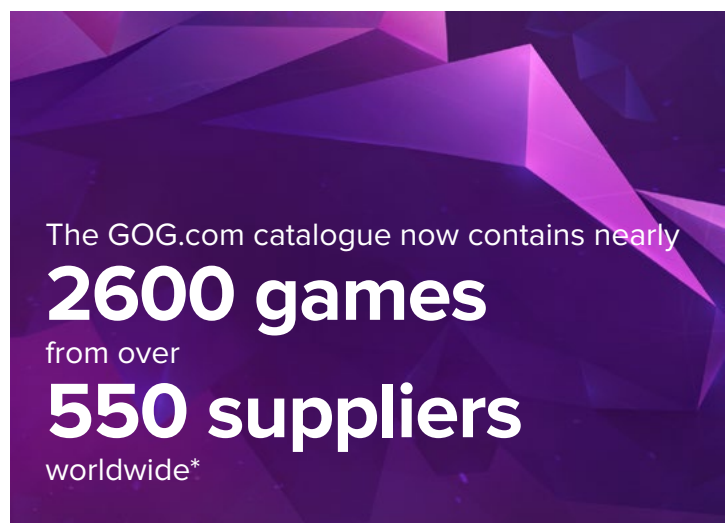
5.4 million**



We organized four

GWENT Open and GWENT Challenger

tournaments*



The GOG.com catalogue now contains nearly

2600 games

from over

550 suppliers

worldwide*



In May 2018 CD PROJEKT established
a development studio in Wrocław



CD PROJEKT®

WROCLAW

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 growing 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.

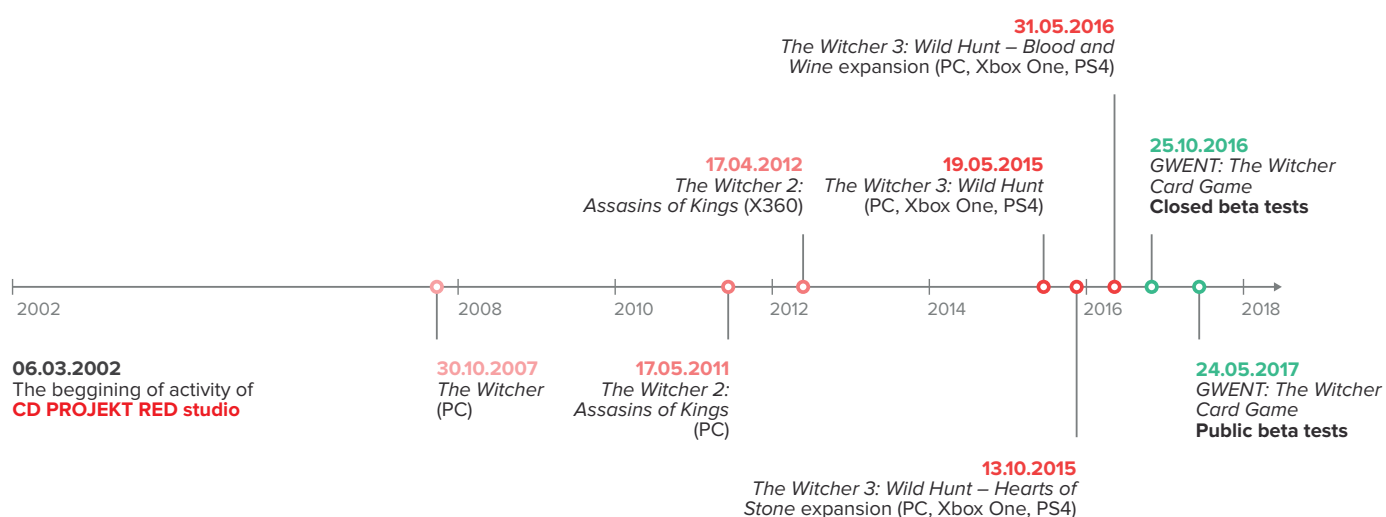
CD PROJEKT RED



Videogame development is the main area of activity of the CD PROJEKT RED studio, which is a subunit of CD PROJEKT S.A. The activity covers creation and publication of videogames, licensing the associated distribution rights, coordinating the promotion of sales as well as manufacturing, distributing or licensing 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.

Scheme 1 CD PROJEKT RED releases between 2007 and 2018



Source: Company data



The Witcher videogame series, based on Andrzej Sapkowski's fantasy novels, represents the flagship brand of CD PROJEKT RED. The Studio's portfolio currently includes the following videogames: *The Witcher*, *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt* (250 Game of the Year awards), along with two expansion packs – *Hearts of Stone* and *Blood and Wine*, marketed individually and as the *Game of the Year Edition* bundle, which also includes the base game. By the end of 2017 videogames featuring the professional monster hunter Geralt of Rivia have sold 33 million copies and received more than 1000 awards worldwide.



 **more info:**
[The Witcher 3](#)




CD PROJEKT RED has also established a consortium with GOG.com to carry out development of *GWENT: The Witcher Card Game*. *GWENT* features dynamic, nonlinear clashes of mighty armies, where victory depends not merely on luck, but – first and foremost – on player skill: intuition, ability to improvise and strategic approach to deck design. *GWENT* is a F2P online game with optional microtransactions, currently available in multiplayer mode. In the fourth quarter of 2018 the Company intends to release *Thronebreaker* – a standalone single-player campaign for *GWENT*, offering many hours of gameplay. This adventure, replete with vivid, memorable characters, will enable players to once again immerse themselves in the perilous universe of *The Witcher*, where danger and powerful monsters lurk at every corner.

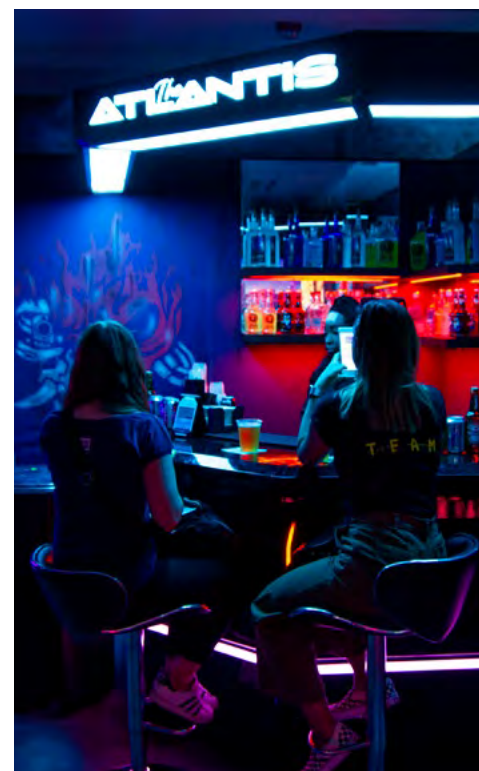
 **more info:**
[GWENT](#)

Cyberpunk 2077 is a role-playing game set in a bustling open-world techno-metropolis. Players assume the role of V – a cyberpunk who is only just becoming familiar with the most crime-ridden city of the future. The story of V, along with complex side quests, will include surprising plot twists and hard moral choices. Player actions will impact the lives of characters which V encounters on his way. *Cyberpunk 2077* is based on the Cyberpunk 2020 pen-and-paper RPG system.



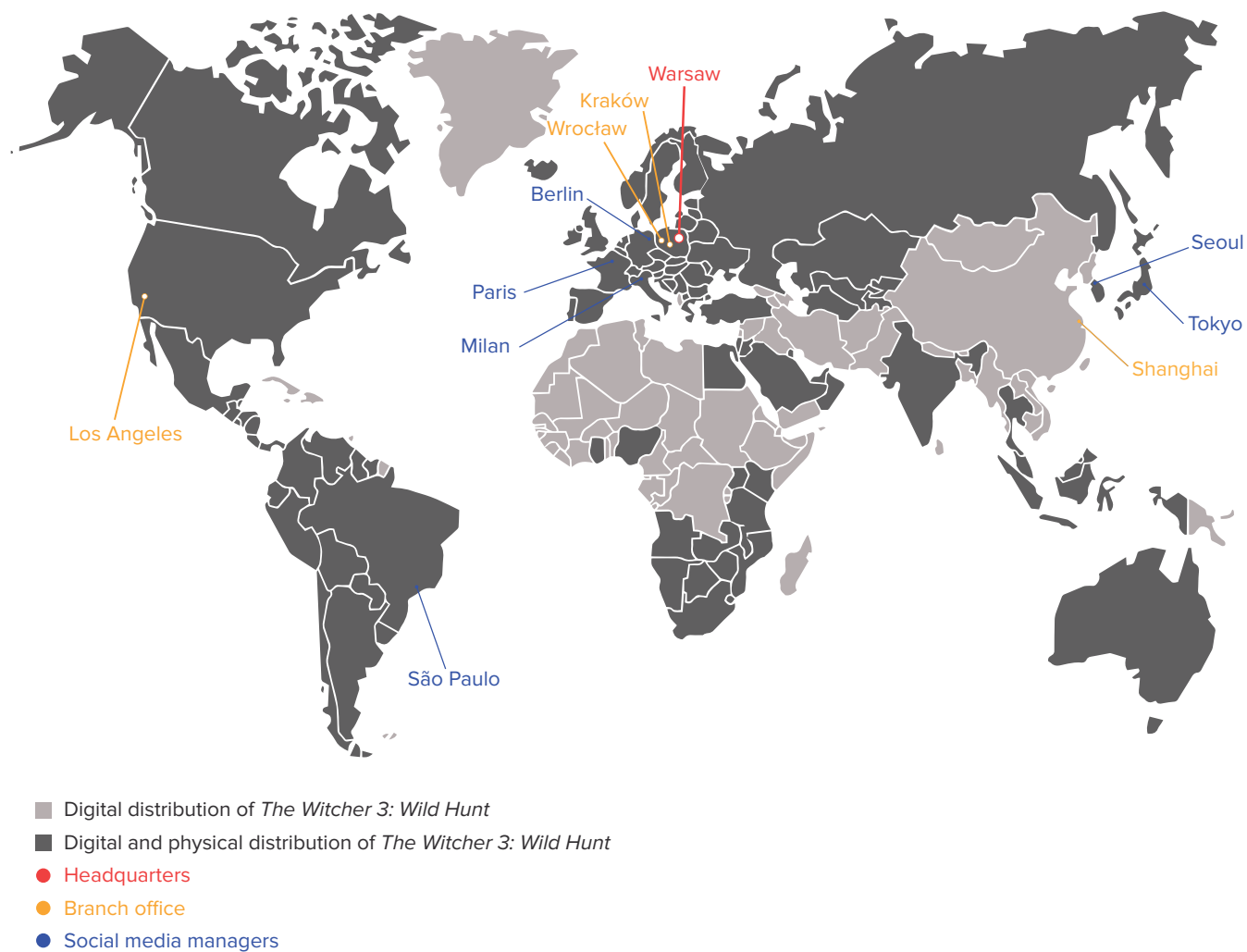
 **more info:**
[Cyberpunk 2077](#)

In June 2018, at the world's largest electronic gaming fair – Electronic Entertainment Expo (E3) – CD PROJEKT RED unveiled the first official gameplay trailer of *Cyberpunk 2077*. Journalists were also invited to take part in an hourlong live gameplay presentation. These events were met with enthusiastic reactions and up until the publication date of this report the game has already received over 100 awards.



