



CD PROJEKT®

**MANAGEMENT BOARD REPORT ON THE
ACTIVITIES OF THE CD PROJEKT GROUP
AND CD PROJEKT S.A. IN 2019**



This report on the activities of the CD PROJEKT Group and CD PROJEKT S.A., in its key aspects contains information related to the separate financial statement of CD PROJEKT S.A. Due to the fact that the activities and separate financial statement of CD PROJEKT S.A. have a dominant influence on the activities and consolidated financial statement of the CD PROJEKT Group, information presented in subsequent sections of this report will refer to consolidated financial statement of the Group, whose scope covers the activities and financial result of CD PROJEKT S.A.

This report was prepared in accordance with selected rules defined in the GRI Sustainability Reporting Standards. In preparing this publication we relied on information collected during each step of the GRI process – identification, prioritization and validation.

GRI 102-14

Esteemed Shareholders,

It is with undeniable satisfaction that I turn over to you our annual report which contains an overview of key business events, along with a summary of our earnings in 2019. For the first time we devoted so much space to matters other than financials, presenting the socioeconomic context of our activities, management practices in force at the Company and our environmental impact. We believe that a broader overview of our business will carry added value for everyone who has a stake in the CD PROJEKT Capital Group.

The past year was, without a doubt, one of the most intensive periods in our history. We entered the final, most important phase of the development of *Cyberpunk 2077*, and unveiled the next stage of its global promotional campaign.

The crucial moment came on 9 June in Los Angeles, at the Microsoft conference directly preceding the E3 fair. This is when we announced the release date of *Cyberpunk* and the involvement of Keanu Reeves who contributes his voice talent to one of the main NPCs in our upcoming release.



Fan reactions again confirmed the great expectations associated with *Cyberpunk*. The game's trailer, also released at the conference, has so far been viewed over 50 million times, while *Cyberpunk 2077* has already garnered over 200 awards and accolades. In the second part of the year we took part in 23 gaming events around the world, where *Cyberpunk* presentations invariably attracted capacity crowds. This enormous interest invigorates us as we draw ever closer to the finish line and put the final touches to the game.

The urge to create great games is engrained in our corporate DNA. This is why in January we made the decision to postpone *Cyberpunk's* release until 17 September 2020. The sheer complexity of Night City means that we need a few extra months to polish all of the game's aspects. I would like to take this opportunity to thank you for your continuing understanding, trust and support extended to us in the wake of the announcement.

While the development of *Cyberpunk* clearly dominated our past year, we did not neglect other areas of activity. In May we launched our official online store – CD PROJEKT RED Store – while in October our games debuted on new hardware platforms which we hadn't targeted before. *The Witcher 3: Wild Hunt* was released for the popular Nintendo Switch gaming console, and *GWENT* came to iOS devices two weeks later. We carried on with this effort in the first quarter of 2020, releasing *Thronebreaker: The Witcher Tales* for Nintendo Switch and *GWENT* for Android. All these releases were strongly appreciated by the gaming community and all of them garnered rave reviews.

The past year again saw increasing revenues in the GOG.com segment. In 2019 we unveiled GOG GALAXY 2.0 which allows gamers to combine their game shelves into a single library, and to communicate with friends and track their progress regardless of their preferred gaming platforms. The application is currently in open beta.

In 2019 we also moved to invest into our own campus by purchasing the property complex located in Warsaw at Jagiellońska 74. We're excited to finally have complete control over the layout of our headquarters, and the ability to freely adapt the office space where we had been building our brand for years. What is more, the investment not only secures the present needs of CD PROJEKT, but also enables further dynamic growth, associated, among others, with attracting new talent to our Company. In 2019 the aggregate workforce of the CD PROJEKT Capital Group passed the 1000 mark.

At the close of 2019 we concluded an agreement with Mr. Andrzej Sapkowski, author of *The Witcher* saga, putting in place a framework for future collaboration. We could not have imagined a better way to wrap up the year than to reinforce our mutual relations with the creator of *The Witcher* universe.

At this point I would like to thank all of our employees for another year of fruitful work. We can all be proud of its results – even on an international stage. I also wish to thank our shareholders for their faith in our long-term strategy, and our fans and business partners for continuing to motivate us to raise the bar ever higher and keep pushing the envelope.

Since mid-March we have been working from home, while ensuring continuity of all our of operations. Our goals haven't changed; first and foremost, we intend to release *Cyberpunk 2077* in September. We feel motivated and have the necessary tools at our disposal to meet this goal. We also believe that our longstanding strategy of avoiding debt and accumulating cash reserves makes us well prepared to meet any hardships which may be in store during these troubled times.

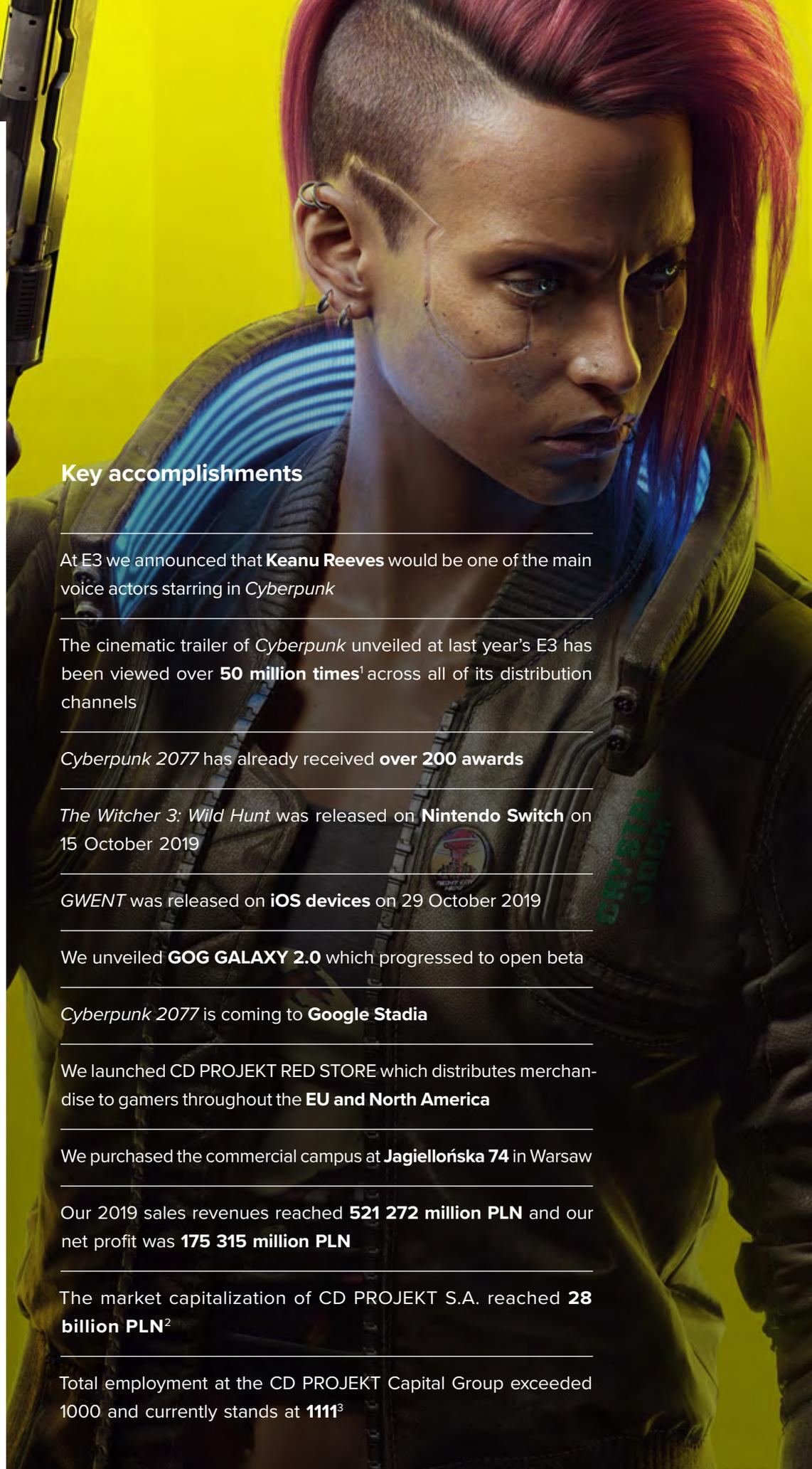
Respectfully,

Adam Kiciński



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Key accomplishments

At E3 we announced that **Keanu Reeves** would be one of the main voice actors starring in *Cyberpunk*

The cinematic trailer of *Cyberpunk* unveiled at last year's E3 has been viewed over **50 million times**¹ across all of its distribution channels

Cyberpunk 2077 has already received **over 200 awards**

The Witcher 3: Wild Hunt was released on **Nintendo Switch** on 15 October 2019

GWENT was released on **iOS devices** on 29 October 2019

We unveiled **GOG GALAXY 2.0** which progressed to open beta

Cyberpunk 2077 is coming to **Google Stadia**

We launched **CD PROJEKT RED STORE** which distributes merchandise to gamers throughout the **EU and North America**

We purchased the commercial campus at **Jagiellońska 74** in Warsaw

Our 2019 sales revenues reached **521 272 million PLN** and our net profit was **175 315 million PLN**

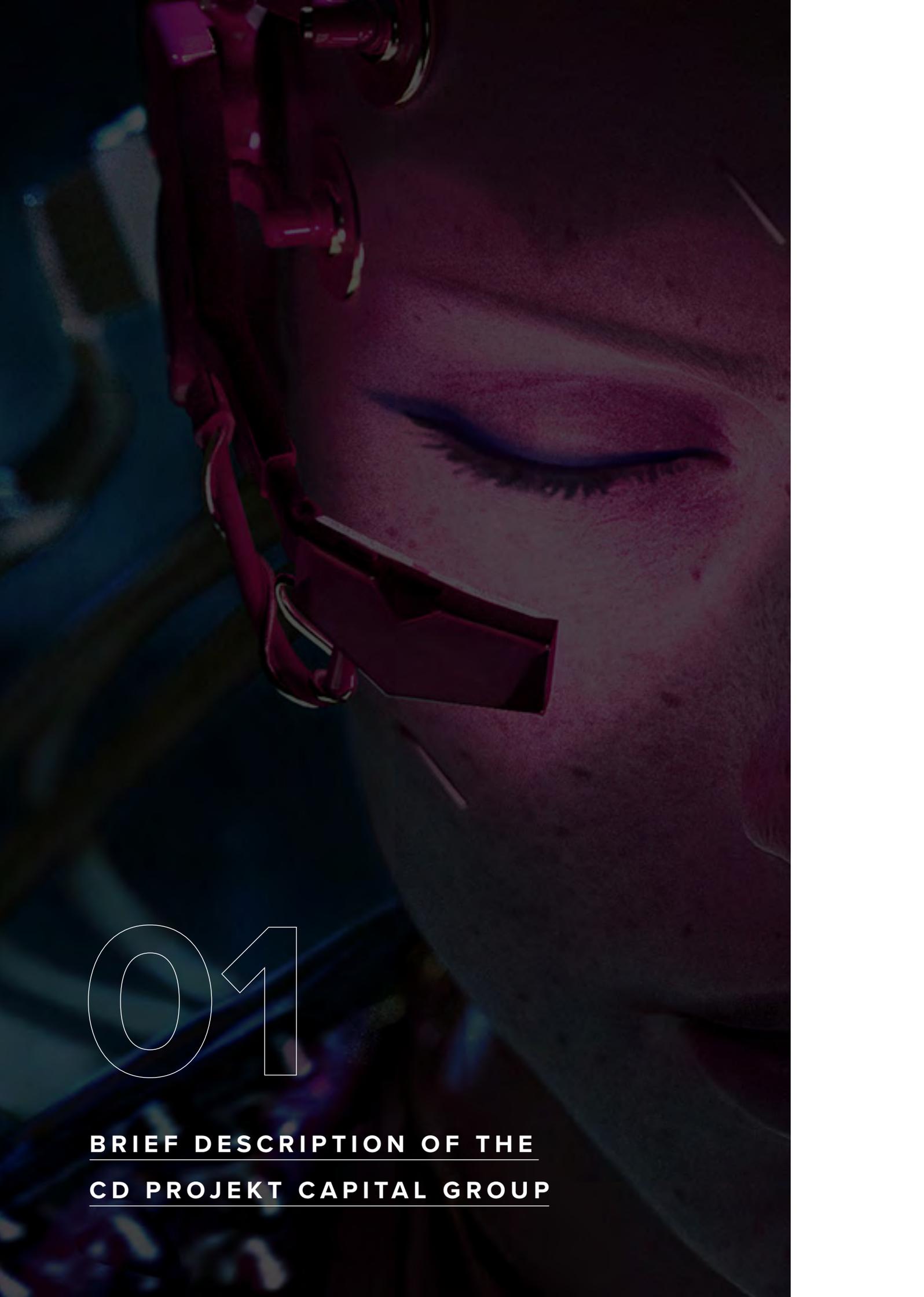
The market capitalization of CD PROJEKT S.A. reached **28 billion PLN**²

Total employment at the CD PROJEKT Capital Group exceeded 1000 and currently stands at **1111**³

¹ As of 31 March 2020

² As of 31 March 2020

³ As of 31 March 2020



01

**BRIEF DESCRIPTION OF THE
CD PROJEKT CAPITAL GROUP**

Activity profile

GRI 102-6, GRI 102-1, GRI 102-3

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 nearly 25 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 RPG⁴ – *The Witcher*.

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

CD PROJEKT RED

Developing and publishing videogames and tie-in products which exploit the commercial appeal of brands owned by the Company.



⁴ Role Playing Game – a storyline-driven game based on a consistent narrative

GOG.COM

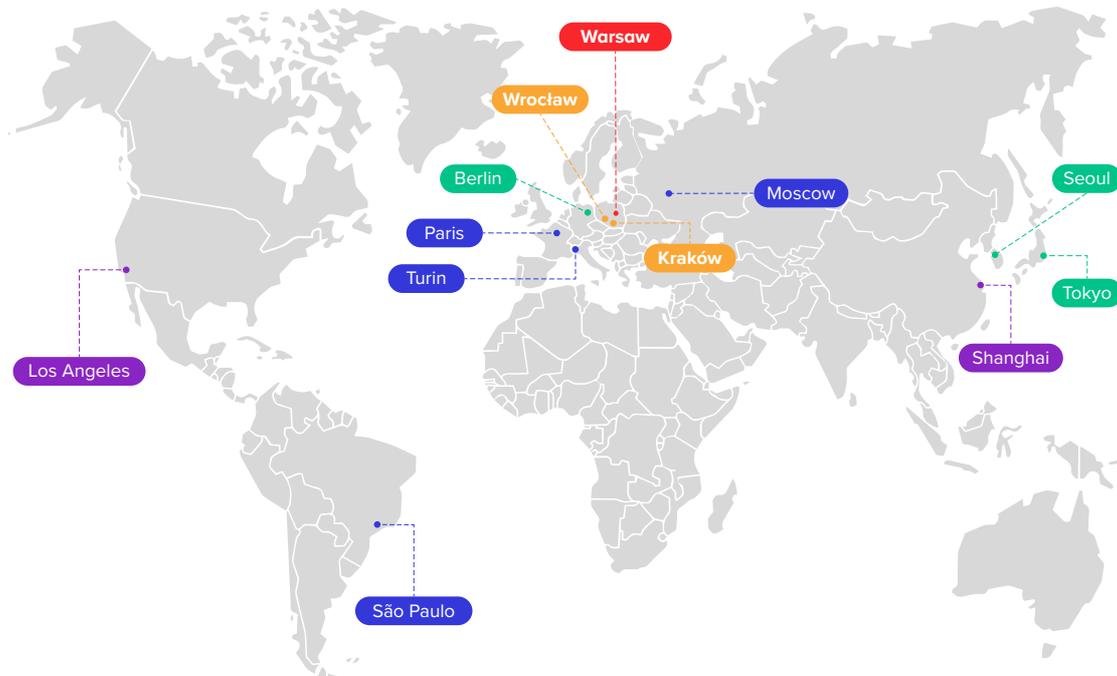
Digital distribution of videogames via the Company's proprietary GOG.com platform and the GOG GALAXY application.



During the reporting periods 96.6% of the CD PROJEKT Capital Group's sales revenues were generated by exports. Throughout 2019 North America and Europe accounted for 60% and 25% of the Capital Group's sales respectively. 81% of the Group's sales were carried out via digital distribution channels, including GOG.com as well as external platforms such as Steam, PlayStation Store, Xbox Games Store, Origin, Amazon, Humble Bundle, Epic Games Store and App Store.

Map 1 The CD PROJEKT Group around the world

GRI 102-4

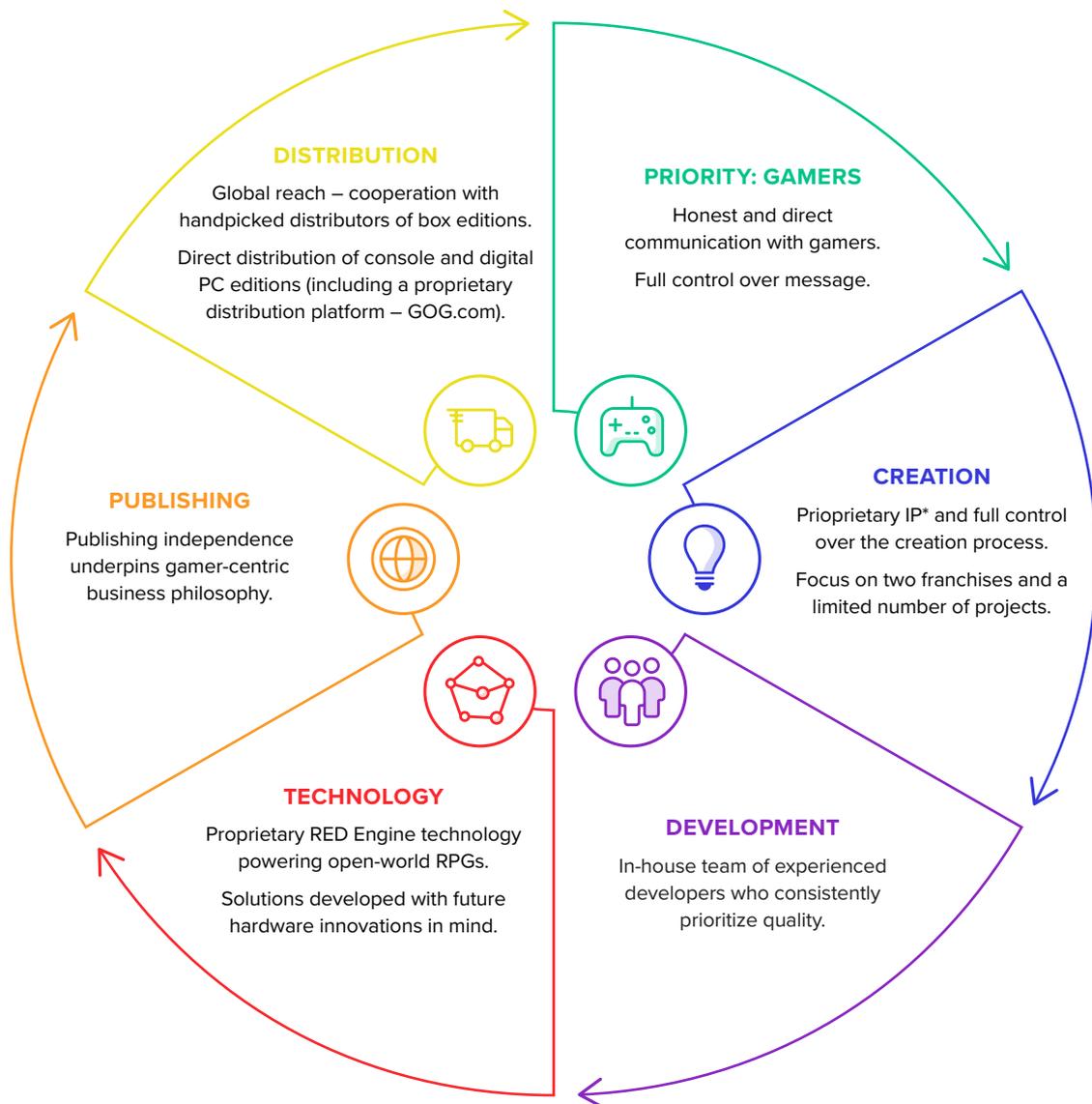


- Headquarters (CD PROJEKT RED and GOG.com)
- Branch offices
- CD PROJEKT RED dev studio
- Media and community managers
- Local subsidiaries of the Capital Group

BUSINESS PHILOSOPHY

The business philosophy of the CD PROJEKT Capital Group rests upon two pillars: uncompromising dedication to quality in the videogame and service development process, and retention of financial and creative independence. The Board regards these 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 community 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.

Chart 1 Videogame development business model at CD PROJEKT RED



* Proprietary brands: *The Witcher* and *Cyberpunk*

Stakeholder relations

GRI 102-40, GRI 102-42, GRI 102-43, GRI 102-44

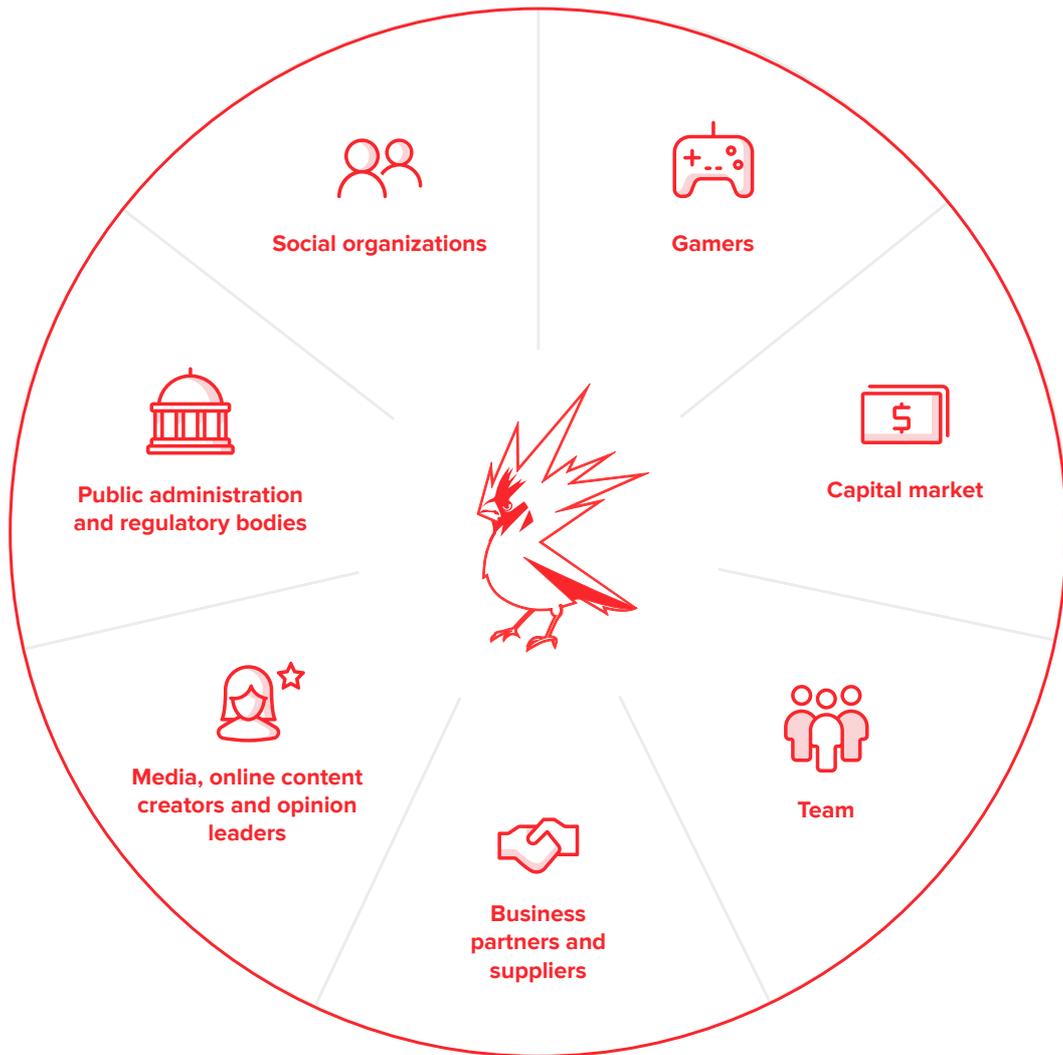


Table 1 CD PROJEKT Capital Group stakeholders

	Description of involvement	Means of involvement/approach to involvement of the given group of stakeholders	Frequency of involvement	Key issues and problems raised by stakeholders
Gamers (more)	Gamer relations are among the foundations of our success, which is why they're front and center in our activities	Proactive and reactive communication with gamers – both directly, at trade fairs and community events organized by the Group, as well as through gaming media and social media portals.	High – ongoing communication and participation in key trade fairs	<ul style="list-style-type: none"> ▪ features of games and services offered ▪ planned publishing and marketing activities (e.g. participation in meetups) ▪ reviews and opinions regarding our products ▪ availability of the Group's games and services
Capital market (more)	As a publicly traded company we wish to be perceived in a favorable light and create added value for our shareholders, investors (both institutional and individual) and analysts.	We prioritize transparency – we publish detailed and clear information regarding our financial status as well as key events affecting our operations and our business. We engage in direct dialogue during meetings, conferences and telcos, and by replying to questions submitted – among others – via our dedicated investors' forum. We strive to ensure that the information published on our investor relations website is as clear as possible. We also operate a Twitter IR profile at @CDPROJEKTRED_IR.	High – continuous communication by e-mail and phone, and publication of press releases and current reports; organizing and broadcasting annual General Meeting of Shareholders; participation in approximately a dozen international conferences and roadshows dedicated to investor relations.	<ul style="list-style-type: none"> ▪ production and publishing plans ▪ strategy and growth prospects ▪ economic condition ▪ competitive landscape ▪ opportunities and risks
Team (more)	A qualified and motivated team has a decisive impact upon ensuring top quality of the products offered, and upon building the Group's long-term value.	Continuous dialogue – annual/ semiannual reviews, continuous feedback system, training courses, workshops and integration events, access to benefit programs and private healthcare subsidies. Employees are also eligible for participation in profit sharing under the incentive program in force at the Group.	High – continuous direct interaction, along with an anonymous reporting system in operation at the Company.	<ul style="list-style-type: none"> ▪ suggestions/opinions w.r.t. workplace conditions, Company operations, stability and appeal of working for the Company ▪ professional development capabilities/plans ▪ knowledge exchange and grassroots initiatives
Business partners and suppliers	Building strategic long-term relations with business partners and suppliers, based on mutual understanding and trust, as a means of ensuring product quality.	Individual business meetings; contracts rooted in fair cooperation principles and consistent with the internal policies of all parties concerned.	High – ongoing regular interaction	<ul style="list-style-type: none"> ▪ daily matters related to cooperation and its rules ▪ presentation of activities planned by either party

Media, opinion leaders and influencers	Media presence is important in the context of communicating with gamers, investors and other groups of stakeholders, and in maximizing the recognition of products, services and brands owned by CD PROJEKT RED and GOG.com.	Our PR, marketing and investor relations department carry out continuous interaction with media representatives, online content creators and opinion leaders. This interaction includes, among others, dissemination of press releases, organizing press conference, active social media presence and participation of Company representatives in industry events, interviews and expert panels.	High – ongoing interaction	<ul style="list-style-type: none"> ■ information concerning products, services and planned activities ■ information concerning financial results, business achievements and growth strategies ■ reviews and opinions regarding our products
Public authorities and regulatory bodies	Maintaining relations with public authorities and regulatory bodies is important in the context of ensuring smooth business activities.	We carry out constructive dialogue with public authorities and regulatory agencies, and seek their opinions with regard to regulations and policies which affect our activities.	Moderate – as mandated by legal provisions applicable to the Company and on a case-by-case basis, as required by either party	<ul style="list-style-type: none"> ■ compliance with the applicable norms, requirements and regulations ■ activities carried out in line with commonly accepted market standards
NGOs	Supporting worthy initiatives reinforces the socioeconomic context of our activities.	We participate in selected charity and educational activities (as a partner, sponsor, participant or consultant). We also support employee volunteering.	Low – depending on the Group's capabilities	<ul style="list-style-type: none"> ■ financial and substantive support for selected projects ■ involvement of Company representatives in events ■ encouraging team members to take part in social actions

Our way of thinking and our business activities are rooted in a specific philosophy. This is why the CD PROJEKT Capital Group Strategy for 2016-2021 encompasses the following rules, which guide us in our daily work:

- The Company is founded upon the principle of fair play. We treat our employees, our gamers, and our business partners fairly in everything we do.
- Our team is our greatest asset. We are always on the lookout for new solutions that can enhance our teamwork.
- We employ people who are passionate about videogames and about delivering top-quality products and services.
- We stand for tolerance. We combat all forms of racism, homophobia and xenophobia, as we believe tolerance is the foundation of creativity and innovation.
- We forge strong, direct contacts with our player base. We believe that only ongoing, open and honest customer relations matter.

