

CD PROJEKT S.A. Supervisory Board Report
concerning activities in the fiscal year 2018, along with an assessment of Supervisory Board actions and a summary assessment of Company status, its internal control systems and risk mitigation strategies

1. Composition of the Supervisory Board throughout the reporting period in 2018

During 2018 the following people performed duties as members of the Supervisory Board:

Between 1 January and 31 December 2018:

- Katarzyna Szwarc – Chairwoman of the Supervisory Board; member of the Supervisory Board meeting independence criteria;
- Piotr Pągowski – Deputy Chairman of the Supervisory Board; member of the Supervisory Board meeting independence criteria;
- Maciej Nielubowicz – Secretary of the Supervisory Board;
- Krzysztof Kilian – Member of the Supervisory Board; member of the Supervisory Board meeting independence criteria;
- Michał Bień – Member of the Supervisory Board; member of the Supervisory Board meeting independence criteria;

2. Scope of Supervisory Board activities in the reporting period, including discharge of duties of the Audit Committee:

In discharging its legal and statutory duties the Supervisory Board maintained ongoing oversight of all matters affecting the Company throughout 2018.

In particular, the Supervisory Board assessed the plans of the Management Board concerning business strategies implemented by the Company and the Capital Group, as well as day-to-day activities of the Company, and its financial condition.

Throughout 2018 the Supervisory Board faithfully discharged all duties to which a supervisory board of a public company is unconditionally obligated by law, the Company Articles and Supervisory Board regulations.

In 2018 the Supervisory Board held four sessions. The Supervisory Board also discharged its duties by adopting resolutions by circulation.

As part of its prerogatives, throughout 2018 the Supervisory Board applied a substantial portion of the Code of Best Practices for WSE Listed Companies insofar as these practices concern the supervisory boards of publicly traded companies.

Pursuant to the Act of 11 May 2017 on licensed auditors, audit firms and public supervision (hereinafter referred to as “the Act”) the Supervisory Board had appointed an Audit Committee with the following composition:

- I) Katarzyna Szwarc – Chairwoman of the Audit Committee meeting independence criteria under Art. 129 section 3 of the Act,
- II) Maciej Nielubowicz – Member of the Audit Committee with knowledge and skill in the area of accounting or auditing financial statements,
- III) Michał Bień – Member of the Audit Committee meeting independence criteria under Art. 129 section 3 of the Act.

During the reporting period the Audit Committee held four sessions and also carried out its work using remote communication tools.

With regard to duties of the Audit Committee, the Audit Committee oversaw the financial reporting process and discharged its audatory obligations, including reviews of Company financial statements prior to their publication, and periodic meetings with licensed auditors.

On 13 June 2018, on the basis of the policy for selection and rotation of entities contracted to audit financial statements and procurement from entities contracted to audit financial statements of other permissible services not associated with audits and attestation of financial statements, the Audit Committee approved and communicated to the Supervisory Board of CD PROJEKT its recommendation concerning selection of the entity contracted to audit financial statements for 2018 and 2019, declaring that the recommendation had not been influenced by third parties.

In the process of selecting licensed auditors the Supervisory Board also assessed the independence of auditors and entities contracted to audit financial statements. On 14 June 2018 the Supervisory Board selected Grant Thornton Polska sp. z o.o. sp. k. with a registered office in Poznań as the entity contracted to audit the Company financial statements.

In the Supervisory Board's opinion, its current composition is sufficient to ensure performance of all duties to which a supervisory board of a public company is legally obligated.

Throughout 2018 the control and oversight duties of the Supervisory Board of CD PROJEKT S.A. were discharged faithfully and with due diligence. The Supervisory Board closely monitored all affairs substantially affecting the Company while the Management Board supplied timely reports on the Company's legal status and each of its activity segments.

In discharging its control and oversight duties the Supervisory Board relied on written reports submitted by the Management Board and on clarifications provided by Management Board members attending Supervisory Board meetings. As a rule, Supervisory board meetings were attended by members of the Management Board except for matters related to the performance of the Management Board and its individual members. A significant portion of Supervisory Board activities was performed with the use of remote communication tools, enabling better oversight of current Company affairs.