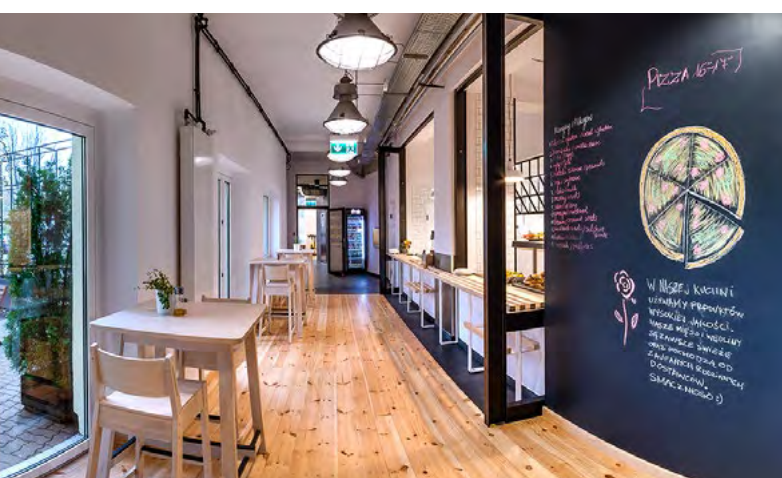
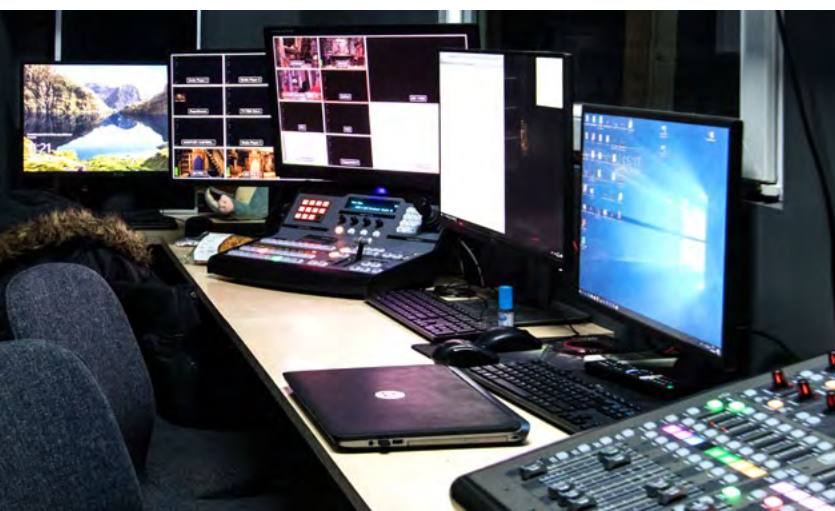
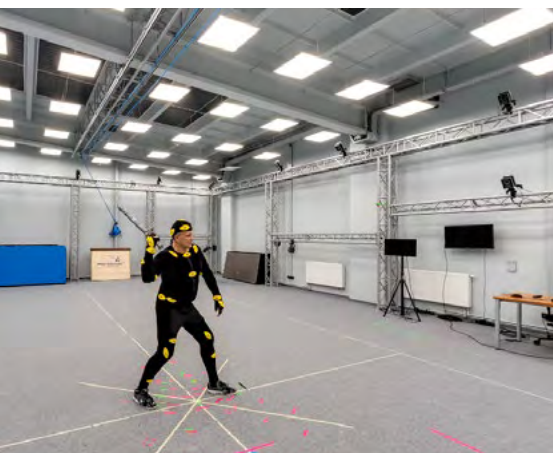
Sales of *The Witcher 3: wild Hunt* along with its expansion packs (including the *Game of the Year Edition*) constituted the bulk of the CD PROJEKT RED revenue stream in the first half of 2018.

In H1 2018 95.8% of CD PROJEKT Capital Group sales revenues were generated by exports. The US market accounted for 59.0% of sales, while the EU contributed 29.4%. In H12018 nearly 91% of sales in the CD PROJEKT RED segment were carried out via digital distribution platforms such as GOG.com, Steam, PlayStation Store, Xbox Games Store, Origin, Amazon, Humble Bundle or App 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.

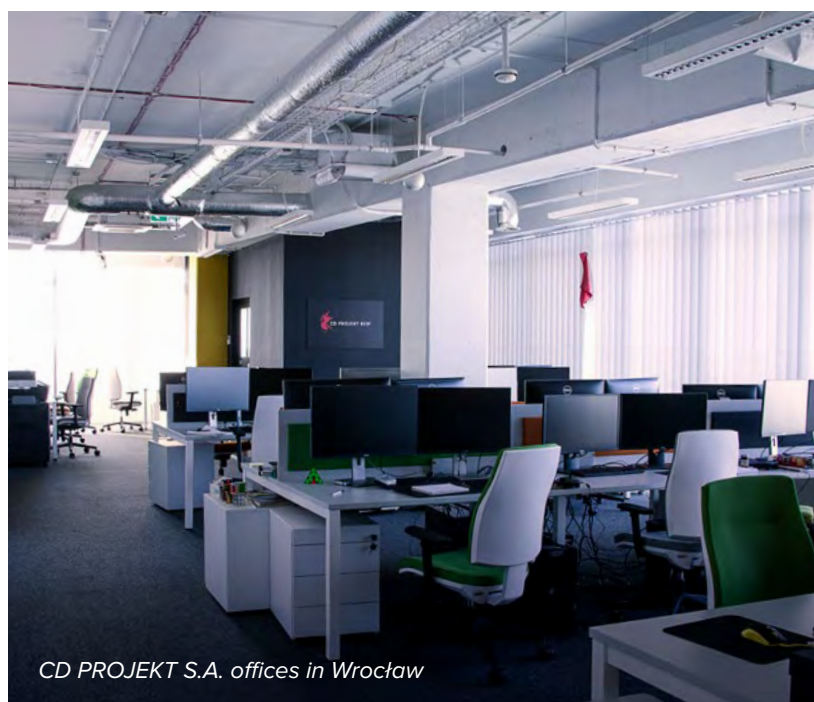


² The motion capture technology uses special cameras and sensors to accurately register the movements of a human actor and store them in computer memory for further processing. This enables computer-generated characters to act in a smooth, realistic fashion, replicating the original actor's personal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

CD PROJEKT also operates offices in Kraków and Wrocław, staffed by independent development teams, 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 responsible for communication activities in Italy, Germany, France, Russia, Brazil, Spain, South Korea and Japan.



CD PROJEKT S.A. offices in Kraków



CD PROJEKT S.A. offices in Wrocław



CD PROJEKT Inc. headquarters in Los Angeles



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 nearly 2600 handpicked games from over 550 developers and publishers. All games are distributed free of cumbersome DRM³ restrictions. GOG sp. z o.o. also guarantees full compatibility of its videogames with popular versions of operating systems (MS Windows, macOS and Linux), depending on the specific support features of each game.

The GOG.com platform is available in seven languages: English, German, French, Russian, Portuguese (Brazilian edition), Chinese and Polish. 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.

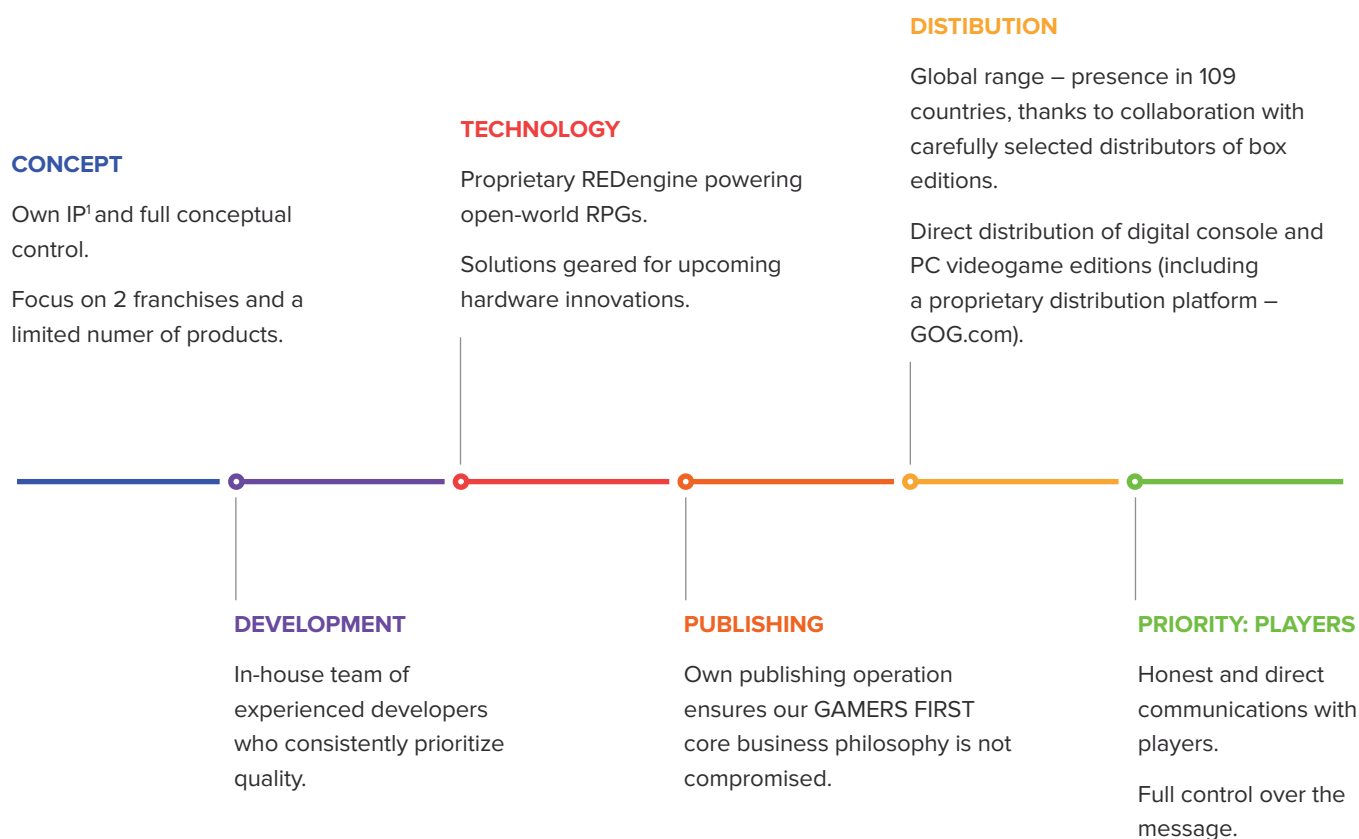
Business philosophy



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.

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

Scheme 2 Videogame development business model at CD PROJEKT RED



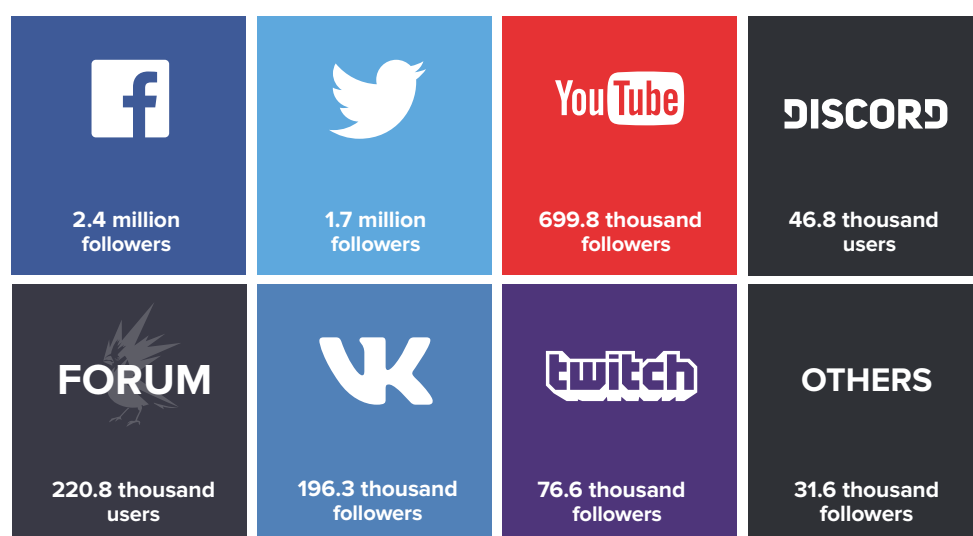
¹ Proprietary brands *The Witcher* and *Cyberpunk 2077*

Source: Company data

CD PROJEKT RED prides itself on 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. CD PROJEKT RED actively manages over 90 social media profiles in 12 languages. On 10 June 2018, in the run-up to E3, CD PROJEKT RED launched an official server on Discord – a social communication platform targeted at gamers. Within the first week, over 40 thousand Discord users joined the server.