Values, compliance and ethical issues

GRI 102-16, GRI 102-12, GRI 206-1, GRI 417-3, GRI 418-1, GRI 419-1

CORPORATE VALUES AND CULTURE

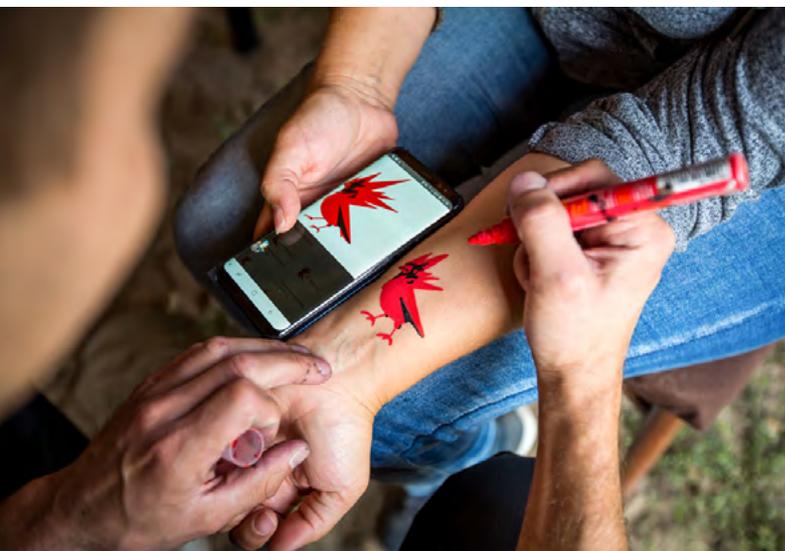
The Group's organizational culture is based on the premise of fair treatment for all stakeholders. We want our relations with shareholders, gamers and members of our team to remain transparent and ethical. We believe that everyone should be afforded equal opportunity and treatment.

In our daily work we promote the following attitudes among members of our team:



The above values are a key aspect of our corporate identity, as well as an integral part of our employee evaluation system (see the description of our internal [evaluation and feedback system](#), elsewhere in this report).

The CD PROJEKT S.A. Diversity Policy institutes specific procedures and expresses values which guide us in our daily work. We are, among others, signatories to the Diversity Charter, which obligates CD PROJEKT to observe non-discrimination policies in the workplace, actively foster and promote diversity, and involve team members and business partners in these activities.



CD PROJEKT also makes every effort to act in accordance with the applicable legal regulations and commonly accepted market practices, both global and local. To the best of the Company's knowledge throughout 2019:

- the Company was not in violation of any legal or socioeconomic regulations,
- there were no cases of non-compliance with market reporting requirements,
- no complaints against CD PROJEKT were lodged with any institution charged with overseeing protection of personal data,
- no penalties were imposed upon the Company in association with customer privacy or data protection violations
- no legal action was taken against the Company in relation to any alleged infringement of free competition principles or monopolistic practices.

PARTICIPATION IN ASSOCIATIONS

GRI 102-13

We actively participate in a range of initiatives. We are particularly involved in the activities of the Polskie Gry Association which aims to foster development and competitiveness of the national videogame segment on the international market. We are also a member of the Stock Market Issuers Association – which, among others, promotes further development of the Polish securities market.

PROCEDURES TARGETED AT COUNTERACTING CORRUPTION AND CONFLICT OF INTERESTS, AND NOTIFICATION MECHANISMS RELATED TO VIOLATIONS OF THE LAW AND PROFESSIONAL ETHICS CODES

GRI 102-17, GRI 406-1, GRI 205-3

In December 2019 the Group instituted a procedure whereby violations of the law, procedures and ethics codes can be reported anonymously. The procedure specifies ways in which any actual or potential irregularities which constitute a breach of common law or of the procedures and ethics codes in force at CD PROJEKT S.A. can be reported. The procedure also institutes mechanisms through which the Management Board or the Supervisory Board can be directly notified of unlawful conduct, including:

- corruption,
- forgery,
- insider trading,
- accounting, fiscal or financial felonies,
- unfair competition.

No suspicion of bribery or corruption was raised within the Group throughout 2019.

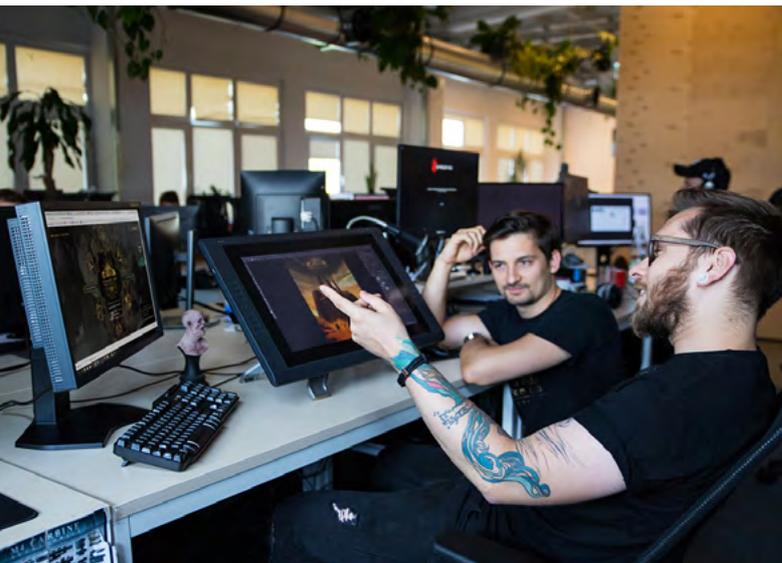
Since 2017 an anti-mobbing and anti-discrimination policy is in force at CD PROJEKT S.A. Enactment of this policy was accompanied by a series of training sessions. The corresponding procedure introduces the concept of “Designated Confidants” who should act as the first point of contact for employees in situation where mobbing or discrimination of team members is suspected. As of 31 December 2019 there were five Designated Confidants at CD PROJEKT S.A.

No cases of mobbing or discriminations were identified within the Group in 2019.



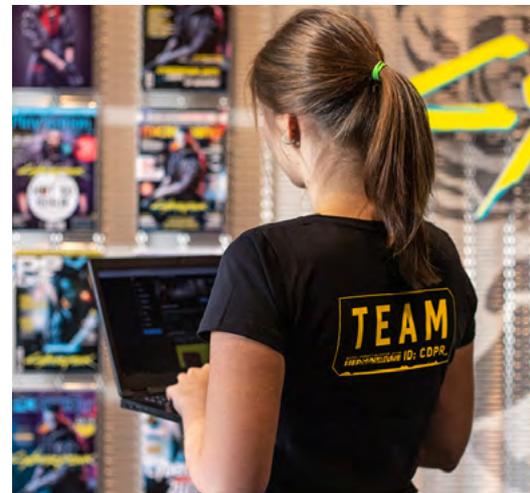
CD PROJEKT as an employer

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



The Group considers its team to be its greatest asset. We employ people who are passionate about developing world-class products and services. Their talent, involvement and motivation represent the human capital of the CD PROJEKT Group. They, along with their creative ideas, are the force behind the Group's success.

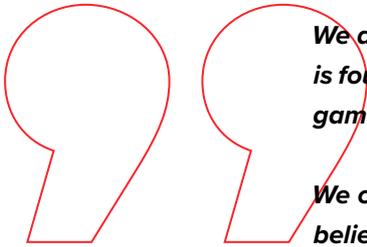
We continuously monitor the satisfaction of our team members, as well as their current needs. To this end, we perform anonymous employee satisfaction surveys and operate an anonymous message box where issues and suggestions can be submitted. By analyzing these submissions we can rapidly adapt our activities to the perceived needs, and carry out iterative improvements.



DIVERSITY

GRI 405-1

CD PROJEKT embraces diversity in the belief that a workplace which respect diversity is the cornerstone of openness and trust. This enables us to fully unlock the creative potential of our employees, which, in turn, translates into increased depth, innovation and appeal of our products. We also believe that diversity reinforces and enriches our organizational culture. This belief is enshrined in the CD PROJEKT S.A. Diversity Policy – an expression of basic values which apply to the Company and guide relations among its team members, key managers and members of the Management Board and Supervisory Board.



We deeply believe that our team is our greatest asset. The Company is founded upon the principle of fair play. We treat our employees, our gamers, and our business partners fairly in everything we do.”

We combat all forms of racism, homophobia and xenophobia, as we believe tolerance is the foundation of creativity and innovation.

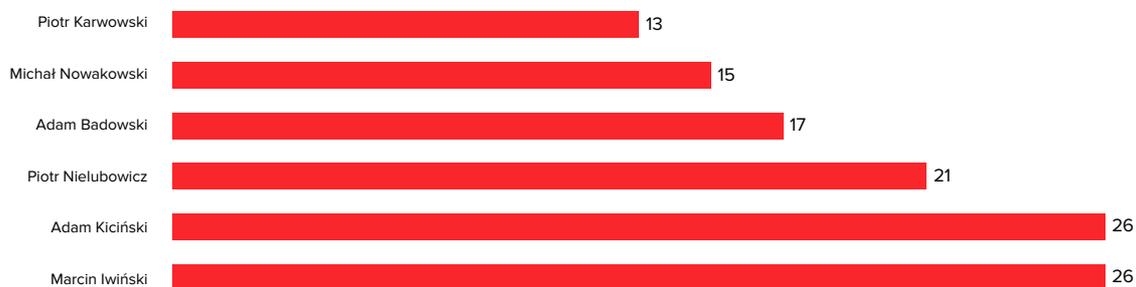
Management and supervisory bodies

GRI 405-1

In line with the Company’s Diversity Policy the Management Board and Supervisory Board of CD PROJEKT S.A., as well as the Company’s key managers, maintain a measure of diversity which stems from the non-discrimination principle espoused by CD PROJEKT. The Company has consistently implemented a policy of filling executive and managerial positions with appropriately qualified, creative, experienced and educated candidates. The Company regards other factors, such as gender, as irrelevant in this scope.

Members of the Company’s Management Board and Supervisory Board possess formal qualifications in such disciplines as management and marketing, finance, law and information technology. All members of the Management Board also possess longstanding experience in acting in a managerial capacity at companies which comprise the CD PROJEKT Capital Group.

Chart 2 Tenure of incumbent members of the Management Board of the Company and other member companies of the CD PROJEKT Capital Group (in years)



Both in 2019 and in 2018 the Management Board of CD PROJEKT was composed solely of men, while the Supervisory Board included one woman in the capacity of Chairwoman of the Supervisory Board.

Table 2 Composition of the Management Board and Supervisory Board of CD PROJEKT S.A. by gender and age

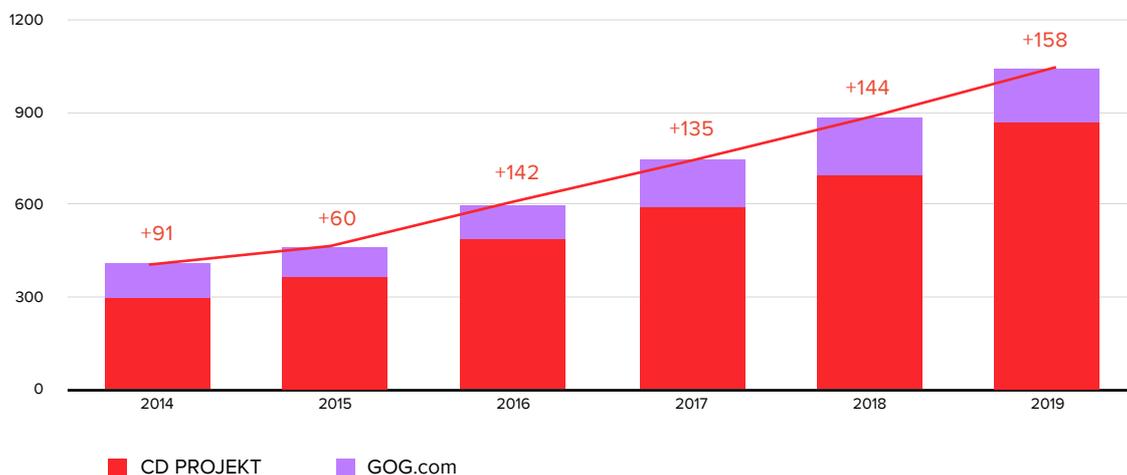
GRI 405-1

CD PROJEKT S.A.	Management Board	Supervisory Board
No. of individuals	6	5
Women	–	1
<30	–	–
30-50	–	1
50<	–	–
Men	6	4
<30	–	–
30-50	6	2
50<	–	2

EMPLOYMENT

GRI 102-8, GRI 401-1, GRI 405-1

Chart 3 Changes in employment structure at the CD PROJEKT Capital Group between 2014 and 2019



At the close of 2019 the CD PROJEKT Capital Group employed 1044 persons (18% year-over-year increase). CD PROJEKT RED accounted for 84% of this workforce, with the remaining 16% employed by GOG.com. The reported dynamic growth during the past year is mostly associated with an expansion of the Group's activities and ongoing development projects.

Table 3 CD PROJEKT Capital Group workforce by gender and age

GRI 405-1

	CD PROJEKT RED	GOG.com
No. of individuals	872	172
Women	232	42
<30	102	19
30-50	130	23
50<	–	–
including foreign nationals	36	6
Men	640	130
<30	269	55
30-50	369	76
50<	2	–
including foreign nationals	163	11

Table 4 Aggregate number of new hires and expired/terminated contracts by gender and age*

New hires	CD PROJEKT RED		GOG.com	Contracts expired/ terminated	CD PROJEKT RED		GOG.com
Women	82		11	Women	24		13
<30	45		6	<30	12		6
30-50	37		5	30-50	11		7
50<	–		–	50<	1		–
Men	195		38	Men	82		55
<30	118		17	<30	37		19
30-50	76		21	30-50	45		36
50<	1		–	50<	–		–

* The discrepancy between the reported year-over-year increase in employment (158) and the data presented in this table is due to the fact that the table includes contracts which expired on 31.12.2019

At the end of 2019 the vast majority of the team – 885 individuals (713 CD PROJEKT RED staff and 172 GOG.com staff) worked out of the Group's Warsaw offices. This represents an increase by 165 compared to the end of 2018. The Kraków branch employed 108 people (compared to 74 at the end of 2018) while the Wrocław branch accounts for 38 persons (21 at the end of 2018). CD PROJEKT also operates offices in Los Angeles, Shanghai, Berlin, Tokyo and Seoul, each tasked with coordinating local marketing and sales activities.

Table 5 Employment at CD PROJEKT RED dev studios at the end of 2018 and 2019

	CD PROJEKT RED studio in Warsaw	CD PROJEKT RED studio in Kraków	CD PROJEKT RED studio in Wrocław
2017	534	54	–
2018	591	74	21
2019	713	108	38

Chart 4 Employment structure at the Capital Group in 2018 and 2019

* The Publishing branch includes, among others, Marketing and PR, Business Development, Customer Relations, and Game Releases teams, as well as the CD PROJEKT RED STORE team

66% of the CD PROJEKT Capital Group workforce consists of developers. In 2019 these employees worked on CD PROJEKT RED releases (including *Cyberpunk 2077*, *GWENT: The Witcher Card Game*, *Cyberpunk 2077 Multiplayer* and *Thronebreaker: The Witcher Tales*), on expanding the GOG.com digital distribution platform, on the GOG GALAXY 2.0 application and on support and maintenance of *GWENT* online services.

CD PROJEKT RED stands apart from other videogame development studios in that it also operates an extensive internal publishing department. At the end of 2019 this department had a staff of 128, and consisted, among others, of marketing, PR, business development and production teams. Marketing and PR activities are a crucial element of any videogame release, being regarded as a prerequisite of commercial success and critical acclaim. The CD PROJEKT RED marketing department issues general strategies and coordinates the marketing and promotional activities carried out by the Company's foreign partners. For its part, the internal business development team oversees relations with business partners and supervises publishing and sales of the Company's product. The production department coordinates the process of manufacturing components of box editions of videogames and other gadgets, as well as the logistics and supply chains between factories and distributors in various countries.

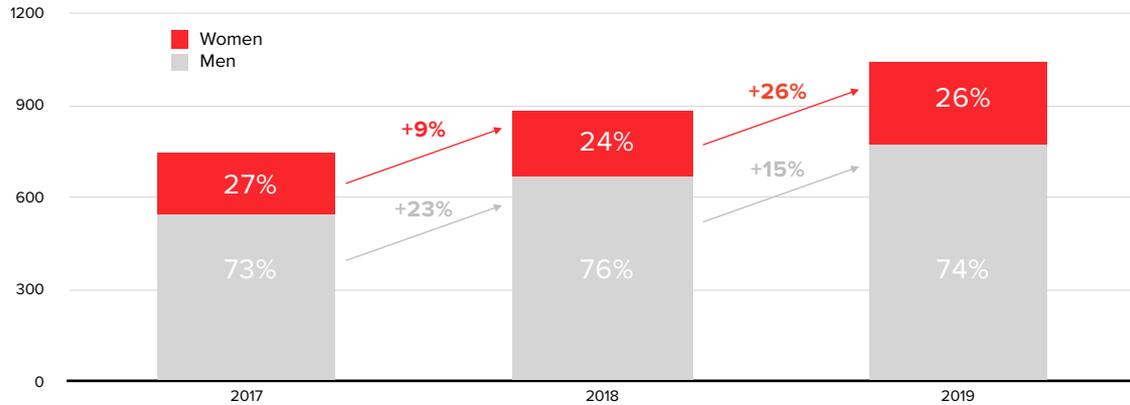


In addition, Group member companies employ a broad range of specialists in the fields of accounting, finance, law, taxation, administration, HR, recruitment, payroll, training, systems management, investor relations and IT. Altogether, this team ensures smooth operation of the entire organization and provides the necessary support for developers of videogames and services created by the Group.

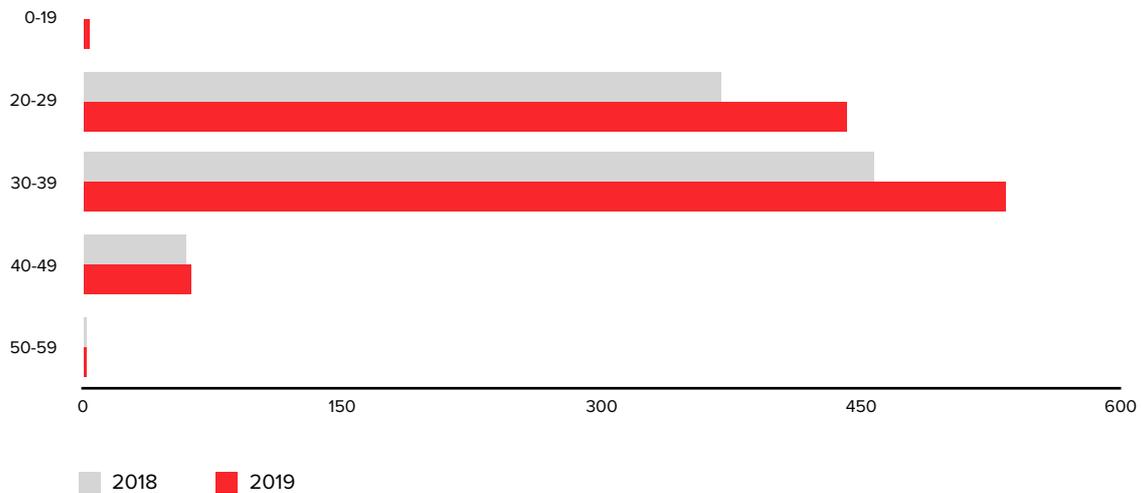
At the close of 2019 women represented 26% of the total workforce. This is more than at the close of 2018, and substantially more than the Polish videogame industry average estimated at 15%.⁵



⁵ Kondycja Polskiej Branży Gier 2017 (The State of the Polish Videogame Industry), Krakowski Park Technologiczny, p. 73, www.cdprojekt.com/pl/wp-content/uploads-pl/2016/03/kondycja-polskiej-branzy-gier17.pdf

Chart 5 Employment at the CD PROJEKT Capital Group by gender; 2017-2019


The average age of CD PROJEKT Capital Group employees reflects current global market trends. More than half of the workforce (51%) falls within the 30-39 age bracket. The second largest group – employees aged 20-29 – represents 42% of our workforce. In 2019 the average employee age at the Group was 31.

Chart 6 CD PROJEKT Capital Group workforce by age bracket at the close of 2018 and 2019


Foreign nationals represent 21% of the CD PROJEKT Capital Group workforce. As of 31 December 2019 the Group employed individuals from 44 countries. The largest foreign groups hail from Ukraine (28 people), Russia (22 people), Spain (17 people), Canada (17 people), the United States (16 people), the United Kingdom (15 people), France (15 people), Italy (14 people) and Germany (14 people). CD PROJEKT operates an internal relocation department which helps foreigners move to Poland and assists them during the initial months of their stay.

At the close of 2019 the CD PROJEKT Capital Group employed four disabled individuals.

For team members who have special mobility or health requirements, the Company makes every effort to individually adapt the workplace configuration and conditions to suit their specific needs and capabilities.

BENEFITY I MOTYWOWANIE ZESPOŁU

GRI 401-2

In addition to standard remuneration, each employee of the Group is also entitled to a range of benefits, depending on their workplace location.



Healthcare – The Company provides either full or partial coverage of health insurance packages offered by private national providers, including ENEL-MED, LUXMED and MEDICOVER. This coverage also extends to the employees' life partners and family members.

Starting in October 2019 our Warsaw headquarters organizes weekly medical consultations. This enables employees to access medical advice and diagnostic services without having to schedule appointments in external clinics.

The health and health awareness of our team are a prime concern for us. In 2019 we conducted two health-oriented campaigns. As part of the Breast Cancer Awareness Week women employed at the company could take part, among others, in breast USG examinations and a professional brafitting workshop. The Movember activity, targeting men, included health awareness workshops and access to testicular USG exams.



Sports and fitness activities – We offer Benefit and Multisport packages, enabling access to popular sporting and fitness venues throughout the country, including swimming pools, gyms, dance schools and many others.

The Warsaw offices are also equipped with a gym, available around the clock and staffed by a personal fitness trainer.



Library – The internal CD PROJEKT library offers a wide selection of books, games and movies – currently over 860 items (594 books and 267 games). In 2019 the library was expanded with over 260 items.



Flexitime – CD PROJEKT RED supports flexitime. Team members may report for work between 8:00 and 10:00 a.m.





Dogs at the office – For several years, CD PROJEKT has been a dog-friendly employer. Any employee may bring their four-legged friend to work as long as certain basic requirements are met. According to recent studies, dogs at the office assist employees in managing their job stress, maintaining high morale and achieving professional satisfaction. Such companionship also fosters interpersonal relations, improves cooperation and builds synergies among employees.



Events – Integration events and meetups are held several times a year. The Company also organizes numerous presentations and courses to help employees develop their personal skills and pursue hobbies. We also organize blood drives.

Highlights of the Group's calendar include annual Christmas meetups, with special gifts presented to employees who have been affiliated with CD PROJEKT for 5, 10, 15, 20 and 25 years respectively. In 2019 65 team members were acknowledged in this manner (5 years: 55 employees; 10 years: 6 employees; 15 and 20 years: 1 employee each; 25 years: 2 employees).

In addition to companywide events, both CD PROJEKT RED and GOG.com organize internal or cross-departmental outings financed by the Company.



TRAINING AND CAREER DEVELOPMENT

GRI 404-3, GRI 404-2

CD PROJEKT Capital Group member companies strive to provide their respective teams with the best possible employment and professional development conditions.

On the first day of their employment each team member undergoes the so-called onboarding procedure. They are familiarized with the Company's history, values, culture and workplace regulations. They receive information regarding the way the Group conducts its business, our IT systems, data security policies and legal aspects of investing in CD PROJEKT shares. They are also advised of the bonuses and social incentives offered by CD PROJEKT. Following the main onboarding session, the newcomer participates in further training organized by specific departments – covering issues such as IPR, copyright protection, circulation and protection of inside information, restrictions associated with employment at a publicly traded company, GDPR regulations and auxiliary systems for processing mail or invoicing expenses to CD PROJEKT.