3. Summary assessment of Company status, its internal control system, risk mitigation strategies, compliance and internal audit policies and fulfillment of statutory disclosure obligations related to corporate governance

Based on Company and Capital Group financial statements for 2018, the Management Board report on the internal control system and risk mitigation strategies for 2018 of 23 April 2019, as well as additional information obtained from the Management Board the Supervisory Board declares that the Company has successfully met the goals set by the Management Board with regard to its operating activities, i.e. videogame development and digital distribution of videogames.

In the opinion of the Supervisory Board the Company's condition is stable. Following assessment of the Company's condition in 2018 as well as key risk factors affecting the Company, the Supervisory Board perceives no substantial threat which could jeopardize the continuation of Company activities.

Throughout 2018 the Company conducted its business in a manner consistent with legal regulations applicable to public companies, including corporate governance law. In the Supervisory Board's opinion, the Company met its disclosure obligations relating to compliance with corporate governance law.

The Management Board of the Company is responsible for its internal control and risk mitigation systems and for periodic assessment of risk factors which may affect the Company during the given fiscal year.

The Management Board of the Company is responsible for effective operation of its internal control system in preparing the Company's financial statements. It is also responsible for ensuring the correctness of said statements, as well as of periodic reports. To this end, the Management Board is tasked with supervising the preparation of any legally required documents. Financial data reported in these documents is derived from the Company's accounting system which registers transactions in line with the Company's accounting policy, itself consistent with the International Accounting Standards.

Internal control system

The Company has instituted a complex functional control system which encompasses internal control, projections, budgeting (including cash flows), financial analyses and key performance indicators.

All subsidiaries of CD PROJEKT S.A. are entitled to consult with experts working for the parent company under the corporate and legal oversight policy implemented by the Capital Group.

Risk factors affecting the Group's operations and the corresponding mitigation strategies

The Company has instituted a risk management system which involves identification and assessment of risk events, along with the applicable standards and operations.

A description of risks which affect the Company and its Capital Group, along with the corresponding mitigation strategies, can be found in the Management Board report on CD PROJEKT Capital Group and CD PROJEKT S.A. activities for the period between 1 January and 31 December 2018.

Compliance and internal auditing

Given the scale and nature of Company activities, no formalized compliance and internal auditing mechanism is in force at the Company and no dedicated organizational unit has been established for this purpose.

The organizational structure of CD PROJEKT is based on a set of formal procedures which aim to ensure consistent handling and control of the core managerial/organizational processes at each department.

Financial control and cash management is the responsibility of the financial department employees, which follows its own internal procedures governing financial planning and settlements, along with a hierarchical multi-stage payment authorization process.

An ownership supervision department also exists within the CD PROJEKT S.A. organizational structure, tasked with fiscal and legal supervision of Capital Group and Company activities, monitoring changes in the Capital Group's business environment and ensuring proper discharge of statutory duties incumbent upon the Company. In justifiable cases Capital Group member companies employ the services of external law firms in order to mitigate legal and fiscal rights.

In addition to detailed procedures applicable to specific areas of activities the Capital Group has also instituted comprehensive procedures which pertain to (among others) circulation and protection of inside information, counteracting mobbing and workplace discrimination, counteracting money laundering and financing of terrorism, and ensuring appropriate protection of personal data.

Any violations or irregularities related to the abovementioned procedures are reportable directly to the Management Board of the Company.

Summary

In the Supervisory Board's opinion, the internal control system and risk mitigation strategies described above are consistent. As such, the Supervisory Board deems the internal control system and risk mitigation strategies applied in 2018 appropriate and believes that they materially reduce key risks which may threaten Company operations.

Assessment of sponsorships and other charitable activities

The Company has not instituted a formal policy regarding sponsorships and charitable activities given the marginal role of such activities.