Scheme 3 The number of CD PROJEKT RED forum users and social media subscribers – data as of 27 August 2018



Source: Company data

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

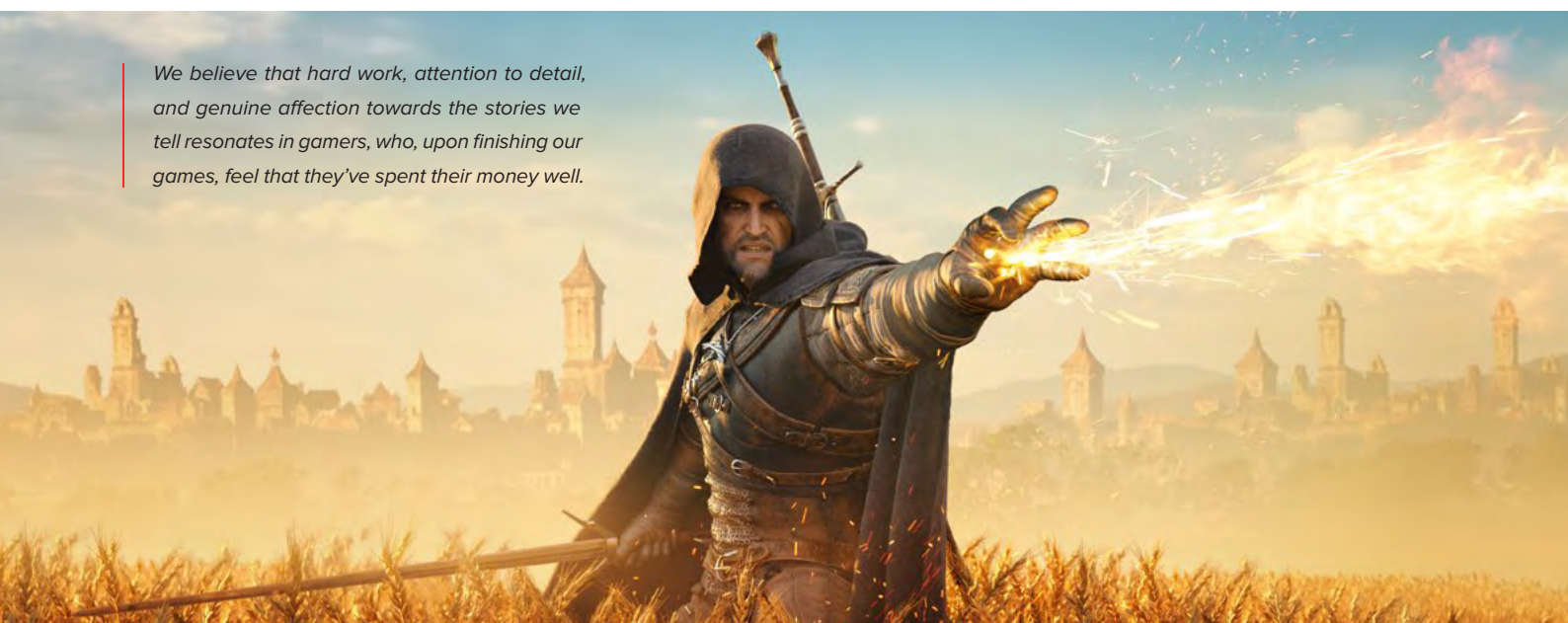


Growth prospects of the CD PROJEKT Capital Group

CD PROJEKT Capital Group growth strategy for 2016-2021

Member companies of the CD PROJEKT Group are part of the global videogame market, which is characterized by strong growth dynamics (13.3% y/y according to Newzoo⁴). More information regarding the Group's market environment can be found in the Management Board Report on CD PROJEKT Capital Group activities for the period between 1 January and 31 December 2017.

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.



The Group's main growth vectors are outlined 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/>.

 **more info:**
[cdprojekt.com](https://www.cdprojekt.com)

Growth prospects of the CD PROJEKT Capital Group are strongly influenced by the market reception of each successive release. As of the publication date of this report, the largest announced project currently underway at CD PROJEKT RED is *Cyberpunk 2077*. The new trailer presented at the Microsoft conference which preceded E3, as well as the gameplay demo showcased at E3 itself, generated highly positive reactions and the game itself received over 100 awards at or immediately after the fair. By the end of 2018 the Company also intends to wrap up its *GWENT*: Homecoming project and officially release the game along with *Thronebreaker* – a standalone single-player *GWENT* campaign offering many hours of gameplay.

The growth strategy of GOG.com will, in the coming years, rest upon two main pillars: the GOG.com store along with the GOG Galaxy platform, and activities carried out in support of

⁴ Newzoo's 2018 Report: Insights Into the \$137.9 Billion Global Games Market Newzoo's 2018 Report: Insights Into the \$137.9 Billion Global Games Market, Newzoo, 20.06.2018 r., as of 10.08.2018 r., <https://newzoo.com/insights/articles/newzoos-2018-report-insights-into-the-137-9-billion-global-games-market/>

game-as-a-service offerings, initiated by GOG sp. z o.o. involvement in the consortium that develops, publishes and maintains *GWENT*.



2016 – 2021 incentive program

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](#).

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

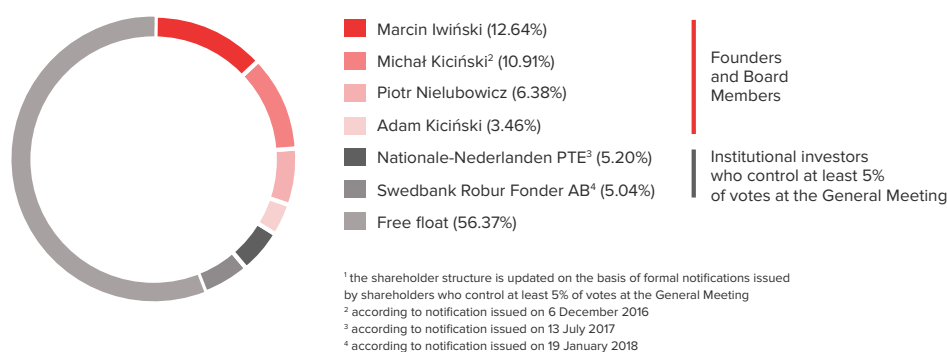


CD PROJEKT S.A. on the capital market

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 shares of 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 CD PROJEKT S.A. stock.

Figure 1 Company shareholder structure as of the publication date of this report¹

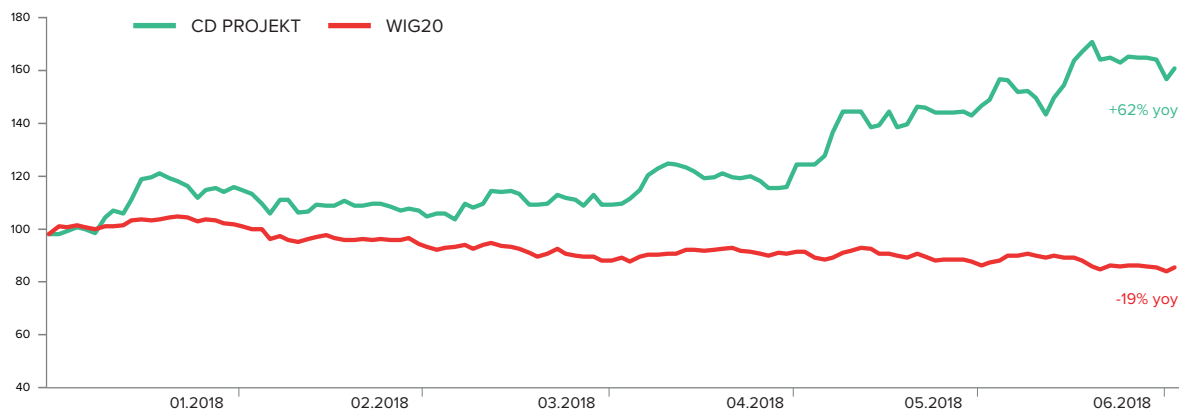


Source: Company data

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. At the end of July CD PROJEKT S.A. contributed 6.34% to the value of the index.

⁶ Former name of the CD PROJEKT group holding company.

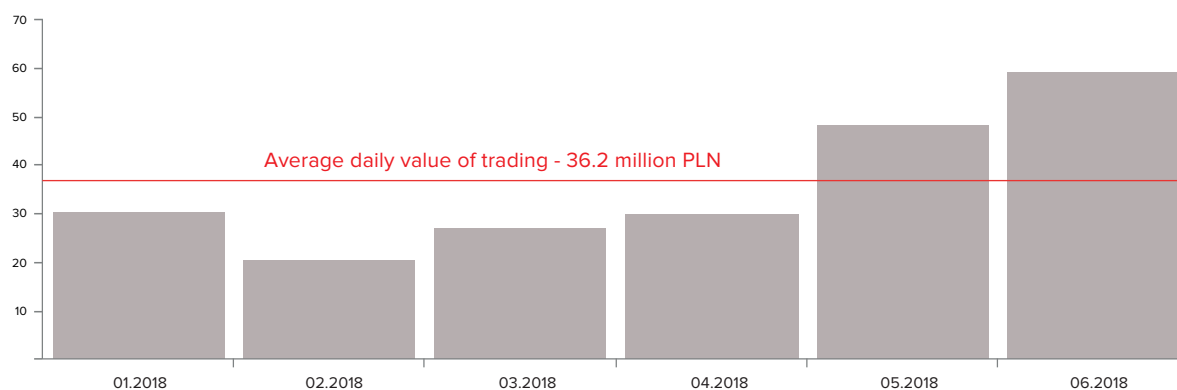
Figure 2 CD PROJEKT S.A. stock price and the WIG20 index between 1 January 2018 and 30 June 2018



Between 1 January and 30 June 2018 the closing price of Company stock fluctuated between 98 PLN (3 and 4 January 2018) and 172 PLN (18 June 2018). Over the past 6-month period CD PROJEKT stock increased in value by 62%, reaching 161.8 PLN on 30 June 2018. The WIG20 index lost 19% during the same period.

The market capitalization of CD PROJEKT S.A. was 15.6 billion PLN at the end of June 2018, and further increased to 19 billion PLN by the end of July 2018.

Figure 3 Average daily trading value of CD PROJEKT shares (on monthly basis) between 1 January 2018 and 30 June 2018 (PLN millions)



As disclosed in Current Report no. 3/2018 of 31 March 2018, the agreement between the Company and Bank Zachodni WBK S.A. – Dom Maklerski BZ WBK concerning acting in the capacity of the Company's animator on the Warsaw Stock Exchange, had been dissolved on the same day. Thus, the agreement remained in force between 1 June 2017 and 31 March 2018.

CD PROJEKT Capital Group activity profile



Organizational structure of the CD PROJEKT Capital Group

As of 30 June 2018 the CD PROJEKT Capital Group consisted of the parent entity – CD PROJEKT S.A. and three subsidiaries – GOG sp. z o.o., CD PROJEKT Inc. and CD PROJEKT Co. Ltd.

Scheme 4 CD PROJEKT Capital Group structure as of the end of June 2018



Source: Company data

On 16 August 2018 a new company – Spokko sp. z o.o. – was established in the framework of the CD PROJEKT Capital Group. CD PROJEKT S.A. acquired a majority stake in the new entity (75%) with the remaining shares in possession of key personnel responsible for the development and conceptual design of projects carried out at Spokko. The Group will provide the new company with access to its intellectual property, backed up by the creative and commercial muscle of the CD PROJEKT RED studio. Spokko will work on a new, unannounced project targeting mobile gaming platforms.