Members of the CD PROJEKT Group are also provided with career advancement opportunities, e.g. through participation in training courses, market events and Polish language classes for foreigners.



CD PROJEKT RED

The training programs offered by CD PROJEKT RED are available to developers as well as to back office workers. The permanent offer focuses on drawing and language courses.

In 2019 32 employees participated in Polish language courses over a total of 624 academic hours. The Studio also organizes English language courses for its back office workers. In 2019 these courses attracted 64 participants. On average, 97 classes were held each month, yielding a total of 1164 academic hours. Since 2018 Chinese classes are offered in addition to Polish and English language courses – in 2019 these classes were attended by 9 participants.

As part of its internal training curriculum the Studio organizes drawing classes, tutored by the Studio's own team members as well as invited professionals. These professional development activities are aimed at artists and animators who work on CD PROJEKT RED releases.

To address specific needs of individual development teams, additional training courses, both internal and external, are organized by CD PROJEKT. In 2019 these included, among others, Insights Discovery workshops which aid employees in describing their individual activity profile and seek optimal paths for career development, GDPR and IPR training workshops as well as training in the scope of electronic document flow system in place at the Company.

We also organize meetings with outstanding specialists, titled *Meet a Star*. In 2019 we were visited by Jama Jurabaev, a celebrated concept artist who organized workshops in Warsaw and Kraków, for members of the Concept Art team and *GWENT* illustrators.

In 2017 CD PROJEKT RED introduced a 12-month managerial development program (called the Manager Academy) offered in Polish as well as in English. This program carried on in 2019, with 31 training sessions (approx. 248 academic hours) attended by 67 participants.





In November 2019 the Company launched EmpoweRED – a new program aimed at all employees who supervise internal teams: managers, leads, coordinators, directors and producers at CD PROJEKT RED. The project's aim is to assist in the career development of managers in a creative environment, taking advantage of current trends and the outcomes of scientific research.

Altogether, 2416 academic hours of training courses were organized in 2019, attracting 473 participants. The average training budget per employee was 2 249 PLN – similar to 2018 figures.

GOG.com

Much like the CD PROJEKT RED team, the GOG.com team has access to drawing classes and language courses. In 2019 over 40% of the total number foreigners employed at GOG.com participated in Polish language courses.

Several times a year the company organizes specialized training sessions and meetups for interested employees. In 2019 this included lectures and meetings devoted to DevOps, GDPR and cybersecurity aspects. GOG.com also carried on with its series of educational meetings called PHPers, providing PHP programmers with an opportunity to expand their skills.

EVALUATION AND FEEDBACK SYSTEM

GRI 404-3

CD PROJEKT cares about the development of its team members' competences and believes in the power of feedback in the context of corrective actions and further growth.

Both CD PROJEKT RED and GOG.com have established formal feedback channels and the associated annual incentive programs.

At CD PROJEKT RED, as part of their monthly and quarterly evaluations, team members may receive special prizes – goblets and Rarog Birds – depending on the quality of their individual contributions, attitude and dedication to their work. These prizes subsequently affect individual annual bonuses. Since the program was instituted in January 2018 team members have received a total of 4371 Rarog Birds.



Employees are able to evaluate mutual collaboration by providing feedback for members of other teams, and may also request feedback themselves.

BONUSES AND PROFIT SHARING

GRI 401-2

An important aspect of the Group's philosophy is to ensure that all team members partake in its financial result. In recent years part of our net profit was allocated to bonuses and split among all employees on the basis of individual arrangements or with distinction to their employment tenure, position, individual achievements and accolades received in the framework of the feedback system.

INCENTIVE PROGRAM: ENTITLEMENT TO CLAIM COMPANY SHARES

The Group has instituted an incentive program for persons regarded as particularly important for the Company and other members of its Capital Group. Under this program selected individuals may, in the future, be entitled to purchase Company stock at a predetermined price which corresponds to the listing of CD PROJEKT S.A. stock at the moment the program entered into force. Implementation of the program is contingent upon attaining a series of result goals, or upon ensuring that the Company stock price increases by a certain percentage. The goals of the current program, originally scheduled for a maximum of 6 fiscal years (2016-2021), were realized in four years (2016-2019). Further details are presented later on in this report.

EMPLOYEE PENSION PLAN

GRI 401-2

The Employee Pension Plan (EPP) is an optional, private pension fund aligned with the so-called Third Pension Pillar. It is conceived as a long-term savings scheme, to which contributions are made by the employer and optionally also by the employee.

The Employee Pension Plan was instituted at CD PROJEKT S.A. and GOG Sp. z o.o. in December 2019. The employer covers the base contribution for employees who meet tenure criteria (3.5% of salary), while the employee is able to declare an additional contribution in the amount of their choosing (minimum 50 PLN). At the end of 2019 84% of the eligible employees of CD PROJEKT S.A. and 66% of the eligible employees of GOG Sp. z o.o. were enrolled in EPP.



EMPLOYER BRANDING

Throughout 2019 CD PROJEKT continued to promote its image as a desirable employer, offering an exciting environment in which to further one's professional career. These activities were targeted externally, at students and professionals, as well as internally, at the Company's current employees.

Employer branding activities include participation in job fairs and industry events, where the Company and its representatives assume the role of experts, sponsors and mentors, helping participants assemble their personal portfolios, providing advice and organizing workshops.

OUR OFFICES

CD PROJEKT emphasizes the need to ensure comfortable working conditions. The Group's premises are designed in such a way as to combine modern technology with elements of the natural environment, foster collaboration, enable focus and support creativity.

The headquarters of the CD PROJEKT Capital Group are located in Warsaw. They are equipped with the necessary infrastructure to enable development and publishing of top-quality videogames, including a large professional motion capture studio, nine sound studios, a video recording studio and three seminar rooms (including a drawing room). The premises also include appropriately furnished common spaces, extensive catering support, conference rooms and social areas.



Following the purchase (in October 2019) of the commercial campus at Jagiellońska 74 in Warsaw, in the coming months both the buildings and the intervening space will be remodeled to ensure that the Warsaw offices of CD PROJEKT are vibrant, comfortable and well adapted to the needs of the Group's growing team.

CD PROJEKT also operates offices in Kraków in Wrocław, staffed by independent development teams, as well as offices in Los Angeles, Shanghai, Berlin, Tokyo and Seoul.



We care about the decor of our offices and follow the innovative biophilic design trend which aims to reintroduce aspects of nature to our work and living spaces. To foster a healthy and friendly environment we resort to natural materials when furnishing our premises. Elements which accentuate the natural environment are applied in various configurations – this includes plant life, natural lighting (where possible) and wooden decorations. Numerous studies have confirmed that integrating natural elements into workplace design increases team productivity, creativity and morale. Offices dominated by natural materials may also lessen physical fatigue among workers and improve their sense of well-being.



ENVIRONMENT

Project Green – purifying the air

In July 2018 an innovative, dedicated infrastructure was installed at the Warsaw headquarters with the aim of providing high-quality clean air inside the building and beautifying its internal spaces. The installation includes more than 2000 plants, some of which are planted in active pots ensuring forced air circulation, while special sensors measure CO₂ levels, pollutant concentrations, temperature and humidity. Improving air quality, reducing noise and decorating offices with plants is intended to improve working conditions, enhancing the well-being of employees and contributing to their productivity – as attested to by an internal survey.

The infrastructure also provides a recuperation area for damaged plants (so-called “plant hospital”) – a special shelf with around a dozen lamps providing energy for plants. We also periodically organize an event called “Veteran” where employees may claim office plants for their own.

Water

Disposable plastic products represent a serious environmental threat. The CD PROJEKT Group has joined initiatives which aim at reducing the use of such products in the Company’s daily activities. Since 2018 the Warsaw HQ has been successively deploying compact self-contained water purification systems with inbuilt mineralization tanks.

Four such systems were deployed at the Warsaw HQ in 2019, resulting in a significant drop in the quantity of plastic bottles supplied to the office (by 88% during the first year of the system’s operation).

Other amenities

The Warsaw premises of the Company include two internal canteens: a vegetarian/vegan canteen and a meat-serving canteen. Both are committed to using high-quality ingredients sourced from regional suppliers wherever possible. Additionally, fresh ecologically grown fruits are supplied twice a week. In the winter season we also provide fresh ginger, lemons and honey. By the end of 2019 each shipment consisted of approx. 160 kg of fruits.





A modern gym (192 sq. m. total area) was added to the Warsaw premises in 2017. The gym is available around the clock and staffed by a personal fitness trainer. In 2019 the gym was used by approximately 80 persons daily (15-20% increase compared to 2018). Peak attendance occurs around 8-10 a.m. and 4-8 p.m., and also while our trainer is on duty. On average, each person visits the gym approximately 2-3 times per week. On weekends employees of the Warsaw offices may visit the gym together with an accompanying person.

Transportation

The Warsaw headquarters of CD PROJEKT are conveniently located and easily accessible by public transit and bike paths.

We provide a range of improvements for employees who use alternative means of commuting. A bicycle shelter has been set up on the campus. Moreover, given the observed increase in the number of employees who prefer to commute by bike, we regularly expand our bicycle parking area.

We also support using electric vehicles to commute. In 2019 the number of electric car charging stations was increased to five.



Consumption of energy and raw materials, and waste management

CD PROJEKT – we conserve energy:

We diligently work to decrease the energy and water consumption at our offices. As we upgrade the office space at Company premises, we make sure to deploy modern solutions which reduce our energy and water footprint. We also regularly participate in events which draw attention to environmental protection issues, such as Earth Day.

Energy consumption

GRI 302-4

In 2015 a modernized LED-based lighting infrastructure was deployed at our premises. The vast majority of our light fixtures are flicker-free and equipped with microprism collars ensuring high comfort for our employees. In the largest and most important spaces throughout the fixtures enable light stream modulation – this adds convenience and improves energy efficiency.

Another important aspect of our light fixtures is their enhanced color rendering quality, which, coupled with adjustments in source intensity, improves the employees' vitality and comfort. When properly adjusted and directed, light may have a beneficial influence, mobilizing and preventing the onset of depression in the fall and winter seasons. It also helps maintain the correct circadian rhythm when little natural lighting is available.

We continue to replace obsolete air handling units with modern devices equipped with air recuperation features and air filters.

As we work to renovate one of the recently purchased office buildings and modernize the roof covering of another building, we install thermal insulation to limit our future energy consumption associated with heating in winter months and air conditioning in summer months. The southern facades of our buildings are equipped with adjustable blinds to mitigate ambient heat in summertime, thereby reducing the need for air conditioning and the associated energy consumption.

Water consumption

To limit our water consumption, all kitchens located on CD PROJEKT premises are equipped with energy-efficient dishwashers, while touch-free basin mixers are installed in toilets – these not only reduce water consumption but are also more hygienic than traditional setups.

Waste management

GRI 306-2

All our offices comply with official recycling regulations. Since the beginning of 2020 we proactively segregate waste into paper, glass, metals and synthetics, biological waste and mixed waste.

Each kitchen is equipped with clearly labeled waste bins, while paper waste bins are provided next to each printer. We collect and safely dispose of all forms of documentation, whether paper-based or stored on magnetic storage media.

Office waste, such as spent electronic equipment or toner cartridges, is turned over to organizations which specialize in recycling such materials. In 2019 a total of 1 626 kg of electronic waste was disposed of – 397 kg more than in 2018.

CHARITY AND SPONSORSHIPS

All donations to charitable causes are carried out in the framework of grassroots initiatives, depending on the perceived needs, while also mindful of their alignment with the Company's values and the CD PROJEKT S.A. Sponsorship Policy.

In 2019 we organized a holiday charity drive, collecting donations and gifts for the women and children for the refugee center in Targówek and for Fundacja Azyl pod Psim Aniołem (an animal shelter). The drive lasted two weeks, and provided the opportunity to:

- donate clothing, toys and basic supplies for women and children;
- donate food and accessories for dogs and cats raised in the shelter;
- donate money with the use of charity boxes installed at the Studio;
- donate money to the shelter through an online portal;
- participate in a 3-day cake bake.

The collected funds were used to purchase personal hygiene items for the center, and food and medication for the shelter. Together, we were able to provide over 20 boxes of supplies and approximately 250 kilograms of animal food.

In September 2019 we collected corrective glasses and sunglasses as part of the Okuliści dla Afryki (Opticians for Africa) action. We gathered over 40 pairs of glasses, which were turned over to African children and adults in need.

After the close of the reporting period, in March 2020, we donated 4 million PLN to the fight against the coronavirus. Half of this amount came directly from CD PROJEKT S.A. while the other half was privately contributed by the major shareholders and Board members of CD PROJEKT S.A.



CD PROJEKT Capital Group growth prospects

GRI 102-15

The CD PROJEKT Capital Group conducts its business in the global videogame market which is among the fastest growing branches of the global economy. Newzoo – respected analysts of the videogame and e-sports markets – estimate that by 2022 the global videogame market will have expanded to 189.6 billion USD⁶. According to PWC’s “Global Entertainment & Media Outlook 2019-2023”⁷ report, the cumulative annual growth rate (CAGR) of the videogame and e-sports markets for the 2018-2023 period is estimated at 6.5%. The report claims that consumers devote ever more time and money to media and entertainment, with computer games currently ranking as the second most popular pastime. The growth outlook of the Capital Group is affected not only by the increasing popularity of this form of entertainment as an approachable and attractive mass market offering, but also by the increasing sophistication and realism of products offered, increasing availability and affordability of gaming hardware, new methods of engaging potential gamers and new game distribution channels.

CD PROJEKT S.A. on the capital market

GRI 102-5

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.⁸ 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.

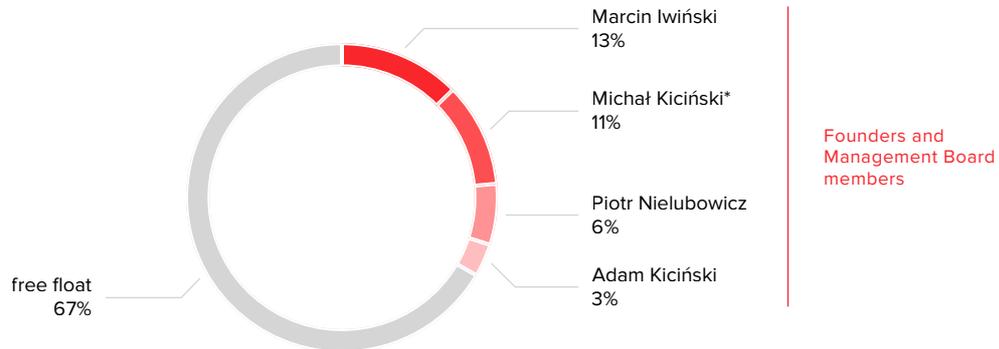
96 120 000 Company shares are traded on the Main Market of the Warsaw Stock Exchange under the continuous trading system. Key shareholders of CD PROJEKT S.A. are its co-founders – Marcin Iwiński and Michał Kiciński. Other major shareholders who are also members of the Company’s Management Board are Adam Kiciński – President of the Board, and Piotr Nielubowicz – Vice President and CFO. Free float accounts for 66.61% of shares of CD PROJEKT S.A. stock.

6 Newzoo Adjusts Global Games Forecast to \$148.8 Billion; Slower Growth in Console Spending Starts Sooner than Expected, Newzoo, 19 November 2019; accessed on: 30 January 2020, www.newzoo.com/insights/articles/newzoo-adjusts-global-games-forecast-to-148-8-billion-slower-growth-in-console-spending-starts-sooner-than-expected

7 Perspectives from the Global Entertainment & Media Outlook 2019–2023, PWC, accessed on 30 January 2020, www.pwc.com/gx/en/entertainment-media/outlook-2019/entertainment-and-media-outlook-perspectives-2019-2023.pdf

8 Former CD PROJEKT group holding company

Chart 7 Company shareholding structure as of the publication date of this report



* according to a notice filed on 6 December 2016

On 25 June 2019 Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. notified the Company that the percentage of Company shares held by itself dropped below the 5% threshold.⁹

On 18 March 2019 the Warsaw Stock Exchange launched its WIG.GAMES sectoral index which covers five largest videogame developers listed on WSE. Due to its significantly larger market capitalization compared to other companies whose stock makes up the index, the contribution of CD PROJEKT S.A. to WIG.GAMES has been limited – as of 1 April 2019 it stands at 38.9%.

CD PROJEKT is also part of the WIG-ESG index, a new WSE index launched on 3 September 2019. WIG-ESG aggregates companies regarded as socially responsible, i.e. those which adhere to social responsibility principles particularly with regard to environmental, social, economic and corporate governance issues. As of 1 April 2020, CD PROJEKT contributes 10.0% to the WIG-ESG index.

Chart 8 CD PROJEKT S.A. stock price and the WIG20 index between 1 January and 31 December 2019.

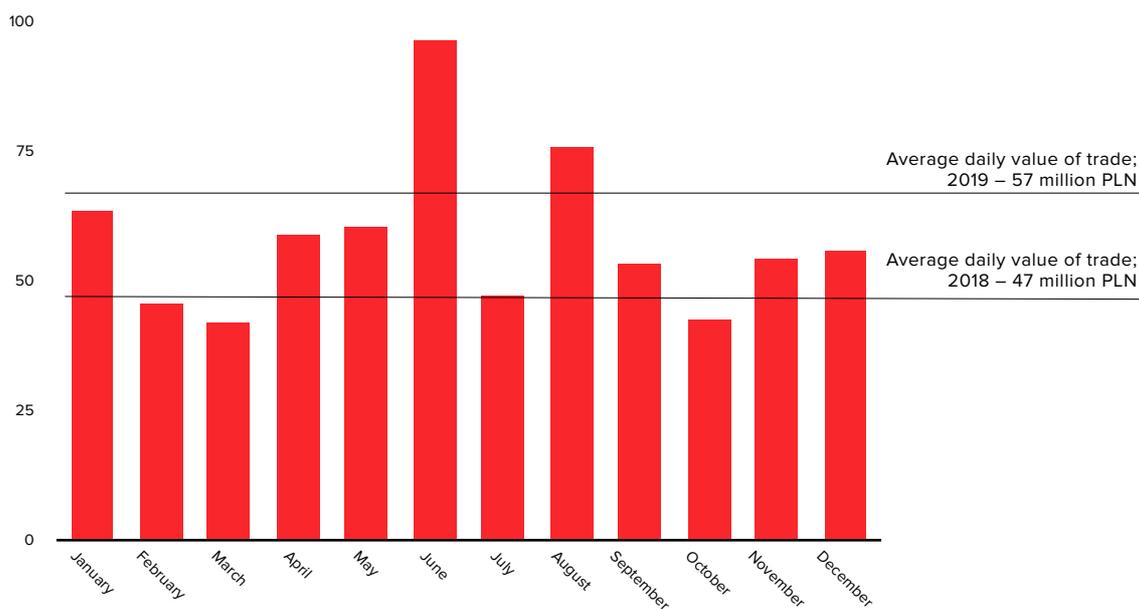


⁹ CR 15/2019

Between 1 January 2019 and 31 December 2019 the Company stock price fluctuated between 148 PLN (3 January 2019) and 280 PLN (23 December 2019). During this period the stock price increased by 92%, to 279.50 PLN at the close of the trading day on 30 December 2019. Over the same period the WIG20 index lost 6% while the main WIG index gained 0.2%.

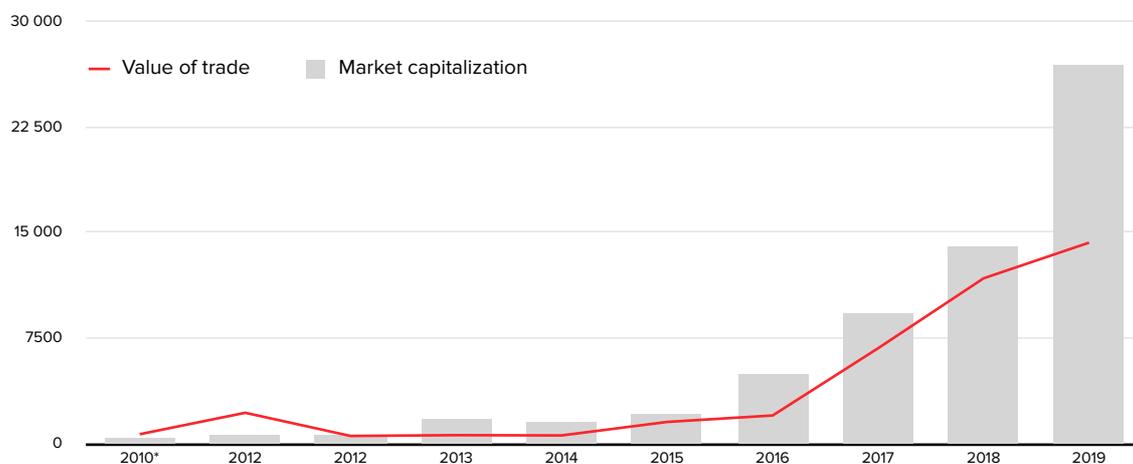
At the end of 2019 the Company's market capitalization was 26.9 billion PLN.

Chart 9 Average daily value of trade in CD PROJEKT S.A. shares (by month) between 1 January and 31 December 2019 (PLN millions)



In 2019 the liquidity of CD PROJEKT S.A. stock, measured in terms of value of trade, once again increased substantially. The aggregate value of trade for 2019 was 14.3 billion PLN, which is 22% more than during 2018. The average daily value of trade was 57 million PLN, compared to 47 million PLN the year before. An increase was also observed in the number of transactions per trading day – from 3426 to 3602.

Chart 10 Market capitalization of CD PROJEKT S.A. at the end of the year and aggregate value of trade in CD PROJEKT S.A. stock between 1 May 2010 and 31 December 2019 (PLN millions)



* between 01.05.2010 and 31.12.2019

Table 6 Key indicators of CD PROJEKT S.A. stock

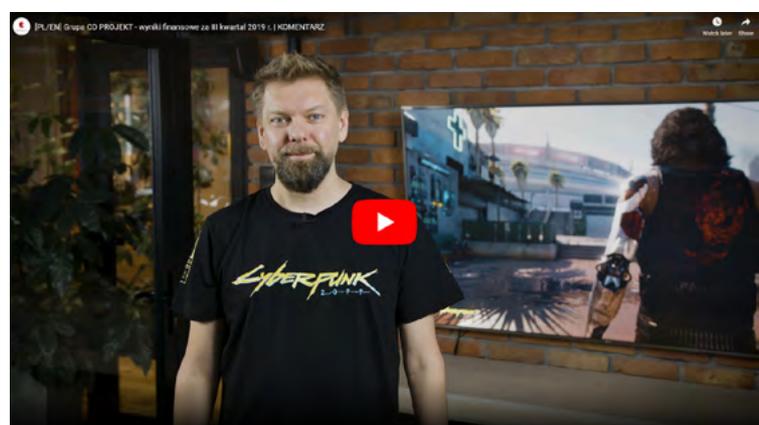
	2019	2018	Change
Net earnings per share (PLN)	1.82	1.14	59.65%
Quantity of shares in trading (in thousands) at end of period	96 120	96 120	–
Highest closing price during fiscal year (PLN)	280.00	219.80	27.39%
Lowest closing price during fiscal year (PLN)	148.00	98.00	51.02%
Price at beginning of period (PLN)	151.00	100.00	51.00%
Price at end of period (PLN)	279.50	145.60	91.96%
Average price during period (PLN)	219.22	149.64	46.50%
P/E ratio at end of period	153.57	127.72	20.24%
Market capitalization at end of period (PLN thousands)	26 865 540	13 995 072	91.96%
Average number of transactions per trading day	3 602	3 426	5.14%
Average daily value of trade (PLN thousands)	57 482	47 284	21.57%
Average daily trading volume (shares)	265 507	304 712	-12.87%

As of the publication date of this report 21 brokerage houses, both foreign and domestic, issue recommendations concerning Company stock. A full list of analysts and brokerage houses which issue recommendations concerning Company stock can be found on the CD PROJEKT website at www.cdprojekt.com/en/investors/analysts.

CAPITAL MARKET COMMUNICATIONS

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

In 2019 two earnings conferences were organized for capital market stakeholders and financial media journalists. At these conferences CD PROJEKT S.A. presented Capital Group results for 2018 and for the first half of 2019 respectively. The Company also took this opportunity to outline its key achievements, events and business plans. Webcasts of both conferences were provided on the Company website along with live English translations. Publication of the Group's financial results for 2018 and for the first half of 2019 was augmented by a live chat session aimed at individual investors. The sessions proved



very popular, attracting several hundred participants each time. Board members fielded dozens of questions concerning, among others, the Group's results and plans with regard to upcoming releases.

In addition to the aforementioned earnings conferences, the Company also organized two teleconferences with market analysts and journalists, following publication of quarterly financial statements for the first and third quarter of 2019 respectively. The former was held in Polish, while the latter – owing to increasing interest in the Company on the part of foreign investors – was held in English. In both cases, transcripts and translations were subsequently published on the Company website, enabling investors to freely access both Polish and English editions. In parallel with the publication of each quarterly report, the Company website provided comments by Piotr Nielubowicz, Vice President and CFO, addressing the key factors which shaped the Group's earnings during each reporting period.

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

Since 2018, in order to accommodate the expectations of its shareholders, the Company provides live webcasts of its annual General Meeting of Shareholders. All relevant materials can be found at www.cdprojekt.com/en/investors/general-meetings

In 2019 the Company organized numerous meetings of Board members and Investor Relations personnel with representatives of Polish and foreign investment funds, along with numerous meetings with analysts who issue recommendations concerning CD PROJEKT stock. The Board also took part in investor conferences organized by Polish brokerage houses, and in 10 series of international meetings with foreign investors, held, among others, in London, New York, Boston, Los Angeles (at the E3 fair), Singapore, Vienna, Cologne (at the Gamescom fair) and Barcelona.

Following up on requests voiced by individual investors in 2019 CD PROJEKT representatives took part in the 23rd edition of the Wall Street Conference in Karpacz, organized by the Individual Investors' Association. One of the discussion panels was entirely devoted to the Company – following an extensive interview Adam Kiciński, CEO, addressed a number of questions formulated by individual investors taking part in the event.

The Company continues to address questions from individual investors via its corporate IR Forum. The full list of questions and answers can be found at www.cdprojekt.com/pl/forums/topic/lista-pytan-do-zarzadu (Polish only).

The Investor Relations department also maintains the CD PROJEKT Twitter feed (@CDProjektRED_IR) with up-to-date information concerning key events which affect the CD PROJEKT Capital Group. As of the end of March 2020 this feed is followed by over 9.8 thousand users.