Table 1 Summary of business activities of the parent company and other members of the CD PROJEKT Capital Group as of 30 June 2018



Company	Activity profile
CD PROJEKT S.A.	The core activities of the Company, carried out by its CD PROJEKT RED studio, include development of videogames, publishing its own videogames, selling the associated distribution rights as well as manufacturing, selling and/or licensing tie-in products which exploit the popularity of brands owned by the Company. CD PROJEKT S.A. also acts as the holding company of the CD PROJEKT Capital Group and coordinates the activities of other companies belonging to the Group. The Company's headquarters are in Warsaw.
GOG sp. z o.o.	This company is the owner of the global digital distribution platform and web portal 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. The company's registered office is in Warsaw.
CD PROJEKT Inc.	This company coordinates publishing and promotional activities covering the Group's own products and the GOG.com platform throughout North America. 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> . The company operates an office in Shanghai.

The above active member companies of the CD PROJEKT Capital Group, with the exception of CD PROJEKT Co. Ltd., were subject to full consolidation as of 30 June 2018. Further information can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the first half of 2018.



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

In the first half of 2018 the Capital Group conducted business activities in two segments:

- CD PROJEKT RED,
- GOG.com.

CD PROJEKT RED

Target and scope of business activities

Videogame development is the main area of activity of the CD PROJEKT RED studio, which is a subunit of CD PROJEKT S.A, CD PROJEKT Inc. and CD PROJEKT Co. Ltd. The activity covers creation and publication of videogames, licensing the associated distribution rights as well as manufacturing, distributing or licensing 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.

As of the publication date of this report, the largest release in the Company's history was that of *The Witcher 3: Wild Hunt*, which launched on 19 May 2015. The Company later released two expansion packs – *Hearts of Stone* (13 October 2015) and *Blood and Wine* (31 May 2016). The base game and both expansion packs are available on the PC, PS4 and Xbox One.

 **more info:**
[The Witcher 3](#)



In June 2016 the Company publicly announced an upcoming game 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. Currently, the game is undergoing changes in the framework of the Homecoming project, which aims to align its features with the original concept and fine-tune its underlying mechanics.



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*, four 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, among others, Spotify, Apple Music, Google Play Music. In 2017 two editions of *The Witcher 3* soundtracks were published as vinyl records. In June 2018 the Company published a limited physical recording of *The Witcher 3: Wild Hunt* live music performance which took place at the 2016 Film Music Festival in Kraków, Poland.



Key sources of revenue

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 international (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 the first half of 2018 the bulk of CD PROJEKT RED revenues came from sales of *The Witcher 3: Wild Hunt*, along with its two expansion packs – *Hearts of Stone* and *Blood and Wine*. 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 revenue stream.

The segment's results were further influenced by *GWENT: The Witcher Card Game*. The game's official release, scheduled for the fourth quarter of 2018, will coincide with the release of *Thronebreaker* – a dedicated single-player campaign offering many hours of gameplay.



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, in cooperation with leading global distributors (such as BANDAI NAMCO Entertainment Europe S.A.S., Bandai Namco Entertainment Australia PTY LTD, cdp.pl sp. z o.o. and Warner Bros. Home Entertainment), and leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Origin, Amazon, Humble Bundle or App Store along with its own proprietary platform at GOG.com).

In the first half of 2018 sales to one client exceeded 10% of the Group's consolidated sales revenues and totaled 44 506 thousand PLN (26.4% 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

Cyberpunk 2077 at E3 in Los Angeles

The most notable event which occurred during the reporting period was the presentation of *Cyberpunk 2077* at the world's largest gaming fair – E3 in Los Angeles. The Microsoft conference which directly preceded the fair culminated in the release of the new *Cyberpunk 2077* trailer. This event, organized by the proprietor of the Xbox platform, was followed live by 2 million spectators. Thus far the trailer has been viewed 25 million times across all its distribution channels.

At E3 itself CD PROJEKT RED held a series of closed hourlong gameplay demos for invited journalists and business partners. Reactions on the part of the media were highly positive, as attested to by enthusiastic comments appearing in numerous media channels. The game received over 100 awards at or after E3, including such prestigious recognitions as "Best Game" from IGN, "Best of E3" from GameSpot and "Game of the Show" from the Game Informer magazine.

After E3 *Cyberpunk 2077* was featured on the covers on many gaming journals from around the world – including Official PlayStation Magazine, VGTIME and PC Games Extended.

GWENT: development and production

In February 2018 CD PROJEKT RED unveiled and subsequently launched a new *GWENT* gameplay mode – the Arena – which comes with a range of gameplay improvements and additional cards. On 12 April 2018 the Company announced the *GWENT* Homecoming project, which involves significant changes in gameplay mechanics and is expected to last several months.

The Homecoming project will culminate with the end of the public beta phase and the official release of *Thronebreaker* – a single-player standalone campaign offering multiple hours of gameplay. Both events are scheduled for Q4 2018.

GWENT: marketing activities

The marketing activities in the first half of 2018 focused on unveiling the Arena mode and on esports tournaments organized by CD PROJEKT RED in the framework of the *GWENT Masters* series.



Four *GWENT Open* tournaments were held by the publication date of this statements (in January, March, May and July respectively). In April 2018, in the Wieliczka Salt Mine, nearly 100 meters below ground, the Company held its third *GWENT* Challenger tournament, with a prize pool of 100 000 USD. The grand prize went to Damian “TailBot” Kaźmierczak. The event proved popular with *GWENT* fans around the world.

The total prize pool for all the above-mentioned esports activities was 200 000 USD.

Events related to The Witcher games

On 6 March 2018 the Studio added support for running *The Witcher 2: Assassins of Kings* on Xbox One X in the backward compatibility mode, in near-4K resolution, with a ninefold increase in the number of pixels, remastered textures and improved antialiasing effects. Previously, the game had only been available on Xbox 360.

On 15 March 2018 Bandai Namco Entertainment and CD PROJEKT RED jointly announced that Geralt of Rivia would be making a guest appearance in *Soulcalibur VI* as one of the game’s playable characters, and that the Witcher’s visage would be featured on the game’s box.

In March 2018 *Game Informer* – the most widely circulated gaming magazine in the world – released its 300th issue. To mark the occasion, the editors organized a survey where readers could vote on the world’s best videogames of all time. The ranking, published on 19 March 2018, was topped by *The Witcher 3: Wild Hunt*.

GOG.com

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 customers with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. The platform is now offered in English, French, German, Russian, Portuguese (Brazilian edition) Chinese and Polish – this includes full game localizations as well as dedicated customer support and integration with locally popular payment channels, accepting payments in thirteen currencies. GOG.com also carries releases for the macOS and Linux operating systems.

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 application to provide user-friendly and straightforward purchase, launch and update features for all games from the GOG.com catalogue, and to facilitate cross-platform online 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 handling in-game purchases in the PC edition, and 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 nearly 2600 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.com. also ensures full compatibility of its games with current versions of MS Windows, macOS and popular distributions of Linux, 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*. Thanks to GOG Galaxy support for *GWENT* networking features, distribution of *GWENT* to PC users can take advantage of the sales and payment mechanisms offered by GOG.com.

Key sources of revenue

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

In the first half of 2018 the largest contribution to the total revenues of GOG.com was from *GWENT: The Witcher Card Game*. *GWENT* revenues recognized in the GOG.com segment comprise:

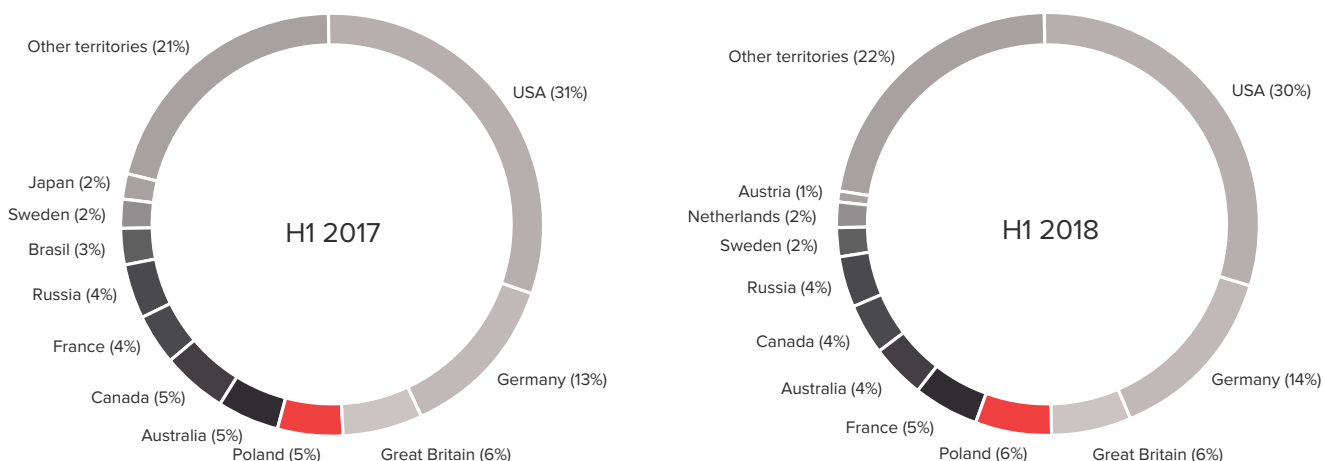
- the GOG sp. z o.o. share of revenues from in-game sales to final customers in the PC edition (excluding the Chinese market), as stipulated in the consortium agreement,
- the GOG sp. z o.o. share of revenues from in-game sales handled by external partners, as stipulated in the consortium agreement.



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. No concentration of demand is observed in the scope of this activity.

Figure 4 Goods and products sales revenues from GOG.com in H1 2017 and in H1 2018 by territory



Much like during the comparative period, the largest contribution to GOG.com sales revenues was from US customers, even though their share decreased by 1 percentage point compared to H1 2017. Further down the list were Germany (14% vs. 13% in H1 2017), the United Kingdom (6%) and Poland (6% vs. 5% in H1 2017).

As of 30 June 2018 no single supplier of GOG.com accounted for more than 10% of the consolidated sales revenues of the Capital Group.

Key product and marketing events

New games in the GOG.com catalogue

As of the publication date of this report the volume of the GOG.com catalogue has reached nearly 2600 games. Many new releases were added during the first half of 2018, as were numerous PC classics. Highlights of this period include brand-new titles, available on their global release dates, such as BattleTech, Frostpunk, Pillars of Eternity 2, Moonlighter, Dead in Vinland, The Swords of Ditto and Cultist Simulator. The cult classics section was expanded with such games as Star Wars Episode I Racer (GOG exclusive), Escape from Monkey Island (GOG exclusive), X-COM Enemy Unknown, Metal Fatigue (GOG exclusive), Myst 3 and 4 (GOG exclusives). Additionally, GOG.com now markets games belonging to the Visual Novels category: the Sunstrider series, Higurashi and fault, all of which joined the new releases section.



Sales support

With regard to digital distribution sales support focuses primarily on securing distribution rights to new, appealing videogames, and on seasonal sales campaigns.

Much like during the preceding years, the most important event of the season – in terms of sales support – was the Summer Sale held in June and covering over 1300 games. This year's sale saw a change in format, with recommendations custom-tailored for individual users on the basis of their history of interaction with the service, alongside the most popular titles and fresh releases. GOG.com also initiated cooperation with media partners and influencers, featuring their respective recommendations on its main site.

GOG Summer Sale is not the only example of a successful promotional campaign involving the gamers community. A separate event, called the Most Wanted Sale, focused on games most frequently appearing on GOG.com wishlists. In addition, the company held a social media campaign titled reveal your wishlist – gamers who posted screenshots of their wishlists on GOG.com received activation codes for various games as surprise rewards.

Another event which attracted significant attention was May the 4th, celebrating the Star Wars Day. On this day GOG offered sales on Star Wars games and also added Star Wars: Episode I Racer to its catalogue as a GOG exclusive.

New GOG.com features

In April 2018 GOG.com launched the most hotly anticipated additions to its platform: support for User profiles and Activity feed.

User profiles enable gamers to monitor their own in-game progress, including achievements, titles and play time. This section also enables users to compare their own activities to those of their friends. The Activity feed shows the activities of one's friends, including the games they are currently playing. It also enables users to post status messages featuring comments, screenshots and video feeds. Both features are intended to foster user integration and help gamers find individuals with similar tastes in order to build their own private communities.

Key corporate events

On 11 January 2018, as a consequence of its successful participation in a 2017 tender, the Company concluded a preliminary agreement concerning purchase of the commercial property located at Jagiellońska 76 in Warsaw, directly adjacent to the Company's current registered office. On the same day the Company remitted an advance payment in the amount of 1 667 thousand PLN. As of the publication date of this report outstanding payments associated with the aforementioned purchase agreement amount to 9 444 thousand 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 16 March 2018 CD PROJEKT S.A. joined the WIG20 index which aggregates twenty of the largest and most liquid companies on the Warsaw Stock Exchange.

On 26 March 2018 CD PROJEKT again (for the third time in a row) won top honors in the XIX edition of the prestigious Stock Exchange Company of the Year ranking prepared by Puls Biznesu. The Company took first place in the Management Competence category and second place in the Product and Service Innovation and Success in 2017 categories. The ranking is based on a survey conducted among approximately 100 capital market specialists – analysts, stock brokers and investment advisors.

On 18 May 2018 an agreement was concluded under which CD PROJEKT S.A. acquired the Strange New Things (SNT) development studio based in Wrocław. This purchase bolstered the CD PROJEKT RED team with nearly 20 experienced professionals who possess longstanding experience in videogame development. The studio will form the core of the new Wrocław branch of CD PROJEKT RED, tasked with project related to *Cyberpunk 2077*.



In formal terms the takeover of SNT proceeded by way of acquisition of an enterprise from Strange New Things spółka z ograniczoną odpowiedzialnością sp. k. In compliance with the relevant authorization granted by the General Meeting of CD PROJEKT S.A. of 8 May 2018, part of this transaction was settled in Company stock (21 105 shares) previously bought back on the open market. These shares were turned over to erstwhile partners of Strange New Things spółka z ograniczoną odpowiedzialnością sp. k. and subjected to temporary lock-up with a view towards forging a long-term bond between the committed resources and the results of the studio's activities.

On 19 June 2018 the Minister of Entrepreneurship and Technology conferred upon CD PROJEKT S.A. the status of a Research and Development Centre (Centrum Badawczo-Rozwojowe; CBR). This status entitles the Company to apply increased limits and an expanded list of qualified expenses for the purposes of calculating corporate income tax relief. It also exempts the Company from property tax insofar as the given property is used for R&D activities.



Events following the balance sheet date

On 12 July 2018 the Company concluded a preliminary agreement concerning purchase of another corporate property at Jagiellońska 76 in Warsaw, directly adjacent to the property covered by the preliminary purchase agreement concluded on 11 January 2018 and sharing the same address. Both properties are also adjacent to the current Company headquarters. In line with the preliminary agreement of 12 July 2018, the Company remitted an advance payment in the amount of 4 000 thousand PLN plus VAT. Outstanding payments associated with this purchase agreement amount to 9 000 thousand PLN plus VAT, with the tax amount to be calculated at the moment the tax obligation arises. The corresponding final agreement should be signed and ownership of the property transferred to the Company by 30 June 2019.

On 16 August 2018 a new company was established in the framework of the CD PROJEKT Capital Group under the name Spokko sp. z o.o. CD PROJEKT S.A. acquired a majority stake in the new entity (75%) with the remaining shares in possession of key personnel responsible for the development and conceptual design of projects carried out at Spokko. The Group will provide the new company with access to its intellectual property, backed up by the creative and commercial muscle of the CD PROJEKT RED studio. Spokko will work on a new, unannounced project targeting mobile gaming platforms.

On 21-25 August 2018 the Company took part in gamescom in Cologne, the largest gaming fair in Europe. At its stand in the business area of the fair the Company held a set of closed gameplay presentations of *Cyberpunk 2077* for invited media representatives and business partners. CD PROJEKT was also present in the entertainment area as a sponsor of the cosplay village.

Disclosure of seasonal or cyclical activities

CD PROJEKT RED

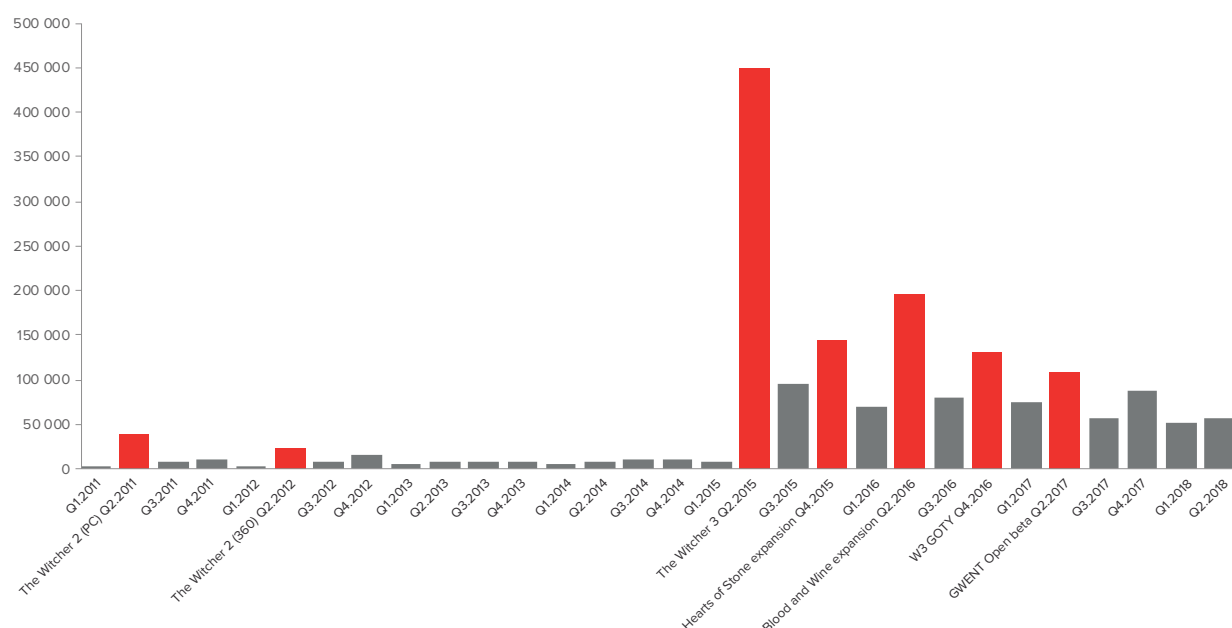
CD PROJEKT RED usually takes between 2 and 4 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released. *The Witcher 2* debuted on the PC in May 2011 while the Xbox 360 edition was released on 17 April 2012. The release of *The 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 is also continuing with its work on *Cyberpunk 2077* – the largest development project in the Company’s history.



Figure 5 CD PROJEKT RED release quarters – revenues from sales of products, goods and materials in 2011-2018 (PLN millions)



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.

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*.

GOG.com also obtains revenues from microtransactions carried out in *GWENT: The Witcher Card Game*. In terms of revenues, these microtransactions represented the most significant product of this segment both in 2017 and in the first half of 2018. Revenues are dependent on gamer interest and on events occurring within the game's development lifecycle – such as the launch of the open beta (Q2 2017) or the release of additional card sets. In this regard, the key upcoming event is the official release of *GWENT*, scheduled for the final quarter of 2018, alongside the release of *Thronebreaker* – a standalone single-player campaign offering many hours of gameplay.

GWENT revenues stabilized in the second quarter of 2018 due to the ongoing Homecoming project.



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

Future growth of the Company and its Capital Group is critically dependent on the ability to retain world-class creative professionals and experts, and to attract a growing number of specialists, both Polish and foreign, to work on the Group's future releases. Ongoing expansion of the company also calls for effective management of production and publishing activities related to several projects carried out in parallel at the Company HQ in Warsaw and at its branch offices in Kraków and Wrocław. The market performance of each new release is an important aspect of the Studio's reputation as a developer of top-quality, highly sought-after entertainment products. It also underpins the value and recognition of brands 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.

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 of the Management Board Report on CD PROJEKT Capital Group activities in 2017, which can be accessed on the corporate website at www.cdprojekt.com.

With regard to the second half 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. In this context, the most significant factors shaping the current results of the CD PROJEKT Capital Group include the popularity of previously published games set in *The Witcher* universe, as well as – in future periods – the progress of development and market reception of the Company's upcoming releases: *Cyberpunk 2077* and *GWENT: The Witcher Card Game*, along with its *Thronebreaker* single-player campaign.

In June 2018, two days before the kickoff of E3 in Los Angeles, at the culmination of the Microsoft press conference CD PROJEKT RED unveiled its newest trailer featuring *Cyberpunk 2077*. The trailer was enthusiastically received by the gamers and market commentators alike. As of the publication date of this report it has been viewed 25 million times across all of its distribution channels, positioning it as the most popular trailer in the entire history of CD PROJEKT RED.

The release of the new trailer officially marked the launch of the global *Cyberpunk 2077* marketing campaign. It was followed by a series of closed hourlong gameplay footage presentations organized at E3 for invited journalists, influencers and business partners. This, too, generated highly positive reactions, with enthusiastic comments from gaming media. Altogether,



Cyberpunk 2077 received over 100 trade awards at E3 and, by the publication date of this report, was featured on the covers of 11 gaming magazines.

The enthusiastic reception of the Studio's new product by gamers and experts is testament to the strong potential of the brand, both in terms of public relations and commercial appeal. Commitment to product quality, maintaining the pace of the *Cyberpunk 2077* marketing campaign, PR activities, hype management and fostering community relations are all important aspects of the game's expected market success. In addition, global recognition and popularity of the *Cyberpunk 2077* brand may entice gamers who are not yet familiar with *The Witcher* games to seek access to the Company's earlier products.

Future results of the CD PROJEKT Capital Group will also depend on the popularity and progress of development of *GWENT: The Witcher Card Game*. The *GWENT* Homecoming project, which involves a return to the game's original underlying assumptions, is expected to culminate in a full release in the fourth quarter of 2018.

The reception of this new incarnation of *GWENT: The Witcher Card Game* by gamers and media experts, will determine the game's monetization capacities in future quarters.

In addition, the market performance of *GWENT*, and therefore the results of the CD PROJEKT Capital Group, will depend on ongoing expansion of the products with new features, and on the release frequency of new gameplay modes, card sets, attractive visual enhancements and in-game events intended to maintain the game's appeal.

The fourth quarter of 2018 will also see the release of *Thronebreaker*, a standalone story-driven campaign. Positive reception of this product may have a trickle-down effect on the popularity of earlier RPGs featuring Geralt of Rivia among the *GWENT* community, and – by the same token – may also entice fans of *The Witcher* trilogy who decide to explore the world and storyline of *Thronebreaker* to try their hand at the multiplayer card game.

GWENT: The Witcher Card Game is the first multiplayer game developed by the CD PROJEKT Group in which CD PROJEKT and GOG collaborate to jointly create new technological solutions while extending their knowledge and experience in terms of provisioning online products. These technologies and know-how are strategically important for the Group and its future development and publishing capabilities.

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.

GOG.com

In the GOG.com segment, 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 bolsters 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 leverage 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 agreements

No agreements fulfilling significance criteria were concluded by the Group in the first half of 2018.

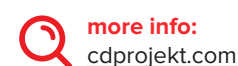


Risk management at the Capital Group

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.