In the annual Stock Exchange Company of the Year ranking published by the editorial board of Puls Biznesu in March 2019 CD PROJEKT was once again (for the fourth time in a row) named the Stock Exchange Company of the Year – for its performance in 2018. The company also topped the Growth Prospects category.

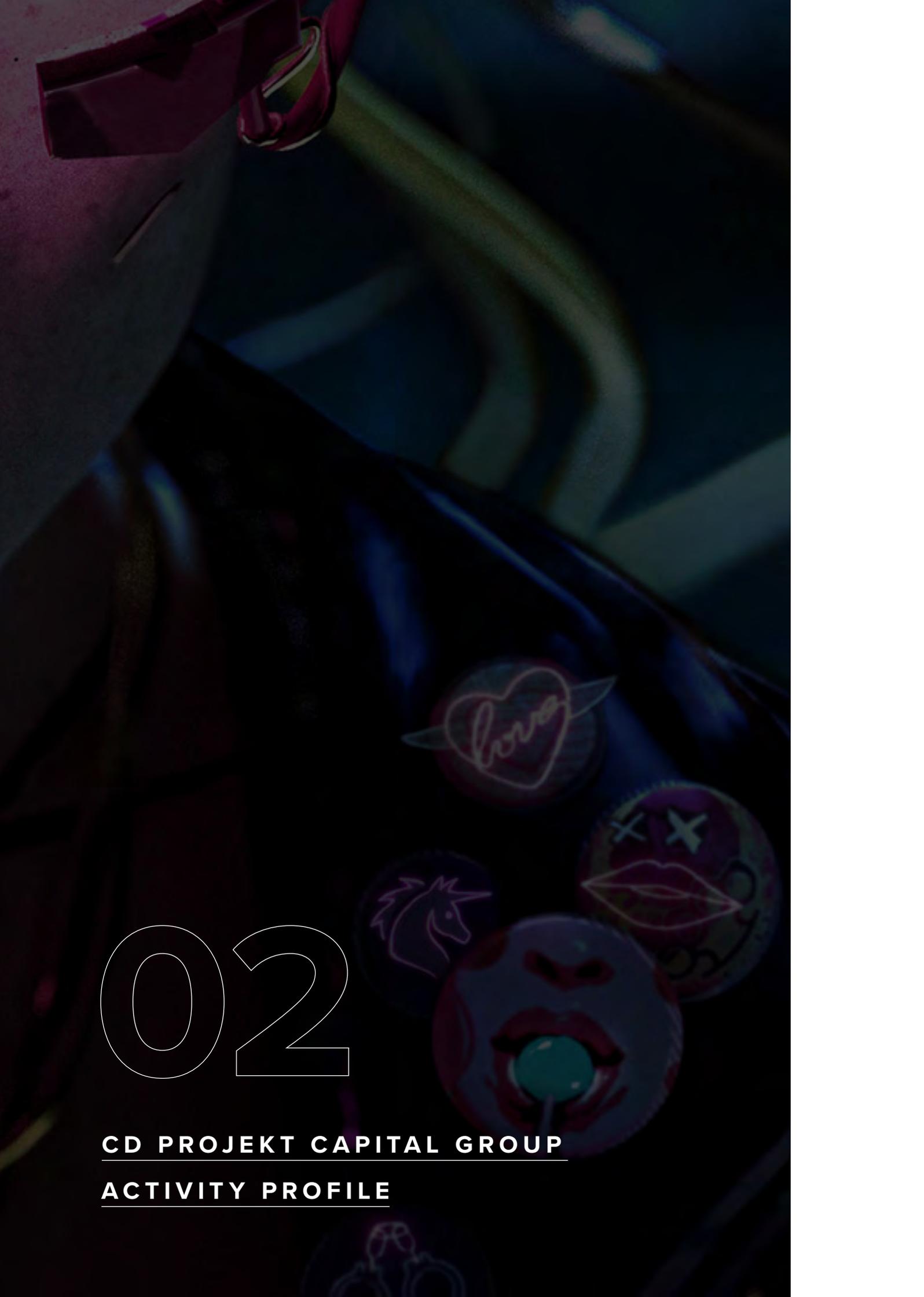
At the 23rd Wall Street Conference organized by the Individual Investors' Association in May-June 2019 CD PROJEKT received the Capital Market Hero award in the Stock Exchange Company category.

The Company also received several awards in the first quarter of 2020. In an investor relations survey conducted by Gazeta Giełdy Parkiet and by the Chamber of Brokerage Houses individual investors awarded CD PROJEKT the most points from among all surveyed companies making up the WIG30 index.

In March CD PROJEKT was once again named Stock Exchange Company of the Year (fifth time in a row) in the annual Puls Biznesu ranking. The Company also carried the following categories: Management Competence, Investor Relations and Product and Service Innovation.

On 24 March CD PROJEKT was named WIG20 Company of the Year in the annual Bulls and Bears ranking organized by Gazeta Giełdy Parkiet.





02

CD PROJEKT CAPITAL GROUP
ACTIVITY PROFILE

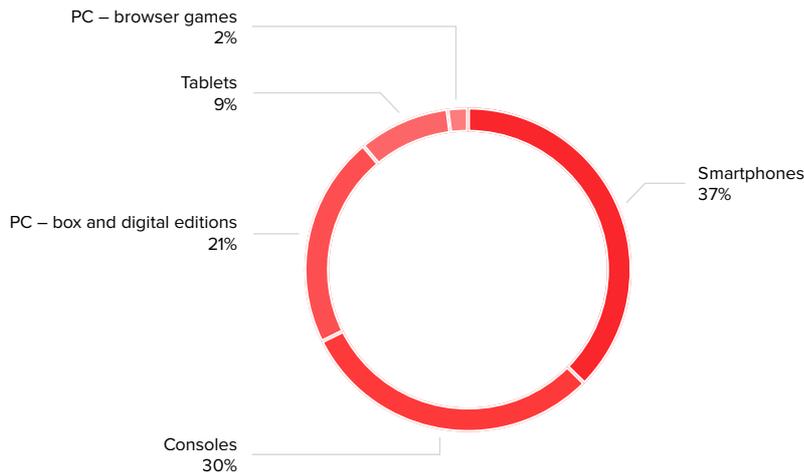
Market environment

GRI 102-15

GLOBAL VIDEOGAME INDUSTRY

Newzoo¹⁰ – a renowned global provider of games and e-sports analytics – estimates the volume of the global videogame market at 148.8 billion USD at the end of 2019, which corresponds to a 7.2% increase over the 2018 year-end value (138.8 billion USD). In 2019 the strongest strong growth was observed in the mobile and console segments. The former grew by 9.7%, reaching 68.2 billion USD, while the latter grew by 7.3%, reaching 45.3 billion USD. The PC market reached a volume of 35.3 billion USD, having increased by 2.8%.

Chart 11 Global videogame market in 2019 by device type (%)



According to Newzoo analysts, the largest share of the global videogame market is currently held by mobile devices (46%), 80% of which are smartphone releases. Gaming consoles come in second at 30%, followed by the PC 24%. Mobile devices are projected to retain their top position, with their corresponding market volume increasing by 11.2% annually (on average) over the next three years. According to estimates, the volume of the global mobile game market will reach 93.6 billion USD by 2022 (it currently stands at 68.2 billion USD).

Estimates published by ESA (Entertainment Software Association)¹¹ concerning the US market, which is the most important region from the point of view of the Group's activities, confirm the domination of smartphones in this area, although their advantage over PCs and consoles is not as high as e.g. in Asia. 60% of American gamers include smartphones among their most frequently used gaming devices, with PCs and consoles coming in at 52% and 49% respectively.

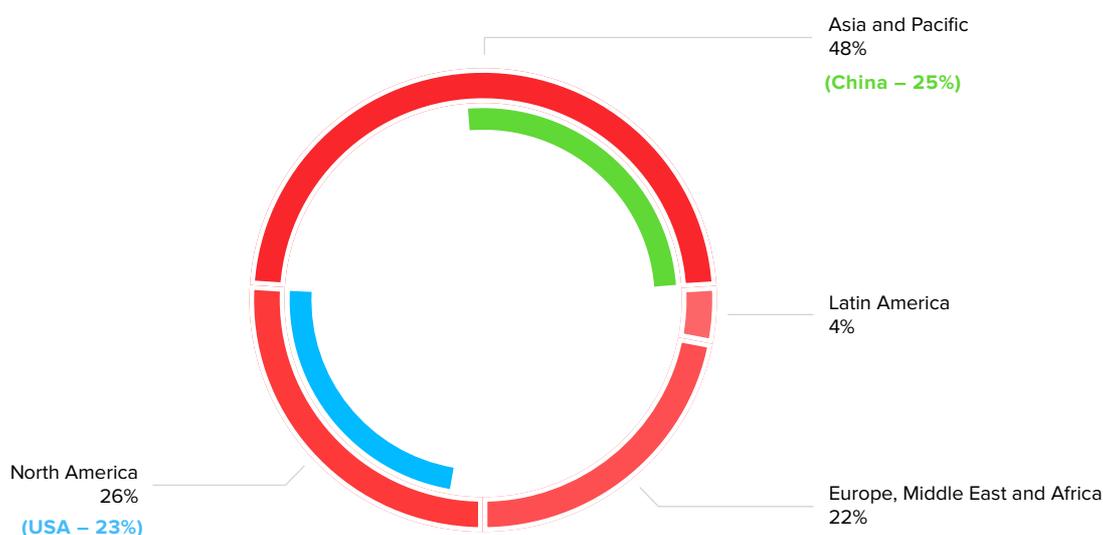
¹⁰ Newzoo Adjusts Global Games Forecast to \$148.8 Billion; Slower Growth in Console Spending Starts Sooner than Expected, Newzoo, 19 November 2019, accessed on 30 January 2020, www.newzoo.com/insights/articles/newzoo-adjusts-global-games-forecast-to-148-8-billion-slower-growth-in-console-spending-starts-sooner-than-expected

¹¹ Essential fact about the computer and video game industry, Entertainment Software Association, May 2019, accessed on 30 January 2020 www.theesa.com/wp-content/uploads/2019/05/2019-Essential-Facts-About-the-Computer-and-Video-Game-Industry.pdf

Long-term projections remain optimistic. Newzoo claims that the global market will reach 189.6 billion USD by 2022, whereas the PWC “Global Entertainment & Media Outlook 2019-2023”¹² report projects a 6.5% cumulative annual growth rate (CAGR) of the videogame and e-sports market between 2018 and 2023.

In terms of territorial distribution, Asia and Pacific countries account for 71.5 billion USD (6.6% y/y increase), which represents nearly 50% of the 2019 global market volume. North America comes in second place, at 38.4 billion USD (8.3% y/y increase), closely followed by Europe, the Middle East and Africa (7.1% growth, reaching 33,3 billion USD). Notably, two countries – China and the United States – jointly hold a 48% share in the global market (36.5 billion USD and 35.5 billion USD respectively).¹³

Chart 12 Estimated share of individual regions in the 2019 global videogame market (%)



GAMERS

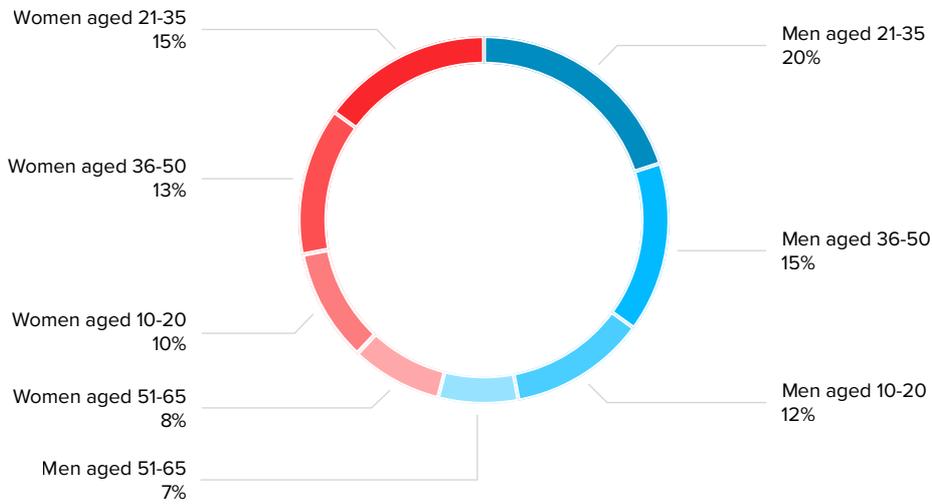
According to a Newzoo¹⁴, survey held in 13 countries among responders aged 10-65, men aged 21-35 represent the largest group of gamers (20%). Women make up 46% of all gamers, with the largest group also aged 21-35 (15% of all gamers). 52% of men and 48% of women use mobile devices for gaming. 48% of men play games on the PC and 37% play on consoles, with the corresponding figures for women at 35% and 23% respectively.

¹² Perspectives from the Global Entertainment & Media Outlook 2019–2023, PWC, accessed on 30 January 2020, <https://www.pwc.com/gx/en/entertainment-media/outlook-2019/entertainment-and-media-outlook-perspectives-2019-2023.pdf>

¹³ Key numbers, Newzoo, accessed on 10 January 2019, www.newzoo.com/key-numbers

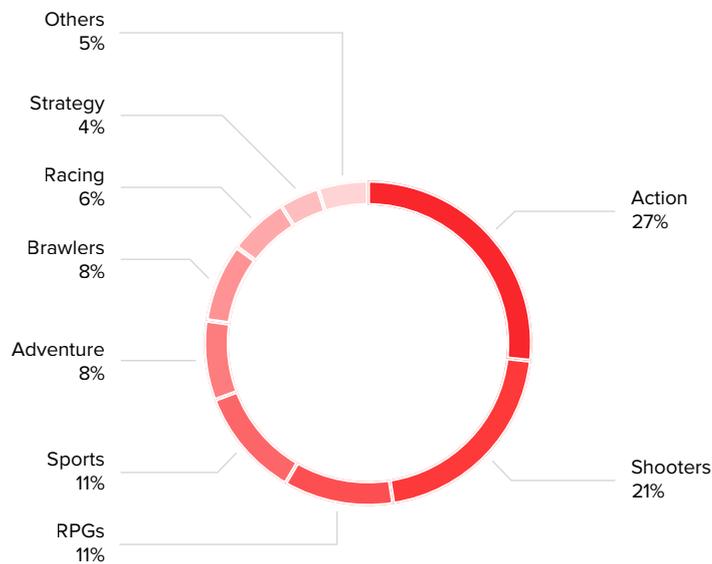
¹⁴ Male and Female Gamers: How Their Similarities and Differences Shape the Games Market, accessed on 30 January 2020, www.newzoo.com/insights/articles/male-and-female-gamers-how-their-similarities-and-differences-shape-the-games-market

Chart 13 Gamers by age and gender (%)



According to ESA, in the United States the most popular gaming genres are action games, shooters and RPGs, which jointly account for 59% of all sales. This is important in the context of *Cyberpunk 2077*, which represents all three of the most popular US genres.

Chart 14 Sales of videogames in the United States by genre (%)



Organizational structure of the CD PROJEKT Capital Group

GRI 102-45

As of 31 December 2019 the CD PROJEKT Capital Group consists of the parent entity – CD PROJEKT S.A. – and five subsidiaries: GOG sp. z o.o., CD PROJEKT Inc., CD PROJEKT Co. Ltd., Spokko sp. z o.o. and CD PROJEKT RED STORE sp. z o.o. (incorporated on 14 January 2019)

Chart 15 CD PROJEKT Capital Group at the end of 2019



Table 7 Basic activity profile of each member company of the CD PROJEKT Capital Group as of 31 December 2019

Company	Scope of activity
CD PROJEKT S.A.	The principal scope of activity of the company, carried out through its CD PROJEKT RED studio, involve development and publishing of videogames, selling the associated distribution rights, as well as manufacturing, selling or licensing tie-in products which exploit the popularity of brands owned by the Group. CD PROJEKT S.A. also serves as the holding company of the CD PROJEKT Capital Group, and coordinates the activities of subsidiaries which comprise the Capital Group.
GOG sp. z o.o.	The company distributes videogames through online channels to customers from around the world, enabling them to purchase games, remit payment and download purchased products to their personal computer. The company also owns the GOG.com proprietary global digital distribution platform and the GOG GALAXY 2.0 technology stack. Additionally, in the framework of a consortium formed with CD PROJEKT S.A., the company participates in development and maintenance of <i>GWENT: The Witcher Card Game</i> , where it is responsible for the game's online and networking features, and for handling sales carried out in the game's PC edition.
CD PROJEKT Inc.	The company coordinates publishing and promotional activities related to products marketed by CD PROJEKT S.A. and GOG.com, and manages sales of tie-in products manufactured by CD PROJEKT RED throughout North America (with an office in Los Angeles).
CD PROJEKT Co. Ltd.	The main goal of this company is to ensure CD PROJEKT Capital Group's presence on the Chinese market (with an office in Shanghai). It manages a local team which coordinates publishing and promotional activities associated, among others, with promoting <i>GWENT</i> in China.
Spokko sp. z o.o.	Development studio which specializes in mobile releases.
CD PROJEKT RED STORE sp. z o.o.	This company carries out online marketing of merchandise associated with CD PROJEKT RED videogames throughout the EU.

The above member companies of the CD PROJEKT Capital Group, with exception of CD PROJEKT Co. Ltd. and Spokko sp. z o.o., were subject to full consolidation as of 31 December 2019. Detailed information can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2019.

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

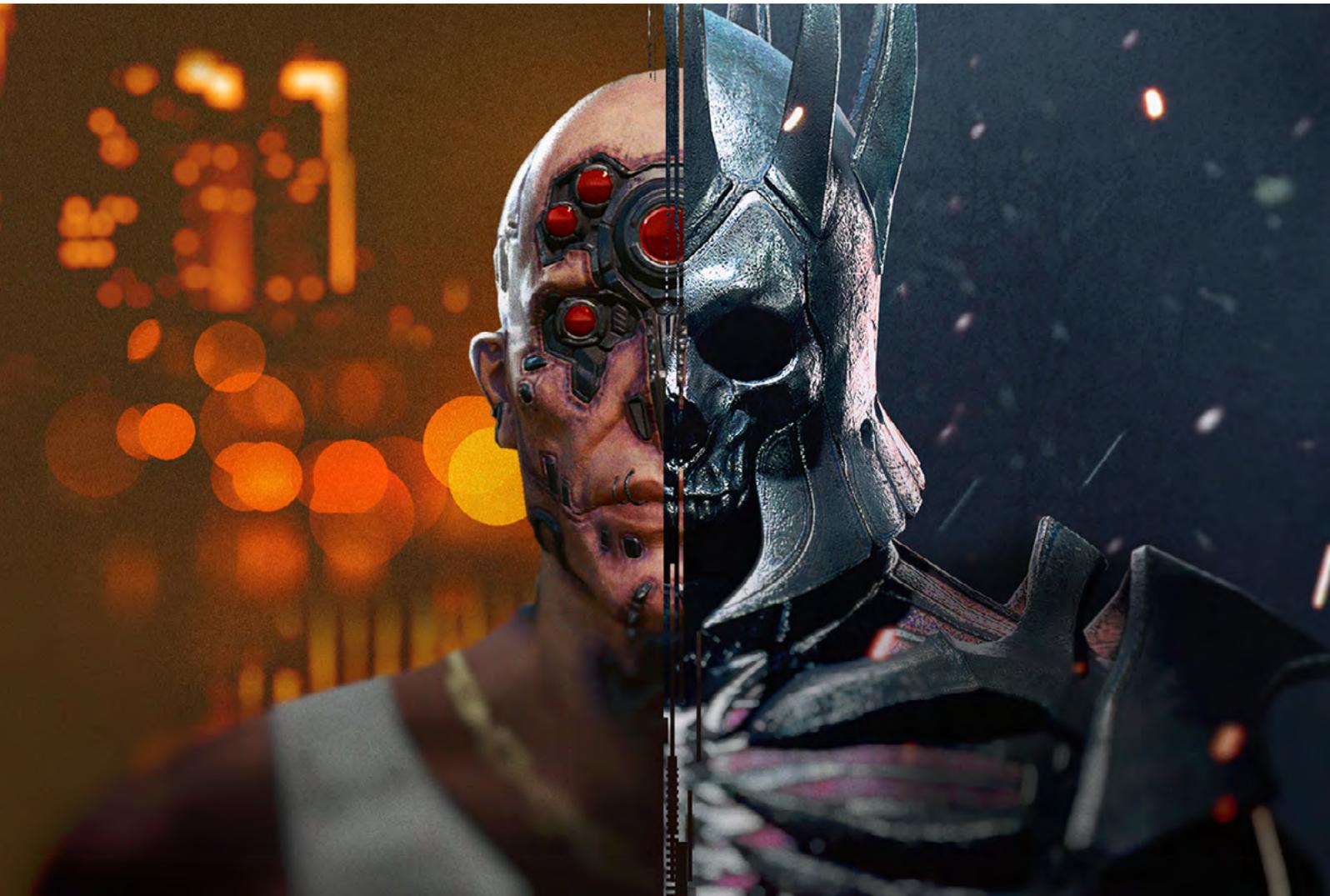
In 2019 the Capital Group conducted business activities in two segments:

- 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. (domestic holding company of the CD PROJEKT Capital Group), CD PROJEKT Inc. (USA) and CD PROJEKT Co., Ltd. (China). Videogame development is based on two brands owned by the Company: *The Witcher* and *Cyberpunk*.



This 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 via electronic and social media channels (see the Communications section) as well as through regular participation in trade fairs.

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.

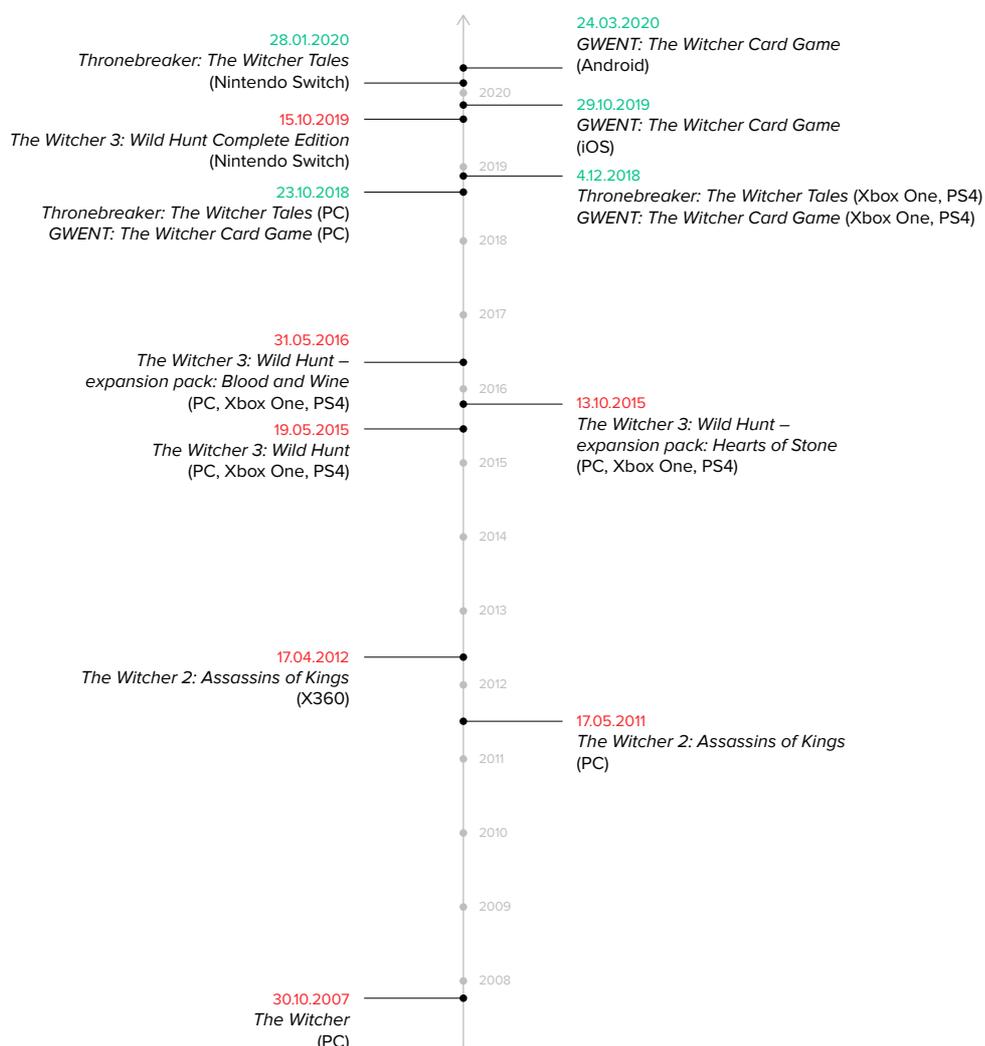
As of the publication date of this report, key releases in the Company's portfolio include *The Witcher*, *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt*, as well as two expansion packs: *Hearts of Stone* and *Blood and Wine*.

In 2018 the Company released the full version of *GWENT: The Witcher Card Game*, developed in collaboration with GOG sp. z o.o., as well as a single-player game – *Thronebreaker: The Witcher Tales*, built around similar gameplay mechanics.

In October 2019 the Company released *The Witcher 3: Wild Hunt* for Nintendo Switch, while *GWENT: The Witcher Card Game* made its debut on iOS devices.

Following the balance sheet date, on 28 January 2020, *Thronebreaker: The Witcher Tales* also came to Nintendo Switch, while on 24 March 2020 the *GWENT: The Witcher Card Game* was released for Android devices.



Chart 16 CD PROJEKT RED releases; 2007-2020


By the end of 2019 videogames featuring the professional monster hunter Geralt of Rivia had received over 1000 awards.

CD PROJEKT RED is continuing its development work on the largest RPG release in the Studio's history: *Cyberpunk 2077*, set in a vibrant, technologically advanced world. Players assume the role of V – a cyberpunk who has recently migrated to the most crime-ridden city of the future. *Cyberpunk 2077* is based on the *Cyberpunk 2020* pen-and-paper RPG system created by Mike Pondsmith.

Key sources of revenue

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

- sales of territorial distribution rights (for box and digital editions), settled post factum on the basis of monthly or quarterly sales reports / licensing reports submitted by the Company's business partners
- 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 carried out through optional microtransactions in *GWENT: The Witcher Card Game* (incl. kegs and meteorite)

dust) via GOG, proprietors of console platforms (PlayStation, Xbox) and App Store (Apple).

Sales of CD PROJEKT S.A. products are governed by several dozen long-term licensing and distribution agreements concluded with international publishers and distributors (e.g. BANDAI NAMCO Entertainment Europe, Microsoft, Sony, VALVE Corporation, Warner Bros. Home Entertainment) as well as GOG.com. Digital distribution agreements are typically settled in monthly cycles, while distribution of physical videogame editions follows quarterly reporting 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).

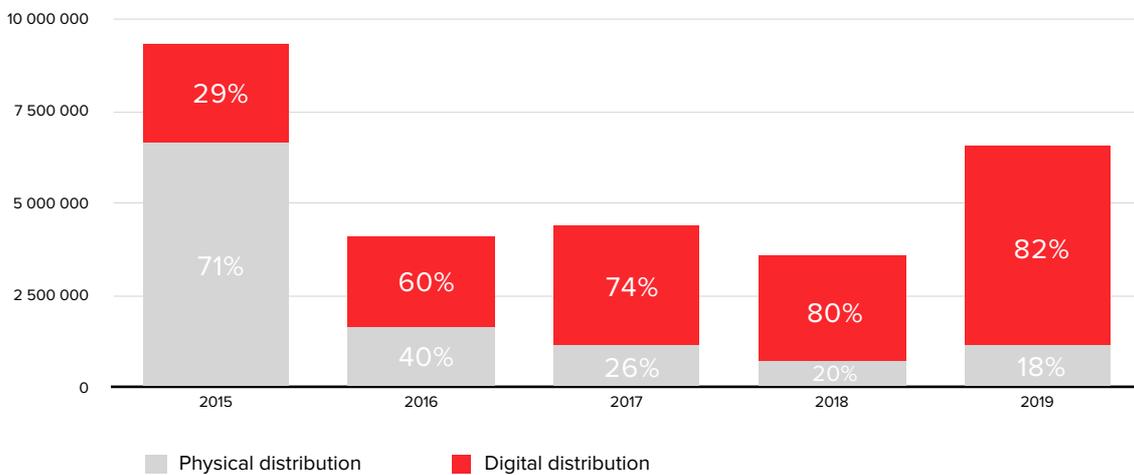
In 2019 the most important CD PROJEKT RED products from the point of view of revenues were:

- *The Witcher 3: Wild Hunt*, together with its expansions – *Hearts of Stone* and *Blood and Wine*
- *GWENT: The Witcher Card Game*
- *Thronebreaker: The Witcher Tales*

Additionally, the Company offered earlier instalments in *The Witcher* franchise, including *The Witcher* and *The Witcher 2: Assassins of Kings*, both of which continue to attract players and generate revenues.

In 2019 digital channels accounted for 82% of *The Witcher 3: Wild Hunt* sales (in terms of units sold).

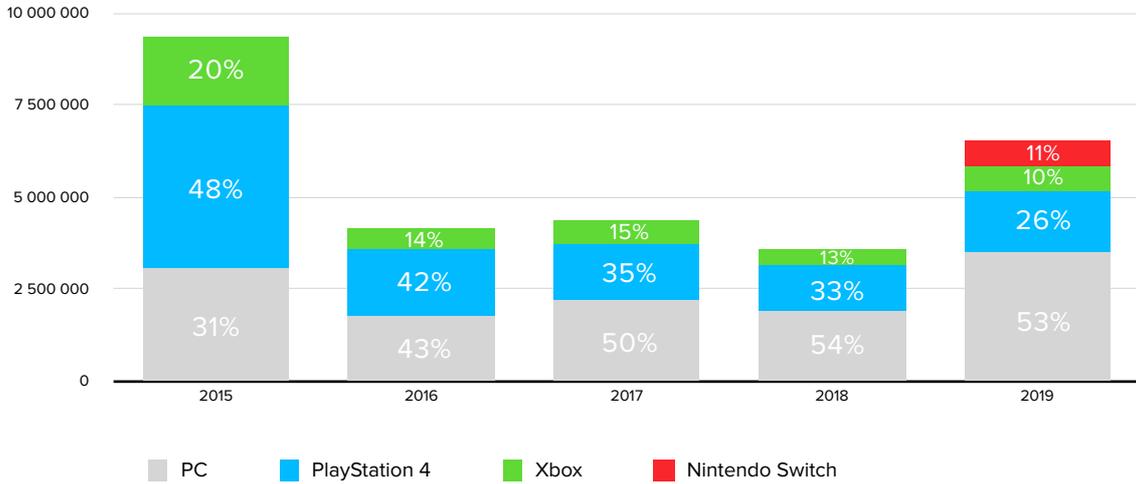
Chart 17 Sales of *The Witcher 3* by distribution channel (units sold)



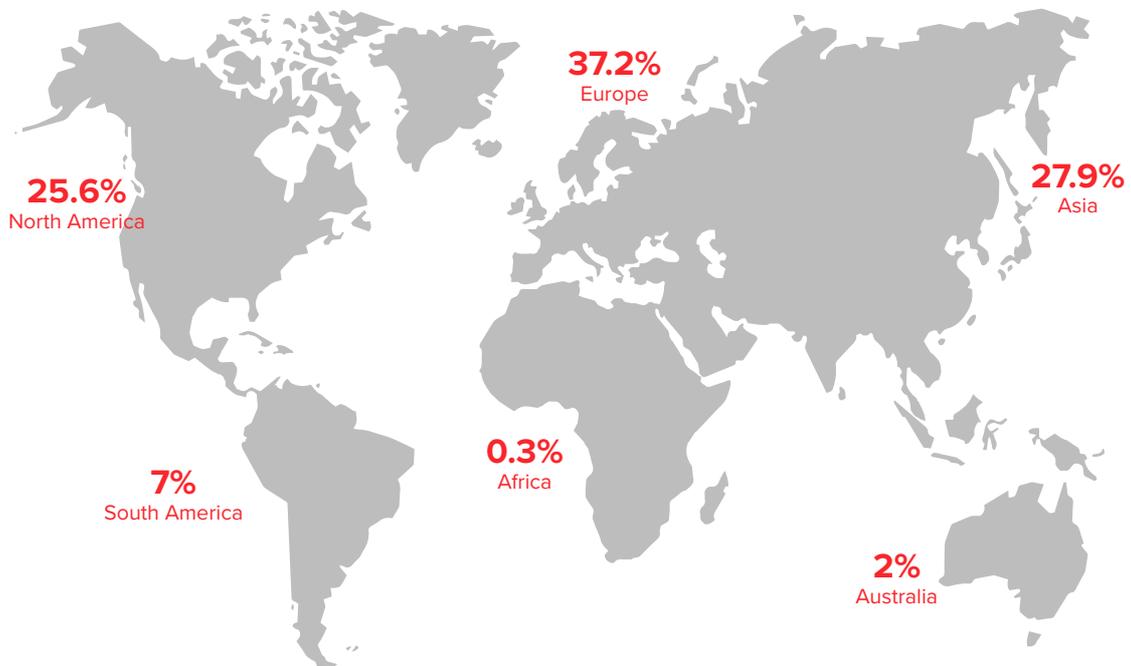
The observed growth in the share of digital distribution in total sales is due to the global shift towards digital purchases among consumers, and also due to the comparatively longer shelf life of digital releases compared to physical (box) editions.

In 2019 most purchases of *The Witcher 3: Wild Hunt* involved the PC edition of the game. On 15 October 2019 *The Witcher 3* was released for Nintendo Switch.

Chart 18 Sales of *The Witcher 3* by hardware platform (units sold)



Map 2 Purchases of *The Witcher 3* by region (2019)



Product labeling

GRI 417-1, GRI 417-2

Videogames marketed by CD PROJEKT possess the appropriate labels. The vast majority of these labels are placed either voluntarily or as a result of contractual agreements with distributors, middleware suppliers and proprietors of hardware platforms. Obligatory labels include age ratings assigned for each region by ratings agencies, including PEGI and ESRB.

To the best of the Company's knowledge, throughout 2019 the Company remained in compliance with all regulations and voluntary codes concerning product and service information and labeling.

Key suppliers and clients

GRI 102-9

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., Warner Bros. Home Entertainment, Epicsoft Asia PTE LTD, Bandai Namco Entertainment Australia PTY LTD, Spike Chunsoft Co., Ltd., Soft Club LLC), and leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Nintendo, App Store, Humble Bundle and Origin, along with its own proprietary GOG.com platform).

In 2019 sales to two clients exceeded 10% of the Group's consolidated sales revenues and totaled 114 237 thousand PLN and 83 292 thousand PLN respectively (21.9% and 16.0% of the Group's revenues respectively). These clients are 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 CD PROJEKT RED supplier accounted for more than 10% of the consolidated revenues of the Capital Group in the first half of 2019.

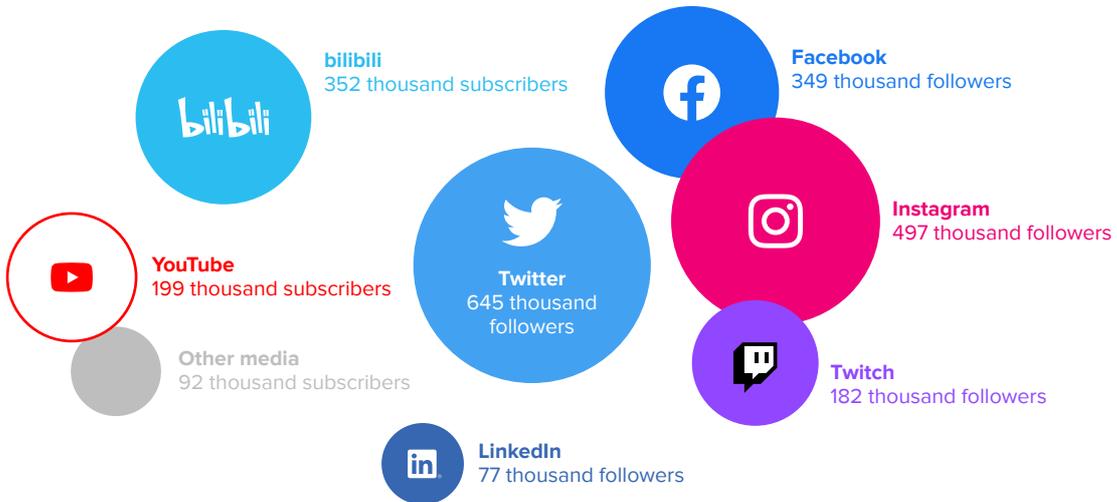
CD PROJEKT follows internal procurement guidelines which aim to enable cost savings and ensure transparency in the procurement decision-making process. Collaboration with suppliers and business partners, both domestic and foreign, is rooted in long-term relationships and respect for standards and fair play principles.

The Company is currently working to deploy a purchasing platform which will handle the flow and approval of electronic documentation involved in the procurement process at CD PROJEKT S.A. This platform is scheduled for rollout in 2020.

Communications

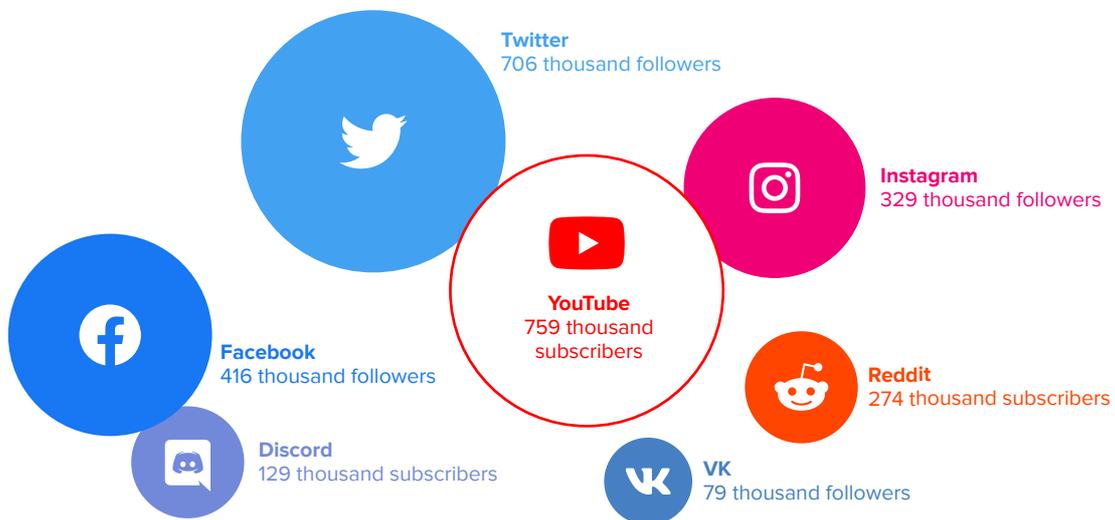
CD PROJEKT RED prides itself on direct and honest communications with the global gaming community under the "Gamers first" policy. Player relations are carried out primarily through social media channels. CD PROJEKT RED actively manages over 90 social media profiles in over a dozen languages, both global and local (such as the BILIBILI and Weibo platforms in China and the Naver Cafe platform in Korea).

Chart 19 Followers and subscribers of CD PROJEKT RED social media profiles as of 4 February 2020



As the launch of *Cyberpunk 2077* draws closer, the game's official social media profiles are attracting ever more attention. The number of people following *Cyberpunk's* Twitter doubled in 2019, reaching 700 thousand, while the official YouTube channel attracted over 300 thousand additional subscribers, reaching a total of 750 thousand subscribers.

Chart 20 Followers and subscribers of *Cyberpunk 2077* social media profiles as of 4 February 2020



Key product and marketing events

Cyberpunk 2077

The Company's communication strategy foresaw further ramp-up of *Cyberpunk*-related promotional activities throughout 2019. The Company's representatives took part in key market events, both global and local, presenting the *Cyberpunk 2077* world and gameplay to fans and releasing additional information about the game.

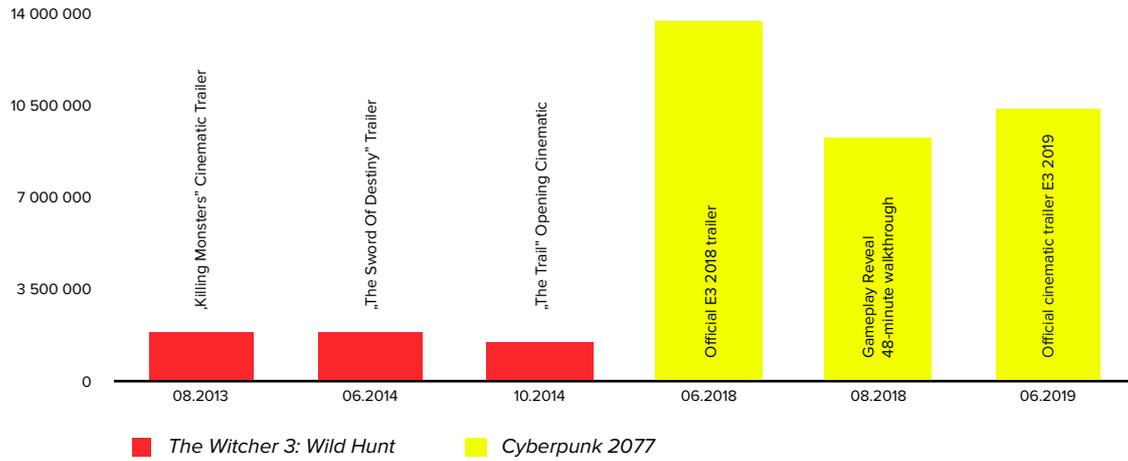
The highlight of 2019 was the *Cyberpunk 2077* at the world's most important gaming fair – E3 in Los Angeles. The game's release date was announced at the official Microsoft conference, together with the reveal that Johnny Silverhand would be voiced by Keanu Reeves. In the framework of his collaboration with the studio the actor took part in motion capture sessions and lent both his voice and his visage to the in-game character (in the former case – in the game's English language edition).



At the conference CD PROJEKT RED also presented a new cinematic trailer of *Cyberpunk 2077*, which has so far been viewed over 50 million times across all of its distribution channels. The contents of the game's standard and collector's box sets were revealed and, together with its distribution partners, the Company began accepting preorders of the game.



Chart 21 Viewership of CD PROJEKT RED's most popular promotional content (within 4 weeks of initial release; the Studio's official YT channel only)



At E3 *Cyberpunk 2077* demos were showcased in both the public and the business sector. Altogether, these presentations attracted over 7000 spectators and were very favorably received by journalists. The game received over 85 awards for E3 excellence. According to data published by GameIndustry.biz, *Cyberpunk 2077* was the most widely covered videogame of E3.



CD PROJEKT RED also presented its upcoming release at Gamescom in Cologne – the largest such event of the European videogame market. *Cyberpunk* demos screened over the course of four days attracted 12 000 spectators, including 2000 media representatives, online content creators, opinion leaders and business partners from around the world.



In addition to the above *Cyberpunk 2077* was presented, among others, at Tokyo Game Show, Milan Games Week, Paris Games Week, Poznań Game Arena, Igromir (Moscow), Madrid Games Week, EGX London, PAX Australia, Zurich Game Show, EGX Berlin, China Joy and Lucca Comics & Games (Italy). Altogether, over 60 thousand spectators attended presentations of the game.

On 19 August 2019 the Company announced that *Cyberpunk 2077* would be coming to Google Stadia – a streaming platform enabling gameplay on a broad range of client devices.

After the close of the reporting period, on 16 January 2020, the Management Board announced that the release date of *Cyberpunk 2077* would be pushed back to 17 September 2020. The Board justified this decision by pointing out the need for additional time to fully playtest, bugfix and polish the game, thus ensuring that customers receive a top-quality product.

GWENT

On 27 March 2019 the Company announced that *GWENT* would be coming to mobile devices. The iOS release debuted on 29 October 2019 to high acclaim and strong average ratings from 223 thousand gamers (4.8/5 as of 2 April 2020). The corresponding Android release, announced on the same day the game was released for iOS, appeared after the close of the reporting period, on 24 March 2020. As of 2 April 2020 the game has an average rating on Google Play of 4.7/5, based on 91 thousand user reviews.

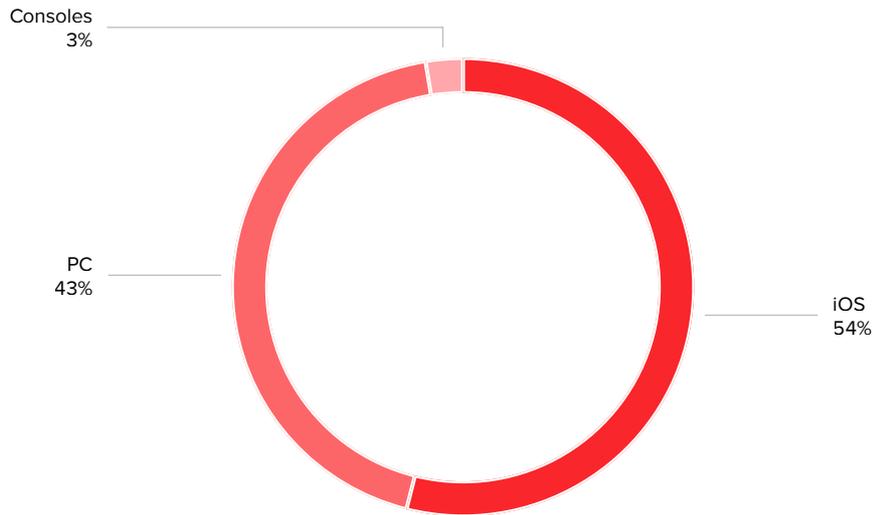
Four *GWENT* expansions appeared in 2019: *Crimson Curse* was released on 28 March, followed by *Novigrad* – inspired by one of the key locations from *The Witcher 3: Wild Hunt* – on 28 June. The *Iron Judgment* expansion appeared on 2 October, while on 9 December the Studio released 70 new cards inspired by Ofir – a mysterious land located far beyond the seas.



In 2019 *GWENT* marketing activities also focused on e-sports tournaments carried out by CD PROJEKT RED. A *GWENT* Open tournament was held in March, while in September the Studio organized the fifth edition of the *GWENT* Challenger tournament – part of the *GWENT* Masters series. This edition was won by Serghei “magpie131” Sorochin from Moldavia, who claimed 61 800 USD of the total prize pool of 100 000 USD, securing a place in the *GWENT* World Masters tournament.

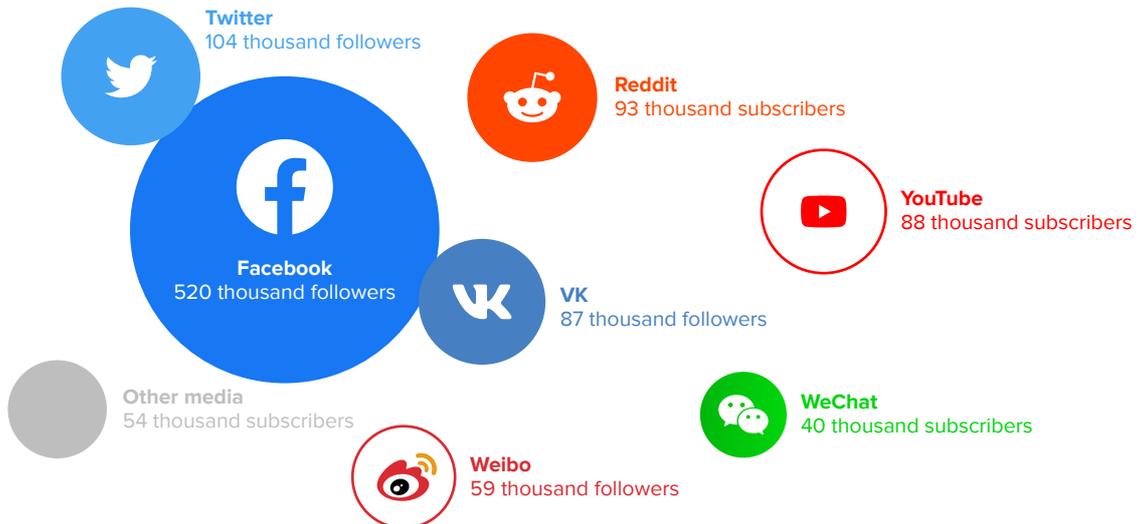
On 4 December at a live broadcast summarizing 2019 streamed on the Studio's official Twitch channel, the *GWENT* team announced end of support for the game on PlayStation 4 and Xbox One. Between 9 December 2019 and 9 June 2020 gamers will be able to migrate their accounts from console platforms to GOG, which is used to log in and access the game on mobile devices and PCs.

Chart 22 *GWENT* – CD PROJEKT Capital Group revenues by hardware platform



* between 29.10.2019 an 31.12.2019

Chart 23 Number of followers and subscribers of *GWENT* social media profiles as of 6 February 2020



Other events related to *The Witcher* videogame series

On 8 February 2019 add-on content inspired by *The Witcher 3: Wild Hunt* was released for *Monster Hunter: World* on PlayStation 4 and Xbox One. Also in February CD PROJEKT RED was named Best Developer in a Steam Awards survey, while *The Witcher 3: Wild Hunt* – despite four years having passed since its release – carried the Best Environment category.

On 11 June, during an official Nintendo Direct live stream the Company announced that *The Witcher 3: Wild Hunt Complete Edition* would be coming to Nintendo Switch as the first game in the Studio's history. *The Complete Edition* features the main game, both expansions – *Hearts of Stone* and *Blood and Wine* – as well as all bonus content published after the game's official launch. The Nintendo Switch release, developed in collaboration with Saber Interactive, was launched on 15 October 2019 and is available on digital and physical distribution platforms.



On 14 November the Studio announced that the base edition of *The Witcher 3: Wild Hunt*, together with 16 free DLC packages, would join the Xbox Game Pass program. Since 19 December 2019 subscribers may download the game and enjoy over 100 hours of gameplay at no extra cost.

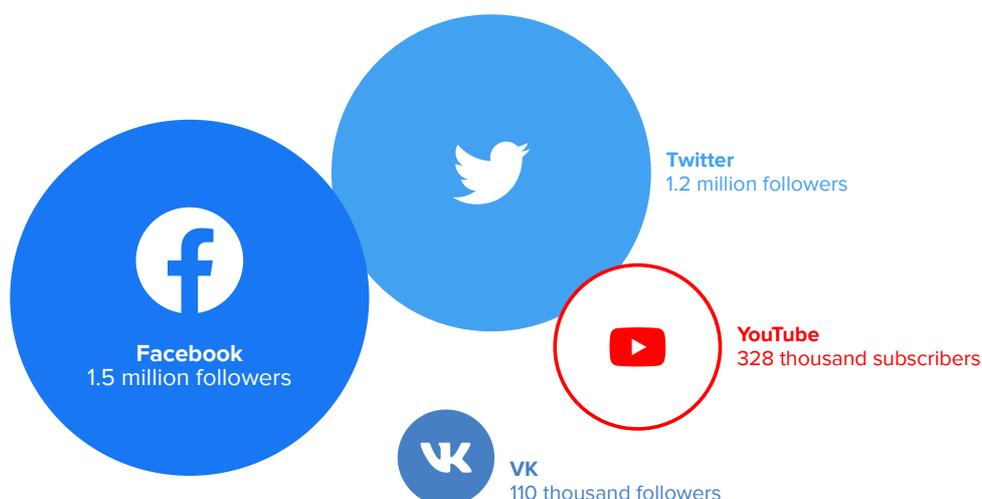
On 5 December 2019 CD PROJEKT RED teamed up with Marvelous Inc. to provide a customization package inspired by *The Witcher 3: Wild Hunt* in the latter's *DEAMON X MACHINA* on Nintendo Switch. The free DLC introduces a range of pilot appearance customization options, enabling gamers to faithfully impersonate Geralt of Rivia or Ciri.

On 20 December 2019 *The Witcher* TV series, based on Andrzej Sapkowski's literature, debuted globally on Netflix. The first season of Geralt of Rivia's adventures met with high acclaim and excellent viewership numbers, contributing to increased recognition of *The Witcher* brand throughout the world.

After the close of the reporting period, on 28 January 2020, *Thronebreaker: The Witcher Tales* debuted on Nintendo Switch.

On 20 February 2020 cumulative sales revenues generated by "The Witcher 3" products on Steam since the introduction of Steam's new revenue split scheme (i.e. since 1 October 2018) topped 50 million USD, which means that a different revenue split scheme between the developer and the platform proprietor is now in effect: CD PROJEKT's share in any future revenues generated by these products on Steam has increased to 80%.