A detailed description of risk events affecting the Group can be found in the Management Board report on CD PROJEKT Capital Group activities available on the corporate website at www.cdprojekt.com.



Financial results of the CD PROJEKT 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 the first half of 2018

The most important contribution to results reported by the Capital Group in H1 2018 was from ongoing sales of *The Witcher 3: Wild Hunt* and the game's two expansion packs: *Hearts of Stone* and *Blood and Wine*. The second most important product was *GWENT: The Witcher Card Game*, which remains in public beta tests as of the publication date of this report, and is undergoing modifications in the framework of the Homecoming project, announced in April 2018. In terms of ongoing development work, the bulk of H1 2018 expenses were associated with *Cyberpunk 2077*, *GWENT* and the *Thronebreaker* expansion.

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.

No significant unusual circumstances affecting the Group's financial result occurred in the first half of 2018.

Condensed interim consolidated profit and loss account



Table 2 Condensed interim consolidated profit and loss account

	01.01.2018 – 30.06.2018	01.01.2017 – 30.06.2017*
Sales revenues	168 434	254 824
Revenues from sales of products	108 772	199 621
Revenues from sales of services	25	61
Revenues from sales of goods and materials	59 637	55 142
Cost of products, goods and materials sold	43 829	38 086
Cost of products and services sold	91	488
Value of goods and materials sold	43 738	37 598
Gross profit (loss) from sales	124 605	216 738
Other operating revenues	632	2 123
Selling costs	46 639	58 470
General and administrative costs	16 546	16 329
Other operating expenses	984	1 295
(Impairment losses)/reversal of impairment losses of financial instruments	233	480
Operating profit (loss)	61 301	143 247
Financial revenues	5 781	5 459
Financial expenses	492	2 435
Profit (loss) before tax	66 590	146 271
Income tax	14 160	27 622
Net profit (loss)	52 430	118 649
Net profit (loss) attributable to equity holders of parent entity	52 430	118 649
Net earnings per share (in PLN)		
Basic for the reporting period	0.55	1.23
Diluted for the reporting period	0.52	1.20

*adjusted data



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

The Group posted 168 343 thousand PLN in H1 2018 **sales revenues**, which is 33.9% lower than during the reference period in 2017 (coinciding with the launch of the open beta of *GWENT: The Witcher Card Game*).

In the current reporting period the Group's publishing schedule foresaw no new releases. Consequently, the reported revenues were mostly generated by previously published products – *The Witcher 3: Wild Hunt* (together with its expansion packs: *Hearts of Stone* and *Blood and Wine*), *GWENT* as well as sales carried out via GOG.com and GOG Galaxy. Upcoming product-related events which may affect the Group's revenues are scheduled for the final quarter of 2018, and include completion of the Homecoming project, finalization of the *GWENT* testing phase, followed by full official release, as well as release of a standalone single-player expansion titled *Thronebreaker*. Consolidated **revenues from sales of products** developed by the Group itself amounted to 108 772 thousand PLN and represented the bulk (64.6%) of the Group's total sales revenues.

Revenues from sales of goods and materials were obtained almost entirely in the GOG.com segment and came mainly from digital distribution of videogames licensed from external suppliers, marketed to end users by GOG. The reported figure of 59 637 thousand PLN constituted 35.4% of the Group's total sales revenues, which represents an increase by 8.2% compared to the reference period (H1 2017). This increase in the volume of GOG.com sales came as a result of further expansion of the product catalogue, seasonal sale campaigns and rollout of new features such as User Profiles and Activity Feed. In effect, the first half of 2018 was the best reporting period in GOG.com's history in terms of revenues from sales of products licensed from external suppliers.

The **cost of products, goods and materials sold** was 43 829 thousand PLN, which represents an increase by 15.1% compared to the reference period.

The reported increase in consolidated costs was mostly due to the aforementioned expansion of the increasing volume GOG.com's sales of goods from external suppliers, as well as to fluctuations in exchange rates in the first half of 2018 described in the commentary section attached to the segmented profit and loss account (further below).

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 previous reporting periods, the CD PROJEKT Capital Group reported no significant expenditures associated with these projects in the current period or in the reference period.

Gross profit from sales was reported at 124 605 thousand PLN, which corresponds to gross profitability (share of gross profit in sales revenues) of 74.0%.

The reported **selling costs** comprised promotional and advertising expenses in each of the Group's activity segments. Most of these expenses were incurred by CD PROJEKT RED (30 860 thousand zł), including in particular the marketing campaigns accompanying *GWENT: The Witcher Card Game* and *Cyberpunk 2077*. In the GOG.com segment (17 150 thousand zł) selling costs were dominated by the segment's share in *GWENT* promotional expenses, regulated by the relevant consortium agreement, marketing activities related to the GOG.com platform as well as transaction costs related to processing payments through the online digital distribution platform. This category furthermore aggregates costs and provisions for compensation contingent upon



the Group's financial result, along with costs of other bought-in services procured in support of sales. The aggregate selling costs in H1 2018 were 46 639 thousand PLN, which represents a decrease by 20.2% compared to the first half of 2017.

The main component of the Group's **general and administrative expenses** in the first half of 2018 was compensation and provisions for compensation dependent upon the Group's financial result (including liabilities arising from evaluation of the intragroup incentive program), along with the costs of other bought-in services aggregated with this line item. Despite ongoing recruitment and expansion of activities in both activity segments of the Capital Group, general and administrative expenses held steady compared to H1 2017, at 16 546 thousand PLN.

The surplus of **financial revenues over financial expenses** increased by 74.9% compared to the reference period, reaching 5 289 thousand PLN in the first half of 2018. This result was mainly due to a reduction in negative exchange rate differences as well as an increase in interest on short-term bank deposits collected by the Group.

The consolidated **net profit** of the CD PROJEKT Capital Group in H1 2018 was 52 430 thousand PLN, while the Group's net profitability (share of post-tax net profit in consolidated sales revenues) during the same period was 31.1%.

Condensed interim segmented consolidated profit and loss account for the period between 01.01.2018 and 30.06.2018



Table 3 Condensed interim segmented consolidated profit and loss account for the period between 01.01.2018 and 30.06.2018

	CD PROJEKT RED	GOG.com	Consolidation eliminations (incl. from business combinations)	Total
Sales revenues	108 512	64 575	(4 653)	168 434
Revenues from sales of products	104 682	2 906	1 184	108 772
Revenues from sales of services	2 240	4	(2 219)	25
Revenues from sales of goods and materials	1 590	61 665	(3 618)	59 637
Cost of products, goods and materials sold	2 270	44 702	(3 143)	43 829
Cost of products and services sold	800	-	(709)	91
Value of goods and materials sold	1 470	44 702	(2 434)	43 738
Gross profit (loss) from sales	106 242	19 873	(1 510)	124 605
Other operating revenues	1 011	222	(601)	632
Selling costs	30 860	17 150	(1 371)	46 639
General and administrative costs	13 710	2 973	(137)	16 546
Other operating expenses	1 070	515	(601)	984
(Impairment)/reversal of impairment of financial instruments	220	13	-	233
Operating profit (loss)	61 833	(530)	(2)	61 301
Financial revenues	5 754	235	(208)	5 781
Financial expenses	29	671	(208)	492
Profit (loss) before taxation	67 558	(966)	(2)	66 590
Income tax	13 948	212	-	14 160
Net profit (loss)	53 610	(1 178)	(2)	52 430
Net profit (loss) attributable to equity holders of the parent entity	53 610	(1 178)	(2)	52 430



Clarifications regarding the condensed interim segmented consolidated profit and loss account

In the CD PROJEKT RED segment the revenues and net result reported for H1 2018 were dominated by ongoing strong sales of *The Witcher 3: Wild Hunt* together with its expansion packs. Regarding GOG.com, the most important product was *GWENT: The Witcher Card Game*. The reduction in in-game sales resulting from the Homecoming project, announced during the current reporting period, coupled with ongoing promotional and maintenance expenditures, negatively impacted the performance of the project consortium, which includes GOG sp. z o.o. With regard to other activities in the GOG.com segment, it is worth noting that the first half of 2018 was marked by the highest-ever revenues from sales of games licensed from external suppliers. Additionally, in the CD PROJEKT RED segment (and, where digital distribution is concerned, also in the GOG.com segment) the Group continued to market its own releases, i.e. *The Witcher*, *The Witcher 2: Assassins of Kings* along with a range of tie-in products.

An important factor affecting the scope and methodology of recognizing *GWENT* sales revenues in the GOG.com and in the CD PROJEKT RED segment was the transnational merger between GOG Ltd. and GOG Poland sp. z o.o. which occurred in late October 2017.

Up until the merger (including throughout the reference period) 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 GOG Ltd. and the GOG.com activity segment and initially not shared with consortium partners. Instead, GOG Ltd. recognized licensing royalties payable to its supplier, i.e. the consortium consisting of CD PROJEKT S.A. and GOG Poland sp. z o.o. Royalties aggregated with the cost of products sold by GOG Ltd. also represented revenues from sales of products recognized in the agreed-upon proportions by each consortium partner - including GOG Poland sp. z o.o., whose own results were presented in the GOG.com segment. The corresponding eliminations were applied as a Groupwide consolidation measure.

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, compared to the reference period, *GWENT* sales revenues and sales margins reported in the GOG.com segment decreased while those reported in the CD PROJEKT RED increased. 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 have no effect upon the Group's consolidated sales revenues.

The first half of 2018 marks the first full semiannual reporting period which follows the merger between GOG Poland sp. z o.o. and GOG Ltd.

It is worth noting that the financial result of the GOG.com segment in the scope of sales of goods and materials is affected by the above-average ratio between the reported selling costs and revenues. This increase is mainly due to unfavorable exchange rates applied while converting sales revenues into PLN. A significant majority of GOG.com sales is processed in USD and converted into PLN using daily exchange rates. While licensing royalties payable to external suppliers are also mostly denominated in USD, they are recognized in monthly cycles and converted into PLN using exchange rates published for the final day of each month. During five of the six months comprising the current reporting period (including June, which is the most important month from the point of view of sales) the last-day exchange rate was higher than the average of all daily rates belonging to the given month. This resulted in less favorable exchange rates being applied to selling costs than to the corresponding sales revenues. The



issue, which affects various currencies (but mostly USD), is the main cause of the reported increase in the ratio between selling costs and sales revenues in the GOG.com segment. In the first half of the year the ratio was 72.5%, compared to 68.1% during the reference period. When applied to the reported value of sales of goods and materials (61 665 thousand PLN in H1 2018), it resulted in a decrease in gross profitability by approximately 2 720 thousand PLN compared to a hypothetical margin computed using last year's ratio.

Furthermore, the USD/PLN exchange rate applied to the results reported for the first half of 2018 was 3.1592 compared to 3.8964 during the reference period. Given that 95% of H1 2018 sales carried out by the Capital Group were exports, such a significant strengthening of the Polish currency means that (when applying the exchange rates specified in the consolidated financial statement) for each dollar collected in payments, revenues reported in the first half of 2018 were 0.38 PLN (nearly 10%) lower than during the first half of 2017.

In both segments – CD PROJEKT RED and GOG.com – the strengthening of PLN against foreign currencies in the first half of 2018 had a negative effect on the sales revenues denominated in PLN and consequently, on the reported sales margins in comparison with H1 2017 figures.

With regard to operating expenses, selling costs decreased during the first half of 2018 in both segments (by 8 844 thousand PLN, i.e. 22.3%, and 2 902 thousand PLN, i.e. 14.5% in CD PROJEKT RED and GOG.com respectively). General and administrative expenses held steady despite the expansion of business activities in both segments.