Chart 24 Number of followers and subscribers of *The Witcher* social media profiles as of 4 February 2020



GOG.COM

Target and scope of business activity

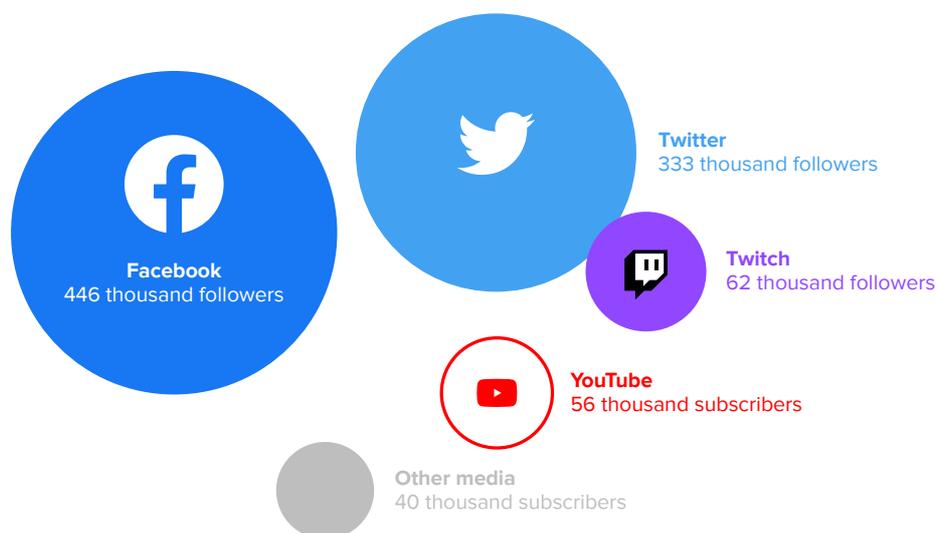
The GOG.com platform was launched in August 2008. Its initial mission was to revitalize major PC cult classics and offer them for sale to international customers with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. The platform is now offered in English, French, German, Russian, 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. 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 established to develop and operate *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. 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 in the PC, iOS and Android editions.

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.

Chart 25 Number of followers and subscribers of GOG.com social media profiles as of 19 March 2020



Key products

As of the publication date of this report, the GOG.com catalogue comprises nearly 3700 products from more than 600 publishers and producers of videogames, including such well-known brands as Activision Blizzard, 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 the *Game of the Year Edition*), *Thronebreaker: The Witcher Tales* and *The Witcher Adventure Game*. Since the announcement of the *Cyberpunk 2077* release date, the game can also be preordered on GOG.com. 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.

Other notable sources of revenue include *Thronebreaker: The Witcher Tales* and *GWENT: The Witcher Card Game*. In this scope, revenues attributed to 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 (including the Chinese partner), as stipulated in the consortium agreement.

Key product and marketing events

GOG GALAXY 2.0

In the second quarter of 2019 GOG unveiled GOG GALAXY 2.0, which subsequently entered its beta testing phase. The goal of the application is to enable players to integrate all their game shelves into a single library, to communicate with friends and to track their progress regardless of their preferred gaming platforms. Its functionality will span PC and console platforms, extending beyond the GOG.com user base. GOG GALAXY 2.0 is being developed in response to the growing fragmentation of the gaming market, where new digital distribution platforms are emerging and an increasing number of games are released on a platform-exclusive basis.

Closed beta tests continued in the following months, with additional features and updates rolled out periodically. In December the application progressed to the Open Beta phase, where everyone can download it from www.gogalaxy.com for testing, and lend a hand in its further development.

New games in the GOG.com catalogue

In 2019 the GOG.com catalogue was expanded with a range of fresh releases and PC cult classics. The list of newly released additions to the catalogue includes *Age of Wonders: Planetfall*, *Darksiders Genesis*, *The Bard's Tale IV: Director's Cut*, *Ashen* and *Disco Elysium*.

Regarding older titles, the GOG.com PC catalogue now includes several cult classics from Blizzard Entertainment. Remastered games, such as *Diablo* (along with its long-unavailable *Hellfire* expansion pack), *Warcraft: Orcs and Humans* and *Warcraft II Battle.net Edition* all proved extremely successful in terms of generating sales. At the close of 2019 GOG.com published the long-awaited *Blade Runner* RPG (originally released in 1997) which, for nearly two decades, had been essentially unavailable to the broader public.

In terms of the total transaction volume, the most important product of 2019 was *Cyberpunk 2077*, whose preorder campaign began on 9 June. During this initial period approximately one third of all *Cyberpunk 2077* digital PC preorders were placed using the GOG.com platform.



Transactions which correspond to *Cyberpunk 2077* preorders will not be aggregated with GOG.com or Capital Group revenues until the game's official release. Prior to this release, all such inflows will instead be reported as deferred revenues.

Sales support

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

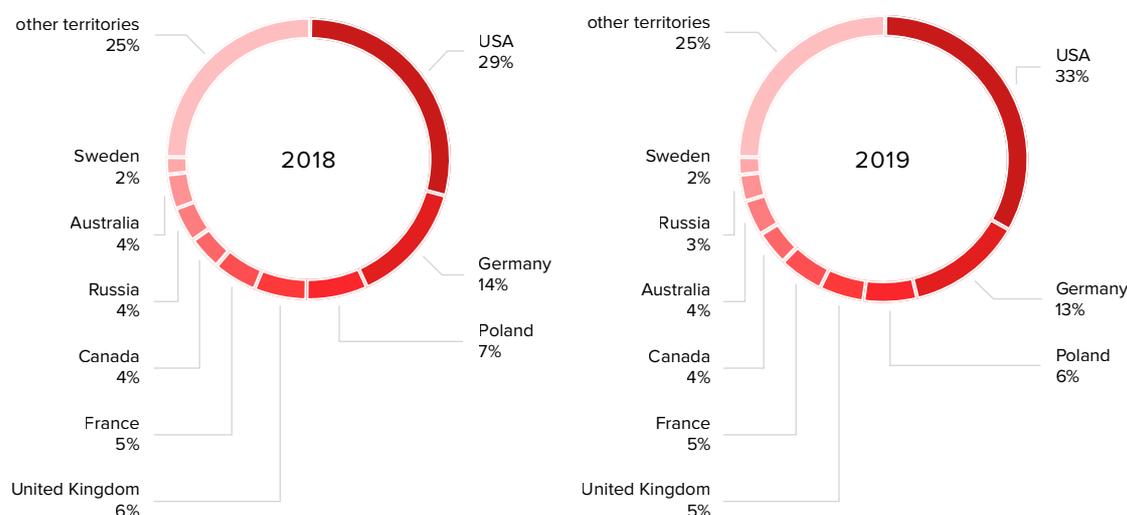
The most important sales-related event of the first half of 2019 was the annual Summer Sale, which covered nearly 2500 games. With regard to revenues, it was the biggest single sale in GOG.com's history. The theme of this year's edition was the summer music festival. Daily recommended game packages were published, featuring videogame characters as vocal talents – including Geralt and V from *Cyberpunk 2077*.

In the second half of the year key marketing events included Black Friday (late November) and Winter Sale (December to mid-January 2020). Last year's editions of both sales proved to be the most successful in GOG.com's history in terms of the number of products offered, gamer interest and revenues generated. Their success was bolstered by special offers concerning *Cyberpunk 2077* preorders and discounts on *The Witcher* game collections, both of which attracted great interest.

Key suppliers and clients

GOG.com markets games via online channels directly to millions of individual users worldwide. As such, the segment does not have key clients in the usual sense of the term.

Chart 26 Sales of products and goods by GOG.com in 2018 and 2019 by territory



The 2019 territorial distribution of sales is similar to 2018 figures. The largest contribution comes from the USA (33%), followed by Germany (13%), Poland (6%) and the United Kingdom (5%).

Regarding purchases, as of the end of 2019 no single supplier in the GOG.com segment accounted for more than 10% of the consolidated revenues of the CD PROJEKT Capital Group.

KEY CORPORATE EVENTS

On 14 January 2019 a new member company was incorporated in the framework of the Capital Group – CD PROJEKT RED STORE sp. z o.o., fully owned by CD PROJEKT S.A. On 8 May the new company launched an online store which sells high quality collector's items inspired by the studio's videogames. The store's catalogue will be progressively expanded with new products and categories. CD PROJEKT RED STORE initially served European Union member states, however, with the assistance of CD PROJEKT Inc., since September orders can also be placed in the United States and Canada.

On 4 April 2019 Oleg Klapovskiy tendered his resignation from the Management Board of the Company, effective on the date of the nearest General Meeting, which took place on 23 May 2019. The stated reason behind the resignation was the need for full involvement in the affairs of a subsidiary Company – GOG sp. z o.o. – including further expansion of the GOG.com platform and work on new projects which will affect the operation of the online store and the GOG.com platform as a whole.

On 23 May 2019 the Ordinary General Meeting of the Company adopted a resolution concerning the payment of a dividend in the amount of 100 926 000.00 PLN, i.e. 1.05 PLN per share. The dividend date was set to 31 May 2019, with payment occurring on 13 June 2019.

On 31 October 2019 CD PROJEKT S.A. purchased the campus located at Jagiellońska 74 in Warsaw. Together with

the previously purchased adjacent property at Jagiellońska 76, the Company now owns over 24 thousand square meters of land and over 18 thousand square meters of usable floor area (mostly office space). This purchase facilitates further growth of the Company and enables it to adapt the space it occupies to suit its specific requirements.

On 20 December 2019 the Company concluded an agreement which solidifies and reinforces the Company's relationship with Mr. Andrzej Sapkowski – author of The Witcher saga. The agreement confers new rights upon the Company and reaffirms its existing title to “The Witcher” intellectual property in developing video games, graphic novels, board games and merchandise.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 16 January 2020, the Management Board announced that the release date of *Cyberpunk 2077* would be pushed back to 17 September 2020. The Board justified this decision by pointing out the need for additional time to fully playtest, bugfix and polish the game, thus ensuring that customers receive a top-quality product. In line with the Company's philosophy, product quality is an essential prerequisite of commercial success.

On 24 January 2020 the Company received an individual interpretation of tax law regarding corporate income tax and related to the question whether a video game constitutes eligible intellectual property entitling the Company to apply preferential taxation rules (referred to as the IP BOX preference). In the interpretation the Director of the National Revenue Administration Information Center fully concurred with the Company's position, expressed in its filing, that video games developed by the Company may, for the purposes of the IP BOX preference, be regarded as eligible intellectual property, consistent with the definition of computer software under the corporate income tax law. As a result of the above, eligible revenues obtained by the Company from commercializing copyright to its video games may, as a rule, be subject to preferential taxation with an income tax rate of 5% (subject to any additional restrictions and exclusions expressed in the relevant legislation).

Thronebreaker: The Witcher Tales was released on Nintendo Switch on 28 January 2020, while *GWENT: The Witcher Card Game* debuted on Android devices on 24 March 2020.

EFFECT OF THE COVID-19 PANDEMIC ON THE ACTIVITIES OF THE CD PROJEKT CAPITAL GROUP

In the Management Board's view, the COVID-19 pandemic will not significantly impact the Group's financial result in the first quarter of 2020, and will not jeopardize the Company's activities in the 12-month period following the balance sheet date.

Actions taken

In March 2020, in light of the increasing threat posed by the coronavirus (COVID-19) pandemic, the Company took preventative action to mitigate the risk of the emergence of an infection cluster within the Capital Group's organizational structure. Cross-border business travel was immediately curtailed, as was access to Company premises by individuals arriving from overseas. The Company cancelled its participation in fairs and conferences, both domestic and foreign, and switched communication with clients and suppliers to online channels. Hand sanitizer dispensers were installed at Company offices, and ventilation was increased. Acknowledging

the needs of foreign language speakers employed at domestic member companies of the Capital Group, an information campaign was launched, providing up-to-date information about the situation and recommendations issued by state authorities in relation to the threat and ultimate materialization of the coronavirus pandemic. The Group also rapidly moved to invest in additional technical infrastructure and supporting software, securing its potential future needs with regard to network bandwidth, hardware performance and security concerns, with a view towards facilitating remote work. Faced with the increasing epidemiological threat, and having secured the necessary technical resources, the Management Board of the Company decided and thereafter successfully enacted a comprehensive shift to the Home Office model, beginning on 16 March 2020, for all employees of the CD PROJEKT Capital Group (except for a skeleton staff performing critical duties at the Group's offices on a rotating shift basis). This decision was made to ensure the safety of the entire team, and to enable the Studio and the Capital Group as a whole to continue with their operations. The Board's assessment of the outcomes of the initial weeks of Home Office operations is positive. All critical processes continue to be carried out properly and development work remains on schedule.

Data security measures associated with remote work

Existing safeguards at the Group were supplemented with the following measures:

The hard drives of all computers involved in remote work (workstations and portable computers) were encrypted. Connections with the Company's servers are handled by a VPN and backed up by specialized hardware which was specifically purchased for this purpose. The Company also purchased and deployed a WebApplication-Firewall device, and is in the process of deploying a Data Loss Protection system.

Effect of COVID-19 on sales

The fourth quarter of the past year was favorable in terms of sales, with a new edition of the Group's flagship product – *The Witcher 3: Wild Hunt* for Nintendo Switch – having joined the lineup, and GWENT having been released for iOS mobile devices. In the first quarter of 2020 *Thronebreaker: The Witcher Tales* was released for Nintendo Switch while GWENT debuted on Android devices. Each of these expansions of the Group's product catalogue has had a positive effect on sales revenues.

Digital distribution channels account for the vast majority of sales, both for the Company and for the Group as a whole (see tables below). According to information available as of the publication date of this report, these channels are largely impervious to the current circumstances. The Company has not yet received detailed information from distributors of physical editions of its games, but it can be surmised that restrictions in the free movement of people and the operation of retail stores will negatively affect sales of such products. Being forced to spend more time at home may also result in a change in purchasing habits, resulting in further growth of the popularity of digital videogame distribution platforms.

Table 8 CD PROJEKT S.A. – sales revenues by product category

	01.01.2019- -31.12.2019	%	01.01.2018- -31.12.2018	%
Videogames – box editions	50 066	14%	22 980	10%
Videogames – digital editions	267 238	74%	196 504	87%
Other revenues	44 078	12%	5 749	3%
Total	361 382		225 232	

Table 9 CD PROJEKT Group – consolidated sales revenues by product category

	01.01.2019- -31.12.2019	%	01.01.2018- -31.12.2018	%
Videogames – box editions	50 066	10%	22 978	6%
Videogames – digital editions	421 789	81%	335 878	93%
Other revenues	49 417	9%	4 045	1%
Total	521 272		362 901	

The reported increase in revenues generated by box editions of videogames in 2019 compared to the preceding year is mostly attributable to periodic transactions associated with past or upcoming releases – i.e. delivery of components of collectors' editions of *Cyberpunk 2077* to distributors, and sale of physical cartridges in the context of the release of *The Witcher 3: Wild Hunt* for Nintendo Switch.

Considering the above description of sales, as of the publication date of this report the Company does not have a reason to suspect impairment of assets which correspond to development projects, both those in progress and those already completed.

Key short-term risks related to the COVID-19 pandemic

- In the short run the most important risks and impediments affecting the Group's activities relate to cooperation with subcontractors and suppliers, particularly those, whose work cannot be carried out in the Home Office model. The Group continuously monitors the situation and implements mitigation strategies to adapt to the emerging circumstances on an ongoing basis.
- The coronavirus pandemic introduces the risk that certain members of the team may become unable to perform their assigned duties. Thanks to rapid reorientation towards the Home Office model the Group successfully avoided the emergence of an infection cluster within its team. Remote work cannot prevent individual team members from becoming infected, but it significantly reduces this risk, while also eliminating the risk of horizontal spread within the team.
- The coronavirus pandemic may trigger payment arrears and complicate collection of receivables. In the Company's view this risk particularly affects business partners whose activities involve sales of physical products (see

the above table). The Company therefore undertook actions aimed at strengthening its credit policy. With regard to clients whose settlements with the Company are based on periodic (usually quarterly) sales and royalty reports, mitigating the credit risk while maintaining a high level of sales is very problematic. Throughout the recent years the Company has consistently prioritized distribution partners who can demonstrate strong liquidity and timely discharge of liabilities – as attested to by the low balance of overdue receivables reported by the Company. As of the publication date of this report, the Company has not experienced any increased difficulties related to collection of receivables. It therefore does not perceive the need to change its approach to assessing expected credit loss on the basis of a provision matrix which acknowledges historical data and identifiable future circumstances.

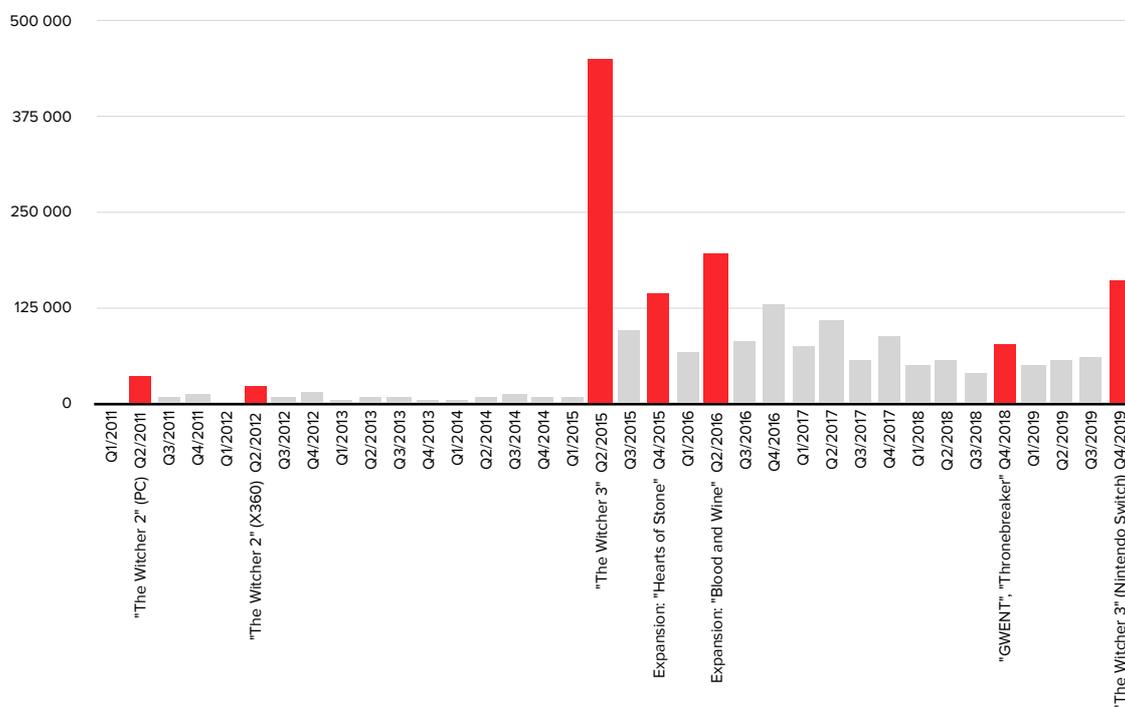
The above assessment is fully consistent with the Company's knowledge as of the publication date of this report. Nevertheless, given the strong uncertainty, particularly as relates to the possible duration of the pandemic, and also in light of the highly dynamic nature of recent events (including the reactions of national governments), reliable projections regarding the medium- and long-term effect of the COVID-19 pandemic on the Company's and Group's result and condition cannot be provided at this time.

DISCLOSURE OF SEASONAL OR CYCLICAL ACTIVITIES

CD PROJEKT RED

The revenues and financial result of the CD PROJEKT RED segment are strongly affected by the videogame release schedule. 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.

Chart 27 Effect of new releases on the quarterly revenues from sales of products, goods and materials by CD PROJEKT RED (PLN thousands); 2011-2019



CD PROJEKT RED also engages in smaller-scale projects – such as add-ons for its own games or adapting existing products to work on new gaming platforms. Such projects may be carried out directly by the Company or by its external partners, and their implementation may take several months (up to about a dozen).

With regard to games which have already been released, their yearly sales breakdown is dependent on the schedule of periodic sale campaigns. In most cases, strong sales are reported in the second and fourth quarter, while the first and the third quarter (the latter of which overlaps with the summer vacation season) see weaker sales.

For *GWENT: The Witcher Card Game*, operated in the game-as-a-service model, the revenue stream depends on the overall popularity of the service and on the appeal of new in-game content released to gamers.

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 fourth quarter while the lowest revenues correspond to the third quarter. Sales in Q2 and Q4 are boosted by promotional activities organized in these periods.

The sales volume is also strongly dependent on the timing of new releases in each reporting period. GOG.com also obtains revenues from microtransactions carried out within *GWENT: The Witcher Card Game*. The volume of such revenues depends, among others, on the game's popularity and on new content released to gamers during each period.

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

GRI 102-15

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, Wrocław, Berlin, Los Angeles, Shanghai, Seoul and Tokyo. 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. Moreover, 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, in the Board's opinion, prove detrimental to the Group's activities and growth prospects are listed in the risk assessment section of this report.

With regard to the first quarter of 2020 and to subsequent quarters, the CD PROJEKT Capital Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.com, while also pursuing new initiatives in the framework of its subsidiaries – Spokko and CD PROJEKT RED STORE.

CD PROJEKT RED

Key factors which will guide 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 new releases, including *Cyberpunk 2077* and further products. To-date enthusiastic reception of the Studio's new product by gamers and experts alike suggests strong potential of the brand, both in terms of PR 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 anticipated 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.

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, particularly in the context of

the previously announced work on the multiplayer edition of *Cyberpunk 2077*.

The Company believes that maintaining the observed growth dynamics and expansion of the CD PROJEKT RED segment 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 smoothens 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.

GOG.com growth also depends on seeking additional brand-new products. Accordingly, GOG sp. z o.o. actively communicates with leading global developers and publishers of videogames, continually expanding its list of business partners and products offered. Each new release on GOG.com contributes to the platform's popularity and drives up sales. In addition to adding new products GOG sp. z o.o. also seeks to expand 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.

Expanding the reach of services operated by GOG.com may strongly depend on the community reception of GOG GALAXY 2.0. Conceptually, this newest edition of GOG's proprietary technology aims to provide convenient access to games purchased by customers regardless of platform, as well as facilitate social interaction. GOG GALAXY 2.0 is currently in open beta.

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 online sales.

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

With regard to development of videogames, their digital distribution and work on the GOG GALAXY technology – the ongoing search for new solutions and more effective use of existing technologies constitutes a core aspect of the Group’s business profile.

Since 2008 CD PROJEKT RED has ceaselessly worked on its proprietary game engine – REDEngine. The engine supports development of RPGs with advanced graphics and complex storylines, targeted for the PC and home game consoles. Work on the engine also entails development of add-on tools and refinement of their features.

Among the unique features of this technology is its strong support for open-world games. REDEngine is also why *The Witcher* has become a benchmark of the capabilities of modern videogame platforms, receiving hundreds of international awards, including numerous “best graphics” awards.

Since the launch of *The Witcher 3: Wild Hunt* in 2015 the Company has been working on the fourth generation of REDEngine, among others by carrying on new solutions which will be employed – for the first time – in the Company’s upcoming release: *Cyberpunk 2077*.

Work on the fourth generation of REDEngine involves, among others, development of new technologies co-financed under the GameINN umbrella (part of the Intelligent Growth Operational Programme). The Company secured funding for these projects in 2016 and they successfully continued throughout 2019:

- City Creation – comprehensive technology enabling creation of massive “living” cities playable in real time and based on the principles of artificial intelligence and automation, including innovative processes and tools which assist in the development of top-quality open-world games,
- Animation Excellence – comprehensive technology facilitating rapid increases in the quality and efficiency of creating complex body and face animations for use in open-world RPGs, including innovative process solutions and a unique dedicated toolkit,
- Cinematic Feel – comprehensive technology which delivers exceptional cinematic quality of cutscenes set in open-world RPG environments, including innovative process solutions and a unique dedicated toolkit,
- Seamless Multiplayer – comprehensive technology facilitating immersive multiplayer gameplay with support for matchmaking, session management, object replication and various gameplay models, along with a unique dedicated toolkit.

The above projects, ongoing since early 2017, concern innovative solutions which will have a positive effect on the global competitiveness of the Company’s future AAA releases. Results will be exploited in the Company’s future products, starting with *Cyberpunk 2077* which is scheduled for release on 17 September 2020.

In 2019 CD PROJEKT RED, together with its external partners, also worked on adapting its earlier games for new hardware platforms:

- *The Witcher 3: Wild Hunt* along with its expansions for Nintendo Switch – in collaboration with Saber Interactice Inc., the Company worked to adapt REDEngine and the game itself to the requirements of the new platform. In addition to technical development, improvements were made in the interface and gameplay layers. The game’s

release on the mobile platform enabled *The Witcher* fans to benefit from the touchscreen features provided by the console, hook up the game to their TVs and use the cloud save feature to save the game on the Nintendo Switch and then seamlessly continue playing on their PCs. The new release debuted on 15 October 2019 to a rating of 85/100 on metacritic.com.

- *Thronebreaker: The Witcher Tales* for Nintendo Switch – the Company partnered with Crunching Koalas to adapt the game for the new console. The game was released on 28 January 2020 and earned a rating of 84/100 on metacritic.com.
- *GWENT: The Witcher Card Game* – the game has been ported to iOS and Android mobile devices. This work resulted in the release of *GWENT* for iOS on 29 October 2019 and for Android on 24 March 2020. These activities mark the first time the Company has carried out development work specifically targeting iOS and Android platforms.

Adapting games to new hardware platforms poses new challenges for the Company; consequently, a range of improvements had to be introduced in the underlying technologies, including code optimization to match the capabilities of compact platforms with a different architecture, limited computing power and lower memory capacity, along with support for touchscreen UI and control features. This work will have a trickle-down effect on future releases published by the Company.

In 2018 CD PROJEKT earned the status of an official Research and Development Center (RDC). On 9 September 2019 the Ministry of Ministry of Entrepreneurship and Technology released a decision which upholds this status and therefore CD PROJEKT continues to act as an RDC.

In 2019 GOG sp. z o.o. carried on with its development of the next iteration of the GOG GALAXY client called GOG GALAXY 2.0. This new technology represents an innovation on a global scale, providing users of GOG GALAXY 2.0 with a single access point to all their games, regardless of the underlying distribution platform, and enabling them to:

- manage their consolidated cross-platform game library with a range of convenient scoping tools, including support for filtering, sorting, tagging and uploading personalized graphics such as wallpapers and game covers,
- install and launch any PC game purchased through any platform linked to the GALAXY 2.0 account;
- track all their achievements and gameplay stats;
- integrate all their friend lists from each supported platform, and monitor the online activities of their friends.

The solution is dedicated to all users of PCs and gaming consoles – thus extending beyond the current user base of GOG.com.