Condensed interim consolidated statement of financial position of the CD PROJEKT Capital Group



Table 4 Condensed interim consolidated statement of financial position of the CD PROJEKT Capital Group

	30.06.2018	31.12.2017
FIXED ASSETS	326 072	255 535
Tangible assets	19 149	18 832
Intangibles	52 264	46 853
Expenditures on development projects	196 734	142 486
Goodwill	56 438	46 417
Shares in subsidiaries excluded from consolidation	981	452
Other long-term receivables	506	495
CURRENT ASSETS	687 315	725 978
Inventories	252	323
Trade receivables	37 552	46 261
Current income tax receivables	9 364	-
Other receivables	17 852	17 582
Prepaid expenses	14 398	14 296
Cash and cash equivalents	132 497	66 987
Bank deposits (maturity beyond 3 months)	475 400	580 529
TOTAL ASSETS	1 013 387	981 513



	30.06.2018	31.12.2017
EQUITY	940 280	882 899
Equity attributable to equity holders of parent entity	940 280	882 899
Share capital	96 120	96 120
Supplementary capital	738 055	549 335
Other reserve capital	20 730	15 212
Exchange rate differences	204	118
Retained earnings	32 741	21 844
Net profit (loss) for the reporting period	52 430	200 270
LONG-TERM LIABILITIES	13 208	4 130
Other financial liabilities	74	148
Deferred income tax liabilities	8 833	1 878
Deferred revenues	4 220	2 023
Provisions for employee benefits and similar liabilities	81	81
SHORT-TERM LIABILITIES	59 899	94 484
Other financial liabilities	244	190
Trade liabilities	38 846	37 374
Current income tax liabilities	272	3 457
Other liabilities	5 838	6 770
Deferred revenues	3 915	3 052
Provisions for employee benefits and similar liabilities	1	1
Other provisions	10 783	43 640
TOTAL EQUITY AND LIABILITIES	1 013 387	981 513



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

Assets

The Group's Tangible fixed assets at the end of June 2018 were worth 19 149 thousand PLN and remained largely unchanged compared to the end of 2017. The most important contribution to this figure was from work carried out at the Group's premises and aimed at adaptation of office space to current activities (Buildings and Structures; 10 164 PLN). Another notable component was Machinery and Equipment, valued at 7 238 thousand PLN – mostly computers, servers and other electronic equipment used in the videogame development projects, including components of the motion capture studio owned by CD PROJEKT S.A.

The bulk of Intangible assets, valued at 52 264 thousand PLN as of 30 June 2018, consisted mainly of the CD PROJEKT brand name and The Witcher trademark, valued jointly at 32 199 thousand PLN, as well as copyrights held by the Group (11 318 thousand PLN). This line item also aggregates computer software in use at the Group (net value of 7 210 thousand PLN). Compared to the end of 2017 the aggregate value of the Group's intangible assets increased by 5 411 thousand PLN, i.e. 11.5%, mostly due to acquisition of copyrights by CD PROJEKT S.A.

Development expenditures associated with the Group's future releases are recognized in the Fixed Assets category as expenditures on development projects. At the end of June 2018 the aggregate value of these expenditures was 196 734 thousand PLN. 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* and its expansion packs) had been fully discounted in previous reporting periods, the reported value of development expenditures is entirely attributable to ongoing development projects, the largest of which include *Cyberpunk 2077*, *GWENT: The Witcher Card Game* and the *Thronebreaker* expansion. Overall, the Group's R&D expenditures increased by 54 248 thousand PLN in the first half of the year, mostly due to steady expansion of the Group's creative teams and upscaling of development activities, with particular emphasis on *Cyberpunk 2077* in the run-up to E3, where the game was – for the first time ever – showcased to media representatives and business partners. In addition, work associated with the *GWENT* Homecoming project and the approaching release of the *Thronebreaker* campaign drove up development expenditures during the reporting period.

The final significant component of the Group's fixed assets was goodwill (56 438 thousand PLN) – i.e. the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the 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 bulk of the reported figure (46 417 thousand PLN) was generated following the merger between the parent company and the CDP Investment group on 30 April 2010. During the reporting period goodwill increased by 10 021 thousand PLN (21.6%) as a result of the purchase of a Wrocław-based development studio from Strange New Things spółka z ograniczoną odpowiedzialnością sp. k. by CD PROJEKT S.A., effective on 18 May 2018.

With regard to working assets, consolidated Trade receivables were valued at 37 552 thousand PLN as of 30 June 2018. Most of this figure was attributable to CD PROJEKT RED, which posted 36 346 thousand PLN in trade receivables (including receivables from GOG.com, subject to consolidation eliminations). Within the CD PROJEKT RED segment itself, the bulk of the reported Trade receivables arose from licensing reports covering the second quarter of 2018 and received after the close of the reporting period. The aggregate value of the Group's Trade receivables decreased by 8 709 thousand PLN (18.8%) during the first half of 2018, chiefly due to collection of receivables previously reported at the close of the fourth quarter of 2017, which was marked by strong sales.



The Group also posted Current income tax receivables in the amount of 9 364 thousand PLN, which reflects overpayment of Corporate Income Tax in the CD PROJEKT RED segment in Q2 2018, caused by deduction of withholding tax on foreign licensing royalties which had previously been paid at source. The reported increase in Consolidated Income Tax receivables was also caused by deduction of compensation contingent upon the Group's performance in 2017, paid out in the second quarter of the current year.

The aggregate value of the Group's Other receivables, at 17 852 thousand PLN, did not change appreciably since the end of the previous year. The most significant component of this figure represents withholding tax deducted at source by the Group's foreign clients, at 6 945 thousand PLN as of 30 June 2018. Other receivables also aggregate Value Added Tax receivables and advance payments for services which are to be rendered in future reporting periods.

The reported value of Prepaid expenses (14 398 thousand PLN) is primarily made up of minimum guarantees secured by GOG sp. z o.o. and not reported on its balance sheet as of the final day of the reporting period – 11 950 thousand PLN. The Group's aggregate Prepaid expenses did not change significantly throughout the first half of 2018.

Cash and cash equivalents and Bank deposits (maturity beyond 3 months) were worth jointly 607 897 thousand PLN for a 6.1% decrease compared to 31 December 2017. This decrease, occurring during a period where the Group posted a net profit, was due to ongoing expenditures on videogame development projects (50 892 thousand PLN). It was also affected by payment of compensation contingent upon the Group's 2017 financial result, purchases of Fixed assets and Intangibles, purchase of an enterprise (development studio in Wrocław) and overpayment of 2017 income tax, as reported in the current financial statement of CD PROJEKT S.A. Within the CD PROJEKT Group the bulk of cash assets was held by CD PROJEKT S.A. (559 118 thousand PLN) and GOG sp. z o.o. (48 241 thousand PLN).

On 30 June 2018 the aggregate value of Fixed assets was 70 537 thousand PLN higher (27.6%) than at the end of the previous year, mostly due to the reported development work carried out at CD PROJEKT S.A. Over the same period Working assets decreased in value by 38 663 thousand PLN (5.3%), mostly as a result of the aforementioned decrease in Cash assets and Trade receivables. At the end of the period Fixed assets constituted 32.2% of the Group's total assets, with the remaining 67.8% made up of working assets .

Equity and liabilities

The Group's consolidated equity was reported at 940 280 thousand PLN for an increase of 57 381 thousand PLN (6.5%) compared to the end of 2017 – mostly due to the net profit obtained during the current period (52 430 thousand PLN).

Trade liabilities were jointly valued at 38 846 thousand PLN. Most of this figure represents liabilities incurred in the GOG.com segment (32 673 thousand PLN, including 1 109 thousand PLN in liabilities due to affiliates, subject to consolidation eliminations), associated with licensing royalties owed to copyright holders whose products are distributed on GOG.com. The remaining 7 282 thousand PLN was attributable to CD PROJEKT RED and concerns activities related to ongoing videogame development. The Group's aggregate trade liabilities did not change significantly throughout the reporting period.

The reported Other liabilities consist mainly of Current tax liabilities (VAT, PIT) and social security payments. This figure did not change significantly compared to the end of the previous year.



Other provisions decreased by 32 847 thousand PLN (75.3%) during the first half of 2018, mostly as a result of compensation contingent upon the Group's 2017 performance, paid out during the reporting period. The reported figure consists mainly of provisions for compensation contingent upon results in the current period, as well as provisions for Other liabilities in both activity segments.

Equity accounted for 92.8% of the Group's aggregate equity and liabilities, while short- and long-term liabilities accounted for 7.2%. At the end of 2017 the corresponding figures were 90.0% and 10.0%.

The Group's segmented consolidated statement of financial position can be found in the Condensed Interim Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 30 June 2018.

Table 5 Breakdown of assets and liabilities in the consolidated statement of financial position, incl. from the point of view of liquidity

	30.06.2018	31.12.2017	% change	% of total assets 30.06.2018	% of total assets 31.12.2017
FIXED ASSETS	326 072	255 535	27.6%	32.2%	26.0%
Tangible assets	19 149	18 832	1.7%	1.9%	1.9%
Intangibles	52 264	46 853	11.5%	5.2%	4.8%
Expenditures on development projects	196 734	142 486	38.1%	19.4%	14.5%
Goodwill	56 438	46 417	21.6%	5.6%	4.7%
Other fixed assets	1 487	947	57.0%	0.1%	0.1%
CURRENT ASSETS	687 315	725 978	-5.3%	67.8%	74.0%
Inventories	252	323	-22.0%	0.0%	0.0%
Trade receivables	37 552	46 261	-18.8%	3.7%	4.7%
Current income tax receivables	9 364	-	-	0.9%	-
Other receivables	17 852	17 582	1.5%	1.8%	1.8%
Prepaid expenses	14 398	14 296	0.7%	1.4%	1.5%
Cash and cash equivalents and Bank deposits (maturity beyond 3 months)	607 897	647 516	-6.1%	60.0%	66.0%
TOTAL ASSETS	1 013 387	981 513	3.2%	100.0%	100.0%

	30.06.2018	31.12.2017	% change	% of total equity and liabilities 30.06.2018	% of total equity and liabilities 31.12.2017
EQUITY	940 280	882 899	6.5%	92.8%	90.0%
LONG-TERM LIABILITIES	13 208	4 130	219.8%	1.3%	0.4%
SHORT-TERM LIABILITIES	59 899	94 484	-36.6%	5.9%	9.6%
Trade liabilities	38 846	37 374	3.9%	3.8%	3.8%
Other provisions	10 783	43 640	-75.3%	1.1%	4.4%
Other liabilities	10 270	13 470	-23.8%	1.0%	1.4%
TOTAL EQUITY AND LIABILITIES	1 013 387	981 513	3.2%	100.0%	100.0%



At the end of H1 2018 the Group held 607 897 thousand PLN in consolidated Cash assets and Bank deposits. These assets are used to finance ongoing development activities – the aggregate value of development expenditures (expenditures on development projects) increased by 54 248 thousand PLN throughout the first half of the year, reaching 196 734 thousand PLN. The Group manages its Cash assets in such a way as to ensure that its current activities may proceed without hindrance, and that future financing is appropriately secured. This concerns in particular:

- unhindered implementation of complex, innovative long-term development projects focused on achieving optimal quality and entertainment value, as well as with technological and artistic excellence, while setting aside reserves in accordance with the applicable best practices,
- steady expansion of the enterprise, including novel creative approaches and business models, and incubation of new initiatives,
- expected global marketing and promotional activities which typically precede videogame releases and occur before the respective games have begun to generate cash flows,
- occurrence of unforeseen circumstances – both negative and positive from the Group's perspective, as well as exploitation of opportunities arising through market research.

In the Management Board's opinion, where development of AAA⁷ videogames is concerned, mitigating the risk of insufficient funding has a profound impact on the Group's ability to produce top-quality products and obtain excellent return on investment.

Surplus cash assets are typically placed in overnight or longer-term bank deposits. The total value of deposits with maturity periods exceeding 3 months as 475 400 thousand PLN at the end of H1 2018.

Both as of 30 June 2018 and as of 31 December 2017 the Group had no outstanding debt under any credit or loan agreements.