At E3 in June 2019 a demo of GOG GALAXY 2.0 was presented to major gaming media, including Gamespot, IGN, Game Informer and The Verge. The Company subsequently organized a series of demos in Warsaw for several dozen invited journalists and influencers from around Poland. Closed beta tests of the platform began in June, with very favorable opinions already being voiced by the media and users throughout the world. On 9 December 2019 GOG GALAXY 2.0 progressed to open beta, where anyone can download it from www.gog.com/galaxy, try out its features and assist in further development by submitting suggestions, comments and bug reports.

In the framework of projects co-financed by the GameINN program, in 2019 GOG sp. z o.o. completed its work on an innovative cross-platform online feature enabling distribution of multiplayer games and providing game server services to players regardless of their clientside operating systems and hardware platforms.

Key benefits obtained in the scope of this project include:

- creation of a universal system which enables the local client (i.e. the game running on the user's local PC, console or mobile device) with the server and networking architecture supporting all platforms for which the game has been released,
- creation of a networking infrastructure (cloud) capable of handling multiplayer gameplay and meeting the corresponding SLA requirements,
- ensuring synchronization of the user's accounts across multiple platforms.

Disclosure of significant agreements¹⁵

No significant agreements were concluded by CD PROJEKT during the reporting period.

Risk management at the Capital Group

GRI 102-11, GRI 102-15

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). 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 new release the Group gains valuable publishing and development experience, enabling it to adapt its practices in the scope of project management, progress monitoring and risk mitigation.

RISKS ASSOCIATED WITH CUSTOMERS

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

¹⁵ An agreement is regarded as significant if the projected total value of liabilities arising under the agreement exceeds 10% of the consolidated assets of the Capital Group

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

RISK OF LOSING KEY SUPPLIERS

In the CD PROJEKT RED segment the Company relies on external suppliers for certain components required in the development of games, such as physics systems, audio libraries and other specialized software. Given that a wide range of commercial development tools is available the Company actively monitors the market and may take steps to replace selected components or tools used in the production process, should such changes become necessary. The operations of GOG sp. z o.o. depend on cooperation with developers, producers and publishers who supply final products and with whom publishing, distribution and retail sale agreements are negotiated. The Company mitigates the risk of losing suppliers by maintaining good trade relations and by working to diversify its supply chains and attract new suppliers.

RISK OF TECHNICAL MALFUNCTIONS, DATA LEAKS OR DATA LOSS

The activities of the Group are dependent upon correct operation of IT systems, computers and servers. Outages and technical malfunctions may render the Group unable to perform its daily activities and may disrupt the operation of the Group's online services. Data storage and data processing carries the risk of theft or leakage of critical information. Technical issues affecting the Group's data storage services, or access by unauthorized parties may result in data loss, reduced sales revenues and unforeseen costs or penalties. Such occurrences may also negatively impact the Group's reputation and undermine customer trust. In order to facilitate uninterrupted operation of its technical infrastructure and mitigate the associated risks the Group has deployed a range of safeguards and backup systems ensuring constant supply of electrical power. All devices hosted in the Group's main server room are backed up by UPS to protect against power surges and outages. Additionally, the Group has purchased a generator to supply power to its critical systems in the event of a blackout. The main server room is equipped with an automatic fire suppression system. Critical data is automatically backed up to an offsite facility and many key operations are performed using redundant systems, enabling automatic failover and uninterrupted operation in the event of a technical malfunction. The Group works to ensure proper maintenance of its critical IT infrastructure, with continuous monitoring and periodic upgrades to improve the operation of servers and other systems. Nevertheless, despite the Group's best efforts, risks associated with hardware malfunctions and data loss cannot be entirely eliminated.

RISK ASSOCIATED WITH PROCESSING OF PERSONAL DATA

Processing personal data is regulated by the relevant legislation, including Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (also referred to as the General Data Protection Regulation or GDPR), which is scheduled for unconditional entry into force in Poland on 28 May 2017. The Group has set up a legal, organizational and technical framework which enables secure processing of personal data, in compliance with the new Regulation. Should existing or future personal data protection solutions fail to operate as expected, leakage, corruption or loss of personal data may ensue, whether due to system malfunction, human error or malicious actions by third parties. Infringement of data protection legislation may result in financial penalties imposed by the relevant authorities, and may also impact the Group's reputation and undermine customer trust. Starting on 25 May 2018 the potential consequences of such infringement have become much more severe due to the raise in penalty caps and an expansion of remedial prerogatives appertaining to authorities. Exercise of these prerogatives has the potential to negatively impact the financial standing of the Group's member companies, and hamper their ongoing and future activities. With regard to processing of personal data, CD PROJEKT Capital Group member companies are assisted by internal mechanisms in place at the Capital Group, as well as by external entities. Despite introduction of formalized procedures regulating access to such data, the risks associated with operating activities cannot be entirely eliminated.

RISK OF INCORRECTLY ESTIMATING DEMAND AND FUTURE SALES

Developing, publishing and distributing products, whether proprietary or licensed, requires that their sales volume be estimated before the given product is released. In practice, individual products differ greatly with respect to their revenue generation potential. CD PROJEKT Capital Group members apply their longstanding experience to determine the commercial potential of each product they release, however the risk of incorrectly estimating demand and sales volume cannot be entirely eliminated.

RISKS ASSOCIATED WITH ENTERING A NEW MARKET SEGMENT – I.E. FREE-TO-PLAY (F2P) GAMES WITH OPTIONAL MICROTRANSACTIONS

By undertaking development of *GWENT: The Witcher Card Game*, the CD PROJEKT Capital Group has effectively entered a new market segment: free-to-play (F2P) games with optional microtransactions. *GWENT* is a multiplayer online card game. The business model and lifecycle of F2P games differs from CD PROJEKT RED's to-date experience with RPGs. The Company is currently acquiring experience with development and marketing of "games as a service" including optional microtransactions. *GWENT* is also available in China – an environment which differs significantly from markets where CD PROJEKT had previously conducted business activities. Cooperation with GAEA – an experienced Chinese business partner – should mitigate the Company's exposure to risks associated with entering a new market and a new business model. The potential inability to ensure market success for this new product may translate into lower-than-expected financial results, both within the CD PROJEKT RED segment and the GOG.com segment (note that *GWENT* is co-developed by both companies as a collaborative undertaking).

RISK OF DELAYS IN VIDEOGAME DEVELOPMENT

Postponed releases are a commonplace occurrence in the videogame industry. Developing games is a highly complex, iterative and costly activity, based on creative effort and requiring continuous development and refinement of technological solutions. This increases the likelihood of incorrect estimation of the required workload, delays due to technical issues in the programming layer (e.g. failure to meet quality assurance criteria or technical glitches), or problems caused by insufficient funding. With regard to products purchased by GOG sp. z o.o. Group members have no control over delays arising on the supplier side. With regard to development of proprietary products by CD PROJEKT S.A. the company actively manages its development schedule in order to minimize the likelihood of delays. Acting to further improve the effectiveness of videogame development the Company has deployed a standardized and semiautomatic production management system, which enforces best practices in the area of detailed control over the range and course of ongoing development work.

RISKS ASSOCIATED WITH CERTIFICATION

Development of games for “closed” platforms, such as gaming consoles or iOS devices, and publishing games on markets where the binding legislation calls for certification (e.g. China) requires direct cooperation with the entity responsible for certification. This process involves validation of the game, and applies to any new releases thereof, to expansion packs and to other forms of additional content. Termination of cooperation between the developer and the platform proprietor is a significant risk, as are delays in the certification process or denial of certification. Each of those events may adversely impact the revenue stream for a given game. CD PROJEKT S.A. devotes substantial effort to meeting its contractual obligations due to platform proprietors as well as legal requirements, and consistently prioritizes the quality of its products.

RISKS ASSOCIATED WITH INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS, PATENTS AND TRADEMARKS

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

Group member companies acquire copyrights (e.g. in the videogame development process) on the basis of contracts concluded with authors, employees, affiliates and external suppliers. Despite introduction of suitable contractual provisions regulating copyright management, situations may arise where copyright has not been effectively transferred to the Group, acquired from an unauthorized party or inadvertently infringed. An additional risk involves conflicts between provisions which protect the interests of IPR holders in various jurisdictions. The Group performs continuous analysis of such risks and works to adapt the material content of its service contracts to minimize them.

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

parties and conducts analysis of existing trademarks before deciding on names for its own products.

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

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

Group revenues are also negatively affected by the actions of parties who distribute its products without the owner's consent, thus violating intellectual property laws. CD PROJEKT Capital Group member companies have no direct control over the scale of such illegal distribution. Insofar as is possible, Group members try to attract customers by releasing products in various price brackets, published in an appealing manner and therefore providing good value for money – both via services operated by GOG sp. z o.o. and with regard to the Group's own products.

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

RISKS ASSOCIATED WITH THE INABILITY TO RECRUIT SKILLED PROFESSIONALS

The activities and growth prospects of CD PROJEKT Capital Group member companies are greatly dependent on maintaining an experienced, knowledgeable and motivated workforce. As the Polish videogame industry has been dynamically expanding over the past dozen or so years, Polish universities and vocational training schools have not yet had time to train a sufficient number of professionals specializing in videogame development. Current activities of the Group, as well as its future development plans, call for further recruitment of employees, both Polish and foreign. The inability to attract world-class specialists, or the loss of experienced employees, might impact the quality and release schedule of Group products, and therefore also the Group's financial result. Member companies work to expand their internal HR and recruitment departments in order to mitigate this risk. They provide employees with good employment conditions, competitive salaries, bonuses, incentive programs (such as profit sharing), free-of-charge or co-financed training courses, and other benefits, including private healthcare, two in-house canteens, an in-house gym and passes for external clubs and sports venues. The Group has also implemented a relocation program for foreign employees in order to ease their immigration and settlement in Poland.

RISK OF INSOLVENCY AND CREDIT RISK

Within the framework of CD PROJEKT Capital Group the implementation of annual plans, including plans which relate to financial liquidity, is monitored in monthly cycles. In order to minimize the risk of customer insolvency the Company performs ongoing monitoring of the collection of receivables. Collection of problematic debts is subcontracted to specialized third parties. The Group identifies key customers whose total share in the Group's revenue stream exceeds 10%. In 2018, owing principally to the activities of GOG.com, slightly over one third of the Group's consolidated sales revenues came directly from retail sales of the Group's products and services to final customers. The Group actively manages its liquid assets and monitors its debt in relation to the Group's equity and financial results, both current and projected. As of the publication date of this report CD PROJEKT is not in debt due to any credit or loan agreements, and has set aside provisions in cash. Surplus cash is deposited in banks which cooperate with the Group or invested in low-risk financial instruments (in line with the principle of diversifying the deposit and investment portfolio). The Group performs ongoing management of its liquid assets in order to meet any liabilities arising from its ordinary activities and permit unhindered continuation of videogame development and publishing projects.

RISKS ASSOCIATED WITH CREDIT AGREEMENTS AND INTEREST RATE RISKS

In 2019 no member company of the Capital Group had any outstanding liabilities due to bank credit agreements, third-party loans or bonds. Several vehicle lease agreements were in force; however, their aggregate value was much lower than the Group's positive cash account balance.

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

RISKS ASSOCIATED WITH SURETIES

Certain agreements concluded by CD PROJEKT Capital Group member companies may involve guarantees or sureties. These provisions may potentially compel each guarantor to cover the liabilities of other parties to whom guarantees or sureties have been contractually pledged. Detailed information regarding the scope of guarantees and sureties granted by each member of the CD PROJEKT Capital Group can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2019, in the section titled "Conditional liabilities from guarantees and collateral pledged".

ASSET IMPAIRMENT TESTS

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

RISKS ASSOCIATED WITH PLN STRENGTHENING AGAINST USD AND EUR

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

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

GOG sp. z o.o. revenues are denominated in 13 currencies, including primarily USD, and to a lesser extent EUR, PLN, GBP, RUB, CAD, AUD and others, while expenses are mostly borne in USD and PLN. Accordingly, the strengthening of PLN or EUR against the currencies in which GOG sp. z o.o. obtains revenues is viewed as an unfavorable circumstance by the CD PROJEKT Capital Group, reducing the profitability of GOG sp. z o.o.

RISKS ASSOCIATED WITH CHANGES IN MACROECONOMIC CONDITIONS

The overall condition of the global economy, including political and economic crises as well as deterioration of economic conditions may have a negative impact on the Group's financial standing. A negative macroeconomic or political outlook may hinder access to sources of financing, induce consumers to adopt a conservative stance, or result in restrictions upon the sale of products as a result of economic sanctions, thereby negatively affecting product sales. Group members monitor the impact of global economic conditions upon their respective markets and adjust their actions accordingly.

RISKS ASSOCIATED WITH THE EMERGENCE OF NEW TECHNOLOGIES

The digital entertainment segment which represents the Group's primary area of activity is characterized by dynamic changes in the applied technologies and IT solutions. This rapid pace of development necessitates frequent corrective actions, development of novel systems and increasing sophistication of the products offered. Technological changes may also influence the means by which games are delivered to the final customer, as well as the capabilities of gaming platforms. Since 2008 CD PROJEKT RED has been developing its proprietary videogame engine called REDengine, which supports creation of cutting-edge expansive RPGs for the PC and the newest generations of gaming consoles. Successive iterations have enriched the engine with – among others – support for nonlinear storytelling, efficient management of expansions and performance optimizations. The studio is currently working on the fourth version of REDengine in an effort to expand the boundaries of what modern AAA games are capable of. Developing videogames for the most modern hardware platforms is a major asset of the Company, as evidenced by the great marketing success of *The Witcher 3: Wild Hunt*, but it also entails certain risks associated with vendor lock-in in a dynamically changing environment. CD PROJEKT Capital Group member companies monitor technological progress to forestall risks to their own activities, and adapt their strategies taking into account breakthroughs in videogame development or distribution processes.

RISKS ASSOCIATED WITH LEGISLATIVE CHANGES, FISCAL REGULATIONS AND CONFLICTS OF JURISDICTION

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

Significant changes have recently occurred in Polish tax law. Legislative bodies have imposed additional reporting obligations upon taxpayers and introduced a range of new restrictions related e.g. to qualifying expenditures to cost categories, while also introducing new forms of tax relief, enabling taxpayers to reduce their overall tax burden. When deciding to make use of such relief, the CD PROJEKT Capital Group must develop appropriate internal documentation and settlement standards, which, in turn, may potentially be brought into question by tax authorities.

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

The draft Directive on Copyright in the Digital Single Market, which is currently being prepared by the EU legislature, may have a significant impact on the Group's activities. The current draft imposes new requirements upon copyright purchasers and online platforms, while also granting additional rights to copyright holders. The final text of the Directive, its date of entry into force and the means of its implementation by EU member states are as yet unknown. The CD PROJEKT Capital Group monitors ongoing work on the Directive and prepares to undertake suitable legal and organizational actions in the event of its approval.

In order to minimize the risk associated with significant changes in legislation which affects the Group's activities, independent legal departments have been established in each of the Group's activity segments. In addition, the Capital Group actively implements measures which ensure uniformity of its internal processes and enable it to properly discharge its legal obligations.

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

RISKS ASSOCIATED WITH DECREASES IN PROPERTY PRICES AND DESTRUCTION OR LOSS OF PROPERTY

In relations to its recent purchase of the adjacent properties at Jagiellońska 74 and 76 in Warsaw, and also its plans to modernize the acquired properties, CD PROJEKT S.A. is subject to risks associated with decreases in property prices. The Company currently holds more than 24 thousand square meters of land and over 18 thousand square meters of usable floor area – mostly office space. The Group has no control over the state of the property market, but it applies due diligence in attempting to create a one-of-kind creative technology campus which will secure its further growth and enable it to adapt its space to its needs for many years to come. The planned investments and alterations at the purchased properties are expected to increase their attractiveness.

As the holder of fixed assets, including the abovementioned properties, the Capital Group is also subject to risks associated with their potential loss or destruction. In order to mitigate such risks, the Group has concluded agreements with security companies to guard the properties and assets contained therein, signed insurance agreements and deployed a state-of-the-art CCTV monitoring system.

RISKS ASSOCIATED WITH SUBSIDIES

Certain investment and development activities carried out by Group member companies make use of public subsidies. Reliance upon this form of financing carries the risk that public authorities may question the corresponding documentation, the relevance of the obtained subsidies or their recognition and settlement, whether in the course of the subsidized activities or long after their completion. The Company applies due diligence in all matters related to procurement of subsidies. It employs dedicated specialists whose task is to monitor the process and submit any required documentation. In complex matters the Company also avails itself of the assistance of external experts.

RISKS ASSOCIATED WITH COMPETITORS' ACTIONS

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

RISKS ASSOCIATED WITH STOCK MARKET CONDITIONS/MANIPULATION ATTEMPTS

The price of CD PROJEKT S.A. stock on the Warsaw Stock Exchange is subject to natural fluctuations. Stock price depends on various factors, only some of which are under the Group's control – examples include the Group's financial standing, its growth prospects or the general condition of the capital market. In addition, stock price may be affected by misleading or erroneous information or rumors concerning the Group's condition or its activities, disseminated by third parties (market manipulation). For its part, CD PROJEKT makes every effort to provide investors with equal access to accurate information by publishing current and periodic reports, updating its corporate website at www.cdprojekt.com, actively managing its IR Twitter profile at @CDProjektRED_IR, scheduling regular meetings with investors and market analysts, and managing a dedicated investors' forum

on the Company's web portal.

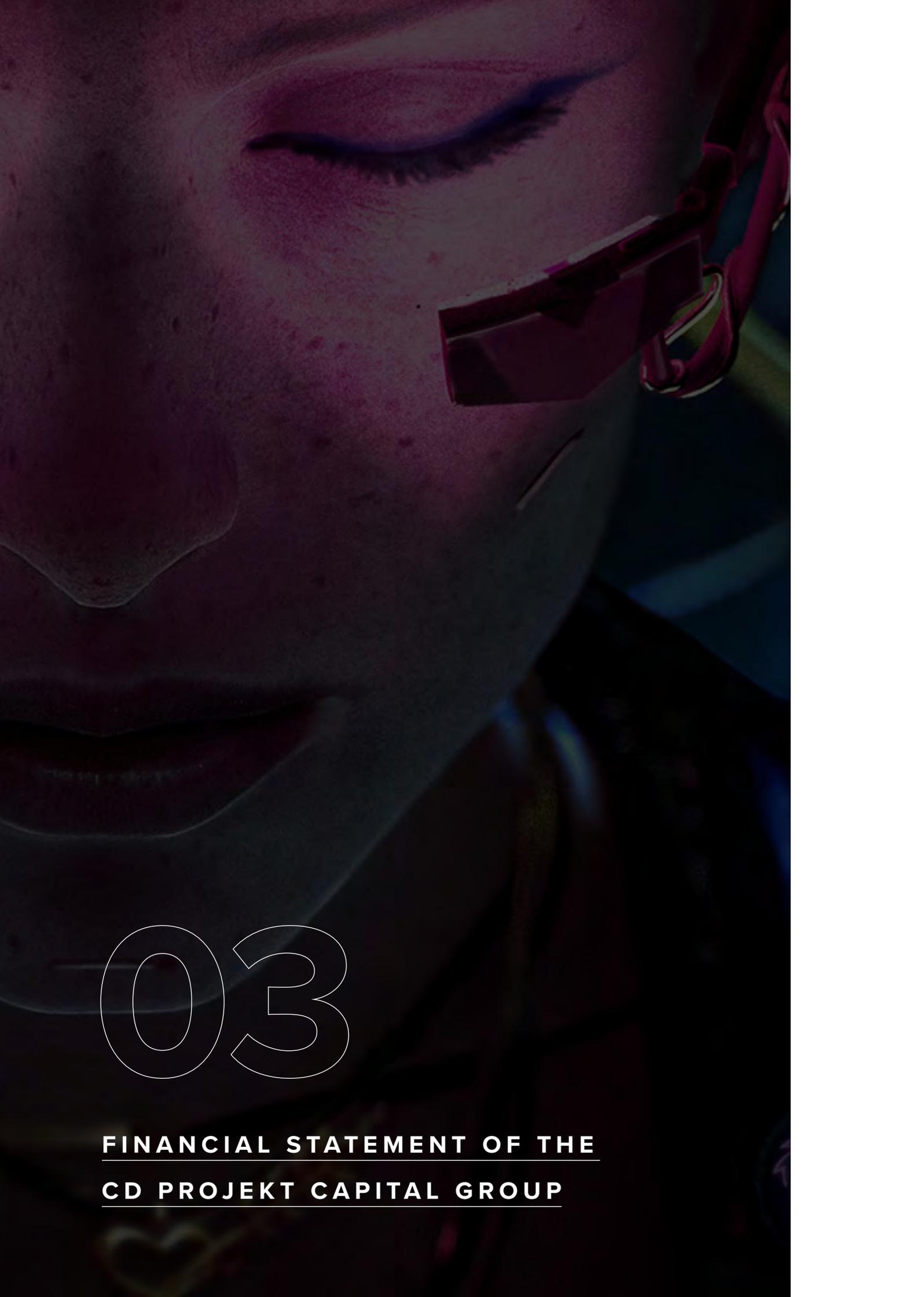
RISK OF LOSS OF REPUTATION

Good reputation of the Company and of its subsidiaries may induce customers to purchase products and services offered by the Group, improve its growth prospects and enable it to attract and retain skilled employees, collaborators, subcontractors and business partners. It may also translate into favorable opinions regarding the Group on the part of its market environment and other stakeholders. Loss of reputation may occur as a result of factors both within and beyond the Group's control. Such loss would have a negative effect on the Company and its subsidiaries, and consequently, might impact their financial standing. The Management Board believes that a fair and equitable approach to employees, gamers and business partners, intensive and honest communication with customers, and focus on the quality of all products and services offers, are the foundation upon which the Group's long-term reputation is based.

All these priorities are enshrined in the Group's business philosophy, which forms part of the CD PROJEKT Capital Group Strategy, as formally approved by the Board.

RISKS ASSOCIATED WITH THE SPREAD OF THE SARS-COV-2 VIRUS (COVID-19)

Information regarding the effect of the coronavirus pandemic on the Group's activities can be found in the section titled Effect of the COVID-19 pandemic on the activities of the CD PROJEKT Capital Group elsewhere in this report.



03

**FINANCIAL STATEMENT OF THE
CD PROJEKT CAPITAL GROUP**

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

GRI 201-1

DESCRIPTION AND ASSESSMENT OF FACTORS AND UNUSUAL CIRCUMSTANCES AFFECTING THE GROUP'S FINANCIAL RESULT IN 2019

In 2019 the net result, assets, equity, liabilities, capital and cash flows of the CD PROJEKT Capital Group were primarily affected by:

- continuing strong sales of *The Witcher 3: Wild Hunt* along with its expansions (*Hearts of Stone* and *Blood and Wine*) for the PC and gaming consoles (PlayStation 4 and Xbox One),
- release of *The Witcher 3* along with its expansions for Nintendo Switch (on 15 October 2019),
- maintenance and further development of *GWENT: The Witcher Card Game* (including its debut on iOS devices on 29 October 2019),
- development, promotion and preorders of CD PROJEKT RED's next big release – *Cyberpunk 2077*,
- collaboration with selected publishers in the framework of the *Cyberpunk 2077* promotional campaign, including mutual promotion and joint participation in the associated costs, which translates into a significant increase in revenues from sales of services at CD PROJEKT S.A.

UNUSUAL CIRCUMSTANCES

At the close of H1 2019 the Company revised its earlier projections regarding the anticipated date of attainment of the goals of its incentive program. This resulted in the recognition of expenses associated with the program over a shorter-than-expected period. The effect of this change upon past reporting periods is reflected as a one-time cost item appearing in the Company's financial statement in the second quarter of 2019.

On 31 October 2019 CD PROJEKT S.A. purchased the commercial campus located in Warsaw at Jagiellońska 74.

No other unusual circumstances with a major effect upon the Group's financial result occurred in 2019.

CONSOLIDATED PROFIT AND LOSS ACCOUNT – SELECTED HIGHLIGHTS

Table 10 Selected items from the consolidated profit and loss account (PLN thousands)

	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Sales revenues	521 272	362 901
Revenues from sales of products	304 475	235 919
Revenues from sales of services	38 304	108
Revenues from sales of goods and materials	178 493	126 874
Cost of products, services, goods and materials sold	161 308	106 254
Cost of products and services sold	31 657	12 692
Cost of goods and materials sold	129 651	93 562
Gross profit (loss) from sales	359 964	256 647
Selling costs	125 341	107 183
General and administrative costs	57 113	36 602
Other operating revenues	8 274	2 480
Other operating expenses	5 503	3 134
(Impairment)/reversal of impairment of financial instruments	5	184
Operating profit (loss)	180 286	112 392
Financial revenues	9 463	10 771
Financial expenses	587	130
Profit (loss) before tax	189 162	123 033
Income tax	13 847	13 699
Net profit (loss)	175 315	109 334
Net profit/(loss) attributable to parent entity	175 315	109 334
Net earnings per share (in PLN)		
Basic for the reporting period	1.82	1.14
Diluted for the reporting period	1.74	1.09

CLARIFICATIONS REGARDING THE CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE CD PROJEKT CAPITAL GROUP

The consolidated **Sales revenues** of the CD PROJEKT Capital Group in 2019 were 521 272 thousand PLN, which is 43.6% lower than the corresponding 2018 figure.

The main contribution to these revenues (58.4%) is from **Revenues from sales of products**, mostly comprising:

- a) licensing royalties associated with continuing strong sales of *The Witcher 3: Wild Hunt* and its expansions (*Hearts of Stone* and *Blood and Wine*),
- b) licensing royalties associated with the release of *The Witcher 3: Wild Hunt* on Nintendo Switch on 15 October 2019,
- c) revenues and royalties associated with distribution of *Thronebreaker: The Witcher Tales* on online platforms and in-game sales carried out in *GWENT: The Witcher Card Game*.

The Group's aggregate revenues from sales of products in 2019 were 29.1% higher than during the preceding year.

Revenues from sales of goods and materials contributed 34.2% to the Group's aggregate revenues, having increased by 40.7% compared to the 2018 year-end value.

The bulk of these revenues correspond to sales carried out on the GOG.com platform where games sourced from external suppliers are sold directly to end users. These sales reached their highest level yet reported in the history of GOG.com, among others as a result of several highly successful promotional campaigns and the rollout of new, highly acclaimed releases along with older classics requested by platform users.

A strong increase in revenues from sales of goods and materials was also observed in the CD PROJEKT RED segment. Here, the increase was mainly due to supplying components of the Studio's box videogame editions (carrier media, boxes, figurines, etc.) – mainly the collector's edition of *Cyberpunk 2077* – to external distributors, along with distribution of complete box sets and elements of box sets of *The Witcher 3* for Nintendo Switch. The reported figure also aggregates revenues from sales of individual tie-in products and merchandise to customers of CD PROJEKT RED STORE at www.store.cdprojektred.com.