⁷ AAA (Triple-A) - term used in the videogame industry to refer to games with the highest production and promotional budgets, outstanding quality and excellent sales potential.

Condensed interim consolidated statement of cash flows



Table 6 Condensed interim consolidated statement of cash flows

	01.01.2018 – 30.06.2018	01.01.2017 – 30.06.2017
OPERATING ACTIVITIES		
Net profit (loss)	52 430	118 649
Total adjustments:	(18 889)	11 252
Depreciation of fixed assets and intangibles	2 350	2 350
Interest and profit sharing	(5 771)	(5 041)
Profit (loss) from investment activities	299	945
Change in provisions	(32 857)	7 971
Change in inventories	71	(154)
Change in receivables	9 200	(825)
Change in liabilities excluding credits and loans	287	3 799
Change in other assets and liabilities	2 981	113
Other adjustments	4 551	2 094
Cash flows from operating activities	33 541	129 901
Income tax on pre-tax profit (loss)	14 160	27 622
Income tax (paid)/reimbursed	(19 835)	(33 626)
Net cash flows from operating activities	27 866	123 897
INVESTMENT ACTIVITIES		
Inflows	633 772	384 935
Disposal of intangibles and fixed assets	41	59
Cash assets gained in the acquisition of an enterprise	26	-
Closing bank deposits (maturity beyond 3 months)	627 929	379 835
Other inflows from investment activities	5 776	5 041
Outflows	595 886	539 766
Purchases of intangibles and fixed assets	11 644	8 807
Expenditures on development projects	50 892	33 412
Acquisition of an enterprise	10 550	-
Opening bank deposits (maturity beyond 3 months)	522 800	497 547
Net cash flows from investment activities	37 886	(154 831)



FINANCIAL ACTIVITIES

Outflows	242	101 266
Dividends and other payments due to shareholders	-	100 926
Payment of liabilities under financial lease agreements	237	340
Interest payments	5	-
Net cash flows from financial activities	(242)	(101 266)
Total net cash flows	65 510	(132 200)
Change in cash and cash equivalents on balance sheet	65 510	(132 200)
Cash and cash equivalents at beginning of period	66 987	217 369
Cash and cash equivalents at end of period	132 497	85 169

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

Through Operating activities occurring in the first half of 2018 the CD PROJEKT Capital Group generated 27 866 thousand PLN in positive cash flows, primarily as a result of a significant surplus of sales revenues over the corresponding costs. Due to the Group's publishing schedule, which foresaw no new product releases during the reporting period, cash inflows were lower than during the reference period, i.e. H1 2017, which saw the release of the open beta of *GWENT: The Witcher Card Game*. Operating cash flows were also affected by dissolution of provisions associated with remittance of compensation contingent upon the Group's 2017 financial result (settlement of annual bonuses) and, to a lesser extent, collection of trade receivables previously reported at the end of Q4 2017 along with payment of income tax for 2017.

In the first half of 2018 the Group reported positive net cash flows from Investment activities. The reported figure (37 886 thousand PLN) was mostly due to surplus "inflows" from maturation of bank deposits with maturity periods beyond 3 months over "outflows" from creation of similar deposits (balance of 105 129 thousand PLN). Development expenditures incurred in the first half of the year were 50 892 thousand PLN. This corresponds to an increase of 52.3% compared to the reference period, mostly as a result of the following:

- ongoing recruitment and upscaling of development activities at CD PROJEKT S.A. and GOG sp. z o.o.,
- increased *Cyberpunk 2077* development expenses in the run-up to E3, where the game was showcased, for the first time ever, to media representatives and business partners,
- increases *GWENT: The Witcher Card Game* development expenses related to the *Homecoming* project, the approaching close of the testing campaign and the release of the Thronebreaker expansion, scheduled for the final quarter of 2018.

Outflows from investment activities were also significantly affected by purchases of fixed assets and intangibles, at 11 644 thousand PLN (for an increase of 32.2% compared to the reference period). This includes purchases of copyrights, computer hardware and software, and adaptation of office space.



In addition, outflows from investment activities were affected by the one-time purchase of an enterprise (at the cost of 10 550 thousand PLN), i.e. the Wrocław-based development studio which CD PROJEKT S.A. acquired from Strange New Things spółka z ograniczoną odpowiedzialnością sp. k.

Compared to the first half of 2017, where CD PROJEKT S.A. paid out a dividend of 100 926 thousand PLN to its shareholders in the first six months of 2018. No significant cash flows from financial activities were reported.

The balance of the Group's Cash assets (excluding bank deposits with maturity periods beyond 3 months) increased by 65 510 thousand PLN, while the balance of bank deposits with maturity periods exceeding 3 months decreased by 105 129 thousand PLN. Consequently, the aggregate balance of the Group's cash assets and bank deposits decreased by 39 619 thousand PLN (6.1%) in H1 2018. Note that during this period the Group incurred significant expenses associated with development of videogames, payment of compensation dependent upon its 2017 financial result (annual bonuses), acquisition of the Wrocław-based development studio and purchases of fixed assets and intangibles, including legal assets.

At the end of June 2018 the Group held 607 897 thousand PLN in cash assets and bank deposits.

Disclosure of credits and loans in the first half of 2018

Throughout the first half of 2018 the Group had no outstanding debt under any credit or loan agreements.

Disclosure of loans granted in the first half of 2018

In the first half of 2018 no member company of the CD PROJEKT Capital Group granted any credits or loans to external entities. CD PROJEKT Inc. has access to financing under a loan agreement concluded with CD PROJEKT S.A.

Disclosure of guarantees and sureties granted in the first half of 2018, 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 30 June 2018.



Disclosure of transactions with affiliates

In the first half of 2018 the CD PROJEKT Capital Group engaged mainly in the following types of transactions with affiliates:

- sales of licenses between CD PROJEKT S.A. and GOG sp. z o.o., as required by these companies' respective business profiles,
- procurement of accounting, HR, legal, financial, administrative and managerial services from CD PROJEKT S.A. by its subsidiaries,
- subletting of office space,
- procurement of CD PROJEKT Inc. services by CD PROJEKT S.A. 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. and GOG sp. z o.o. in the scope of coordinating promotional and publishing activities in China,
- procurement of a loan from CD PROJEKT S.A. by CD PROJEKT Inc.,
- 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 Condensed Interim Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 30 June 2018.

CD PROJEKT S.A. and GOG sp. z o.o. collaborate on the development of *GWENT: The Witcher Card Game*. This collaboration is formalized by a consortium agreement where each company bears a portion of GWENT project expenses, and is entitled to a share of the associated revenues.

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

The CD PROJEKT Capital Group had not published any financial projections covering 2017. Accordingly, no description of the significant differences between the Group's actual results and earlier projections is provided.

Corporate governance



Entity contracted to audit financial statements

On 14 June 2018 the Supervisory Board of CD PROJEKT S.A. selected Grant Thornton Polska sp. z o.o. sp. k. with a registered office in Poznań as the entity contracted to review the semiannual financial statements and audit the annual financial statements of the Company and its Capital Group for 2018 and 2019.

Grant Thornton Polska sp. z o.o. 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 7 Shareholders controlling at least 5% of the vote at the general meeting as of the publication date of this report.

	Qty. of shares	% of share capital	Qty. 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%
Free float	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 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 the publication date of this report warrants have been granted to program participants entitling them to claim up to 5 700 000 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

On 24 May 2018 the Company bought back 21 105 of its own shares in order to facilitate partial settlement of the purchase of an enterprise from Strange New Things spółka z ograniczoną odpowiedzialnością sp. k. This transaction was carried out via mBank S.A. Brokerage House. The average purchase price was 144.57 PLN per share.

The above-mentioned buyback was mandated by the Issuer's Management Board resolution of 24 May 2018 concerning buyback of own shares, pursuant to Resolution no. 22 of the Ordinary General Meeting of Shareholders of 8 May 2018 concerning empowerment of the Management Board to buy back the Company's own shares, and creation of a reserve capital to facilitate said buyback (previously disclosed by the Issuer in current Report no. 8/2018 of 8 May 2018).

All shares purchased in the course of the above-mentioned transaction were transferred to Strange New Things spółka z ograniczoną odpowiedzialnością sp. k. on 25 June 2018.



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

Table 8 Quantity of shares held by members of the Company's managerial and supervisory bodies

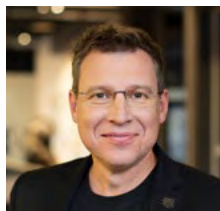
Name	Position	as of 01.01.2018	as of 30.06.2018	as of 28.08.2018
Adam Kiciński	President of the Board	3 322 481	3 322 481	3 322 481
Marcin Iwiński	Vice President of the Board	12 150 000	12 150 000	12 150 000
Piotr Nielubowicz	Vice President of the Board	6 135 197	6 135 197	6 135 197
Adam Badowski	Board 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	Board Member	1 042	1 042	1 042
Katarzyna Szwarc	Chairwoman of the Supervisory Board	10 010	10 010	10
Maciej Nielubowicz	Supervisory Board Member	51	51	51

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

In current report no. 12/2018 of 19 July 2018 the Company announced that a notice had been filed on 19 July 2018 concerning a sale of Company stock by a person discharging managerial responsibilities at the Company. In line with this notice, on 19 July 2018 Ms. Katarzyna Szwarc, Chairwoman of the Supervisory Board of CD PROJEKT S.A., sold 10 000 shares of Company stock on the regulated market of the Warsaw Stock Exchange at 200 PLN per share.



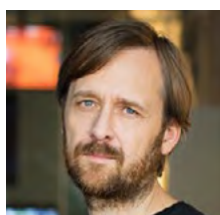
Composition of the Management Board of CD PROJEKT S.A.



Adam Kiciński

President of the Board

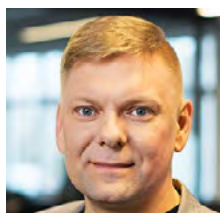
Oversees formulation of the Company's and its Capital Group's business strategies and supports their practical implementation. Coordinates Company activities in the scope of investor relations.



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

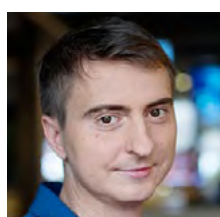
Coordinates the Company's financial and accounting branches; ensures that the Company meets its financial reporting obligations. Participates in investor relations.



Adam Badowski

Board Member

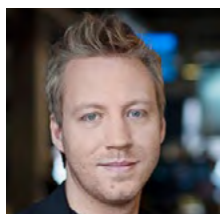
Heads the CD PROJEKT RED development studio which is owned by the Company, Coordinates the Company's game development activities.



Michał Nowakowski

Board Member

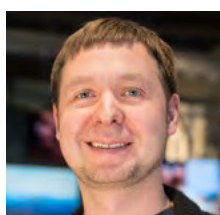
Oversees formulation and implementation of the Company's sales policies.



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.

Changes in Management Board composition

No changes in the composition of the Company Management Board occurred in the reporting period.

Composition of the 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>
Krzysztof Kilian	<i>Supervisory Board Member</i>
Michał Bień	<i>Supervisory Board Member, member of the Audit Committee</i>



Changes in Supervisory Board composition

No changes in the composition of the Company Supervisory Board occurred in the first half of 2018..

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

No changes in basic management practices in force at the Company and its Capital Group occurred in the first half of 2018.

Disclosure of significant 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, decided to appoint another expert to prepare a second opinion. This new opinion was prepared on 19 March 2018 and delivered to the relevant court.

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. The Company acted as an auxiliary prosecutor in the court of first instance and will retain this status until the trial has concluded. Having found the defendants guilty, the Court awarded the Company 210 thousand PLN in damages under Art. 46 of the Penal Code. According to the operative part of the judgement total losses sustained by the Company as a result of the defendants' actions were estimated at 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 parent company continues to act in the capacity of an auxiliary prosecutor.

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
---	---	--	--------------------------------------	--	--	--



CD PROJEKT®

WWW.CDPROJEKT.COM