An important contribution to the Group's 2019 revenues came from **Revenues from sales of services** in the CD PROJEKT RED segment (8% of the Group's consolidated revenues). CD PROJEKT RED obtained these revenues in collaboration with external publishing partners, in the framework of the *Cyberpunk 2077* promotional campaign (and, to a lesser degree, the promotion of the Nintendo Switch release of *The Witcher 3: Wild Hunt*), which involves mutual promotion and joint participation in the associated costs.

The **Cost of products, goods and materials sold** which directly offsets sales revenues, reached 161 308 thousand PLN, which is 51.8% more than in the reference period.

The reported increase in costs is mainly due to an increased contribution of revenues from products and materials sold to the Group's aggregate revenues, and the corresponding increase in the **Value of goods and materials sold**. The bulk of this figure corresponds to the cost of products licensed from external suppliers on GOG.com, which correlates with the reported increase in GOG.com sales. It also includes the costs of physical edition components and costs related to merchandise sold in the CD PROJEKT RED segment.

The increase in **Cost of products and services sold** is mainly due to continuing depreciation of the development costs of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* (both published in 2018) as well as the start of depreciation of the development costs of *The Witcher 3: Wild Hunt* for Nintendo Switch (released in October 2019). Prior to the release of each of these games, their corresponding development costs had been subject to capitalization.

In line with the accounting policy adopted by the Group, *GWENT* development costs are depreciated in a straight-line fashion over 3 years following the release of the full version of the game. With regard to *Thronebreaker*, development expenditures are also depreciated over a three-year period following the end of development and release of the game – on the basis of a projection of future sales revenues based on historical data.

In addition, the reported figure also includes the Group's own costs incurred in relation to revenues from sales of services.

The **Gross profit from sales**, reported at 359 964 thousand PLN, represents an increase by 40.3% compared to the 2018 figure. The Group's gross profitability (ratio of pre-tax sales profit to sales revenues) was 69.1%.

The reported Selling costs consist mainly of promotional and advertising expenditures borne in each segment of the Capital Group. The bulk of these expenses is attributable to CD PROJEKT RED and concerns mainly the ongoing promotional campaign of *Cyberpunk 2077*, as well, as – to a lesser degree – promotion of *GWENT: The Witcher Card Game* and *The Witcher 3: Wild Hunt* for Nintendo Switch.

The second significant contribution to the Group's consolidated selling costs relates to the operation of the GOG.com platform, including:

- remuneration of team members responsible for maintenance, development and promotion of the GOG.com platform,
- transaction costs related to processing sales on the digital distribution platform,
- marketing activities related to the GOG.com platform,
- procurement and maintenance of IT infrastructure required by the platform.

Another important contribution is associated with the maintenance, further development and promotion of *GWENT: The Witcher Card Game*, including work on its iOS edition published in October 2019, as well as on its Android edition published in March 2020. These costs are split between CD PROJEKT RED and GOG.com in line with the consortium agreement.

The selling costs reported by the CD PROJEKT Group also aggregate costs associated with the retention and compensation (both fixed and contingent upon the Group's result) of its internal publishing teams and Board members, along with other bought-in sales support services.

The aggregate selling costs of the Capital Group were reported at 125 341 thousand PLN which represents an increase by 16.9% compared to the preceding year.

General and administrative expenses amounted to 57 113 thousand PLN, which is 56% more than during the reference period.

The reported significant increase is mainly due to a revision in earlier estimates concerning the likely attainment of the incentive program goals at CD PROJEKT RED. Earlier recognition of the program's costs related to past reporting periods (the program has been in force since 2016) resulted in a one-time cost item of 15 193 thousand PLN reported in Q2 2019. These costs, based on actuarial predictions, are not monetary in scope and do not translate into past or future cash outflows. The costs of the incentive program – for all entitlements granted under the program – are aggregated with general and administrative expenses.

Other contributions to the Group's general and administrative expenses include compensation and provisions for contingent compensation of the Group's administrative departments and Board members, as well as the costs of bought-in services assigned to this category. Their increase compared to 2018 year-end values is due to the expansion of the Group's activities over the past 12-month period.

At the end of 2019 the Group reported a surplus of **Financial revenues** over the corresponding **Financial expenses** in the amount of 8 876 thousand PLN, i.e. 16.6% less than during the reporting period. This decrease is mainly due to lower interest on bank deposits, as well as disclosure of interest on office space rental agreements associated with the application of IFRS 16.

The Group's consolidated **Gross profit** for 2019 was 189 162 thousand PLN – 53.7% more than during the preceding year.

The **Income tax** payable for 2019 was 13 847 thousand PLN – comparable to the reference figure. The effective tax burden of the Group for 2019 was 7.3%, primarily due to application of preferential taxation rules to eligible income from commercialization of intellectual property (IP BOX) as well as tax relief related to R&D activities.

The Group's consolidated **Net profit** for 2019 was 175 315 thousand PLN – 60.3% more than during 2018.

Net profitability of the Group (i.e. the ratio between its net profit and sales revenues) was 33.6% compared to 30.1% during the reference period.

**SELECTED DATA FROM THE SEGMENTED PROFIT AND LOSS
ACCOUNT OF THE CD PROJEKT CAPITAL GROUP**

Table 11 Sales revenues, costs and financial results for each activity segment (PLN thousands)

	CD PROJEKT RED	GOG.com	Consolidation eliminations	Total
Sales revenues	369 332	162 256	(10 316)	521 272
Revenues from sales of products	292 386	7 633	4 456	304 475
Revenues from sales of services	41 945	250	(3 891)	38 304
Revenues from sales of goods and materials	35 001	154 373	(10 881)	178 493
Cost of products, goods and materials sold	53 763	114 275	(6 730)	161 308
Cost of products and services sold	25 606	6 361	(310)	31 657
Cost of goods and materials sold	28 157	107 914	(6 420)	129 651
Gross profit (loss) from sales	315 569	47 981	(3 586)	359 964
Selling costs	86 476	41 029	(2 164)	125 341
General and administrative costs	54 132	4 400	(1 419)	57 113
Other operating revenues	8 085	1 424	(1 235)	8 274
Other operating expenses	6 308	399	(1 204)	5 503
(Impairment) / reversal of impairment of financial instruments	5	–	–	5
Operating profit (loss)	176 743	3 577	(34)	180 286
Financial revenues	9 673	466	(676)	9 463
Financial expenses	547	735	(695)	587
Profit (loss) before taxation	185 869	3 308	(15)	189 162
Income tax	13 522	325	–	13 847
Net profit (loss)	172 347	2 983	(15)	175 315
Net profit (loss) attributable to equity holders of the parent entity	172 347	2 983	(15)	175 315

CLARIFICATIONS REGARDING THE SEGMENTED PROFIT AND LOSS ACCOUNT

CD PROJEKT RED segment

In the CD PROJEKT RED segment the aggregate **Sales revenues** were 369 332 thousand PLN – 62.1% more than in 2018.

The bulk of these revenues (292 386 thousand PLN; 32.5% increase) corresponds to **Revenues from sales of products**. Here, principal contributions came from continuing strong sales of *The Witcher 3: Wild Hunt* and its expansions, as well as the release of *The Witcher 3: Wild Hunt* for Nintendo Switch and the release of *GWENT: The Witcher Card Game* for iOS devices.

The second major source of revenues in the CD PROJEKT RED segment comprised **Revenues from sales of services** at 41 945 thousand PLN – mainly due to cooperative promotion of *Cyberpunk 2077* and – to a lesser degree – of *The Witcher 3: Wild Hunt* for Nintendo Switch, involving participation of the Company's external partners in the related costs.

In addition, the CD PROJEKT RED segment reported 35 001 thousand PLN in **Revenues from sales of goods and materials** – 32 221 thousand PLN more than in the reference period. This figure mainly corresponds to distribution of components of the Studio's box videogame editions (carrier media, boxes, figurines, etc.) – mainly the collector's edition of *Cyberpunk 2077* – to external distributors, along with distribution of complete box sets and elements of box sets of *The Witcher 3* for Nintendo Switch. Additionally, the second half of 2019 saw the operation of the Studio's newly launched merchandise store at www.store.cdprojektred.com, which markets tie-in products associated with CD PROJEKT RED games and brands to fans from Europe and North America.

The **Value of goods and services sold** in the CD PROJEKT RED segment aggregates mainly the manufacturing costs of physical box set components, as well as merchandise marketed through the online store.

Cost of products and services sold comprises depreciation of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* development expenditures following their release in Q4 2018, as well as those attributable to *The Witcher 3: Wild Hunt* for Nintendo Switch, release in Q4 2019.

In the reporting period the CD PROJEKT RED segment generated 315 569 thousand PLN in **Gross profit from sales**, i.e. 47.4% more than the year before. The segment's gross profitability (the ratio between its pre-tax profit and sales revenues) was 85.4%.

The **Selling costs** of the segment reached 86 476 thousand PLN – 24% more than in 2018. This figure (as well as the reference figure) is mainly associated with promotion of CD PROJEKT RED products. In the reporting period these included the intensive promotional campaign of *Cyberpunk 2077*, particularly in the run-up to the Xbox conference, E3 in Los Angeles, China Joy in Shanghai and gamescom in Cologne. Additionally, the Studio carried out promotional activities related to *GWENT: The Witcher Card Game* and the release of *The Witcher 3: Wild Hunt* on Nintendo Switch.

Since the release of *GWENT: The Witcher Card Game*, which took place in Q4 2018, the Studio also reports its share of costs related to further development, maintenance and support of the game, as specified in its consortium agreement with GOG.com. This includes work on the game's iOS edition, released in October 2019,

and the Android edition which launched in March 2020.

The selling costs reported by CD PROJEKT RED also aggregate costs associated with the retention and compensation (both fixed and contingent) of its internal publishing teams and contingent compensation of Board members, along with other bought-in sales support services.

General and administrative expenses were reported at 54 132 thousand PLN, which is 75.8% more than during the reference period. This is mainly due to the aforementioned change in projections regarding the attainment of the goals of the incentive program in force at CD PROJEKT RED. Part of the reported increase is also due to the segment's dynamic growth, which incurs additional costs.

The **Gross profit** of the CD PROJEKT RED segment for 2019 was 185 869 thousand PLN – 49.5% more than in 2018.

The segment's **Income tax** for 2019 (mainly payable by CD PROJEKT S.A.) was 13 522 thousand PLN – 9.8% less than the reference value. The effective tax rate for 2019 was 7.3%, and resulted from the application of preferential taxation rules to eligible income from commercialization of intellectual property (IP BOX), as well as tax relief related to R&D activities.

Having been recognized as a Research and Development Centre, the Company deducted eligible costs calculated as 150% of actual value of certain costs associated with R&D activities in its calculation of base income tax (to which a rate of 19% applies). Moreover, the Company was able to apply a preferential tax rate of 5% to eligible costs related to commercialization of intellectual property under the IP BOX regulation. More specifically, the R&D tax relief applied to past development costs of *GWENT: The Witcher Card Game* recognized in the current period (in line with the game's ongoing depreciation), while the IP BOX regulation was applied to revenues generated by *The Witcher 3: Wild Hunt* along with its expansions (*Hearts of Stone* and *Blood and Wine*).

In following the abovementioned policy, the Company conformed to existing fiscal regulations, guidelines published by the Finance Ministry and individual interpretations of tax law solicited by the Company. Of particular importance – from the Company's perspective – was the interpretation stating that videogames, both those currently marketed as well as – with a high degree of probability – those which will be published in the future may be assumed to constitute eligible intellectual property to which the IP BOX regulation applies (subject to requirements related to the necessary documentation and other legal provisions). The Company also obtained interpretations related to the IP BOX eligibility of revenues obtained under licensing agreements as well as interpretations confirming that the structure of expenditures borne by the Company in relation to development of videogames does not preclude the applicability of IP BOX.

The Company's R&D activities, which constitute the basis for application of each of the presented fiscal relief schemes, are documented by the Company's internal R&D department.

The segment's **Net profit** for 2019 was 172 347 thousand PLN, which is 57.7% more than during the preceding year.

The net profitability of CD PROJEKT RED (ratio between its net profit and sales revenues) for the reporting period was 46.7%.

GOG.com segment

In the GOG.com segment the aggregate **Sales revenues** reached 162 256 thousand PLN – 12.4% more than during the reference period.

The main source of revenues corresponds to **Revenues from sales of goods and materials**, which involve distribution of videogames to end users via the GOG.com platform and the GOG GALAXY application. The reported increase (by 17.4%) is due to a sequence of highly successful sale campaigns – Summer Sale Festival in June, Games Come True in August, Back to School in September and two year-end events: Black Friday and Winter Sale, both of which proved to be the most successful winter sale campaigns in GOG.com's history, with regard to the range of products offered, customer interests and revenues obtained.

A number of very successful releases also occurred in the GOG.com segment – this includes *Age of Wonders: Planetfall*, *Bloodstained: Ritual of the Night*, *Children of Morta*, and *Crying Suns*. The Company was also able to secure access to many classic games highly sought after by its users – including *Diablo + Hellfire*, *Warcraft I & II*, *The Surge*, *They Are Billions* and *Venetica*, along with the *Blade Runner* cult classic, originally released in 1997.

GOG.com's increased sales revenues also resulted in an increase in the **Value of goods and materials** sold, which aggregates compensation payable to the publishers of games distributed on GOG.com. The ratio between the value of goods and materials sold and the segment's sales revenues was 69.9%, which is 3% less than during the previous year. This enabled GOG.com to report commensurately greater gross sales profitability (30.1% compared to 27.1% in 2018).

Regarding **Revenues from sales of products** and **Cost of products sold**, these line items reflect GOG.com's participation in revenues generated by *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* (in line with the provisions of the consortium agreement), as well as depreciation of development expenses associated with these products.

The aggregate **Gross profit from sales** in the GOG.com segment reached 47 981 thousand PLN – 5.3% more than in 2018. The segment's gross profitability was 29.6% compared to 31.6% in the reference period. The slight decrease in profitability was mostly due to depreciation of *GWENT* and *Thronebreaker* development expenses, which carried on throughout 2019, but only applied to fourth-quarter figures in 2018.

Selling costs reported in the GOG.com segment were 41 029 thousand PLN – comparable to the reference period. This category concerns mainly the costs of operating the GOG.com platform, which include:

- remuneration of team members responsible for maintenance, development and promotion of the GOG.com platform,
- costs related to support, maintenance and continuing development of *GWENT: The Witcher Card Game* in the framework of a consortium with CD PROJEKT RED,
- transaction costs related to processing sales on the digital distribution platform, in proportion to sales realized,
- marketing activities related to the GOG.com platform,
- procurement and maintenance of IT infrastructure required by the platform.

General and administrative expenses were reported at 4 400 thousand PLN – 271% less than in the reference period, mostly due to a change in projections regarding the attainment of groupwide incentive program goals, and the corresponding change in the likelihood of exercise of entitlements granted in the scope of the GOG.com segment. These circumstances resulted in a one-time adjustment in cost settlements in the amount of 2 406 thousand PLN.

The **Net profit** of GOG.com in 2019 was 2 983 thousand PLN – 2 953 thousand PLN more than during the reference period.

PROFIT AND LOSS ACCOUNT OF CD PROJEKT S.A. – SELECTED HIGHLIGHTS

Table 12 Selected items from the CD PROJEKT S.A. profit and loss account

	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Sales revenues	361 381	225 232
Revenues from sales of products	292 385	220 641
Revenues from sales of services	39 060	1 811
Revenues from sales of goods and materials	29 936	2 780
Cost of products, services, goods and materials sold	50 600	13 753
Cost of products and services sold	25 735	11 133
Cost of goods and materials sold	24 865	2 620
Gross profit (loss) from sales	310 781	211 479
Other operating revenues	86 779	69 929
Selling costs	49 344	28 035
General and administrative costs	8 210	3 450
Other operating expenses	6 425	3 634
(Impairment)/reversal of impairment of financial instruments	5	171
Operating profit (loss)	176 448	113 502
Financial revenues	9 821	10 897
Financial expenses	407	104
Profit (loss) before tax	185 862	124 295
Income tax	13 036	14 844
Net profit (loss)	172 826	109 451
Net earnings per share (in PLN)		
Basic for the reporting period	1.80	1.14
Diluted for the reporting period	1.72	1.09

CLARIFICATIONS REGARDING THE PROFIT AND LOSS ACCOUNT OF CD PROJEKT S.A.

CD PROJEKT S.A. is the parent company of the CD PROJEKT Capital Group and the largest single entity within the Group. Consequently, clarifications regarding the consolidated profit and loss account of the Capital Group (except for data referring directly to the GOG.com segment) and of the CD PROJEKT RED segment (excluding the effects of its far smaller subsidiaries – CD PROJEKT RED STORE and CD PROJEKT Inc.) – are generally applicable to the activities and results of CD PROJEKT S.A.

In 2019 CD PROJEKT S.A. reported 361 381 thousand PLN in **Sales revenues**, which is 60.4% more than in 2018. The Company's **Net profit** for 2019 was 172 826 thousand PLN, which is 57.3% more than the net profit obtained in 2018. The Company's net profitability was 47.8%.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT CAPITAL GROUP – SELECTED HIGHLIGHTS

Table 13 Selected items from the consolidated statement of financial position (PLN thousands)

	31.12.2019	31.12.2018*
FIXED ASSETS	679 097	396 431
Tangible assets	105 267	19 241
Intangibles	59 763	50 210
Expenditures on development projects	385 848	242 816
Investment properties	44 960	9 553
Perpetual usufruct of land	–	3 478
Goodwill	56 438	56 438
Shares in affiliates excluded from consolidation	8 025	3 183
Deferred income tax assets	–	2 320
Deferrals	18 730	8 622
Other receivables	66	570
WORKING ASSETS	725 011	730 407
Inventories	12 862	258
Fixed assets held for sale	–	49
Trade receivables	129 573	37 008
Current income tax receivables	20 349	1 611
Other receivables	60 370	19 231
Deferrals	19 556	12 880
Cash and cash equivalents	49 406	104 378
Bank deposits (maturity beyond 3 months)	432 895	554 992
TOTAL ASSETS	1 404 108	1 126 838

* adjusted data

	31.12.2019	31.12.2018*
EQUITY	1 105 651	1 002 864
Equity attributable to shareholders of the parent entity	1 105 651	1 002 864
Share capital	96 120	96 120
Supplementary capital	780 951	739 724
Other reserve capital	54 657	26 145
Exchange rate differences	898	1 012
Retained earnings	(2 290)	30 529
Net profit (loss) for the reporting period	175 315	109 334
Minority interest equity	–	–
LONG-TERM LIABILITIES	25 158	6 691
Other financial liabilities	17 751	163
Other liabilities	3 340	–
Deferred income tax liabilities	2 935	–
Deferred revenues	364	6 338
Provisions for employee benefits and similar liabilities	255	190
Other provisions	513	–
SHORT-TERM LIABILITIES	273 299	117 283
Other financial liabilities	2 154	246
Trade liabilities	59 866	49 914
Current income tax liabilities	118	–
Other liabilities	11 122	17 785
Deferred revenues	161 364	26 172
Provisions for employee benefits and similar liabilities	2	2
Other provisions	38 673	23 164
TOTAL EQUITY AND LIABILITIES	1 404 108	1 126 838

* adjusted data

CLARIFICATIONS REGARDING THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT CAPITAL GROUP

Assets

As of 31 December 2019 the group's **Fixed assets** were valued at 679 097 thousand PLN, having increased in value by 282 666 thousand PLN (71.3%) compared to 31 December 2018.

The largest contribution to the reported increase was from the increase – by 143 032 thousand PLN – in the net balance sheet value of expenditures on development projects which represent ongoing development of new products and technologies. The value of tangible fixed assets and investment properties increased by 86 026 thousand PLN and 35 407 PLN respectively.

The balance of the reported **Expenditure of development projects** reached 385 848 thousand PLN at the end of reporting period, consisting mainly of:

- **Development projects in progress** with a value of 337 578 thousand PLN. The reported increase (by 89.8% compared to the end of 2018) was mainly due to ongoing development work on *Cyberpunk 2077* which has now entered its final, most intensive stage, characterized by involvement of additional team members and procurement of additional bought-in services (translation, soundtrack recording, external testing etc.) The reported growth is also affected by work on smaller projects in the CD PROJEKT RED segment, and on the GOG GALAXY technology, carried out by GOG.com programmers.
- **Development projects completed** with a net balance sheet value (following depreciation) of 48 270 thousand PLN. Completed projects whose development costs were depreciated in 2019 include *GWENT: The Witcher Card Game*, *Thronebreaker: The Witcher Tales* and *The Witcher 3: Wild Hunt* for Nintendo Switch. All expenditures associated with earlier CD PROJEKT RED releases had been fully depreciated in past reporting periods.

An important contribution to the reported increase in the value of fixed assets was from **Tangible fixed assets** (increase by 86 026 thousand PLN, reaching 105 267 thousand PLN). This is mainly due to the purchase by CD PROJEKT S.A. of immovable property located in Warsaw at Jagiellońska 74, which took place in October 2019, and recognition as tangible fixed assets of land holdings and other assets covered by this transaction insofar as the Company has gained their exclusive use. Additionally, the reported increase in the value of tangible fixed assets is due to recognition of the right to use office space procured under lease agreements, in line with the application of IFRS 16, with a value of 20 026 thousand PLN (offset by the corresponding other financial liabilities from lease agreements). Another important subitem concerns machinery and equipment, valued at 9 098 thousand PLN (increase by 1 996 thousand PLN) – mostly computers, servers and other electronic equipment utilized by the Group.

The purchase of the commercial campus at Jagiellońska 74 also resulted in an increased value of the reported **Investment properties**. This line item represents parts of the campus which the Company intends to lease (both to its affiliates and external lessees), as well as – in relation to application of IFRS 16 at the Group – perpetual usufruct of land associated with the purchased property at Jagiellońska 76. The reported value of investment properties as of 31 December 2019 was 44 960 thousand PLN (increase by 35 407 thousand PLN).

Regarding Intangibles, estimated at 59 763 thousand PLN at the end of 2019, the most important contributions came from the CD PROJEKT brand name and *The Witcher* trademark, jointly valued at 33 199 thousand PLN, along with IPR held by the Group (13 118 thousand PLN), patents and licenses (6 283 thousand PLN) and computer

software (5 935 thousand PLN). The aggregate value of the Group's intangibles increased by 9 553 thousand PLN throughout the reporting period.

Another important component of the Group's fixed assets is its **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 parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. The bulk of the reported figure (46 417 thousand PLN) is a result of the merger between the parent entity and the CDP Investment Capital Group which occurred on 30 April 2010, along with settlement of the purchase of the Wrocław-based development studio from Strange New Things sp. z o.o. sp. k., which occurred on 18 May 2018 (10 021 thousand PLN). The reported goodwill did not change in 2019.

The reported **Shares in subsidiaries excluded from consolidated** increased by 4 842 thousand PLN, reaching 8 025 thousand PLN. This increase is mainly due to implementation of the founding contract of Spokko Sp. z o.o. and contractual stipulations which mandate capital contributions to that company, to enable its team to carry out development of a videogame project targeting mobile devices. This line item also includes capital contributions to CD PROJEKT Co. Ltd., headquartered in Shanghai.

At the end of 2019 the Group's **Working assets** were estimated at 725 011 thousand PLN, which represents a decrease by 0.7% compared to the end of 2018.

The value of **Inventories** increased by 12 862 thousand PLN, chiefly as a result of initiating production of elements of physical editions of *Cyberpunk 2077* and *The Witcher 3 Wild Hunt* for Nintendo Switch (the latter of which was published in October 2019) in the CD PROJEKT RED segment, as well as inclusion of inventories held by the merch store at www.store.cdprojektred.com which began serving retail customers in Europe in May 2019 and in North America in October 2019.

Consolidated year-end **Trade receivables** were reported at 129 573 thousand PLN, having increased by 92 565 thousand PLN compared to 31 December 2018. The bulk of this figure represents CD PROJEKT RED receivables. At the end of the year, the Studio reported 123 853 thousand PLN in trade receivables (including receivables from the GOG.com segment, which are subjected to consolidation eliminations), arising mostly from Q4 licensing reports obtained after the balance sheet date. The high balance of trade receivables is associated with strong sales towards the end of 2019.

The consolidated value of **Other receivables** was 60 370 thousand PLN, which represents an increase by 41 139 thousand PLN compared to the end of 2018. This figure is mostly made up of VAT settlements (including VAT paid in association with the purchase of immovable property at Jagiellońska 74), withholding tax deducted at source by the Group's foreign licensees and reportable by the Company in its annual tax statement, as well as advance payments remitted by CD PROJEKT RED for goods and services which have not yet been supplied.

The consolidated value of **Prepaid expenses**, both long- and short-term (38 286 thousand PLN in total) was primarily affected by the so-called minimum guarantees remitted by GOG.com to suppliers in association with distribution of their products on the GOG.com platform, and not included in the calculation of financial results as of the balance sheet date (25 857 thousand PLN). The reported increase in the CD PROJEKT RED segment is mainly due to prepayments related to marketing activities and license fees which are settled over time.

The aggregate value of **Cash and cash equivalents** and **Bank deposits with maturity beyond 3 months** was 482 301 thousand PLN as of 31 December 2019, having decreased by 177 069 thousand PLN compared to the end of the reference period. Key factors which caused this reduction included: payment of a dividend to CD PROJEKT S.A. shareholders from the profit obtained in 2018 (100 926 thousand PLN paid out on 13 June 2019), purchases of immovable properties, fixed assets and intangibles (128 252 thousand PLN) – particularly the property at Jagiellońska 74 and further expenditures on development projects (164 990 thousand PLN throughout 2019), along with net inflows from other activities carried out by the Group.

At the end of 2019 fixed assets constituted 48.4% of the Group's total assets (compared to 35.2% in 2018), with the remaining 51.6% represented by working assets (64.8% at the end of 2018). The change in the structure of the CD PROJEKT Group's assets is mainly due to the abovementioned investments in immovable properties and development projects.

Equity and liabilities

The Group's **Equity** was estimated at 1 105 651 thousand PLN at the end of the reporting period, which represents an increase by 102 787 thousand PLN in 2019. Key contributions to this change were from: current-period profit (increase by 175 315 thousand PLN), dividend payment (100 926 thousand PLN) and recognition of costs related to the incentive program, including the accounting effect of changes in projections regarding attainment of the program's goals, described previously in the commentary section attached to the consolidated profit and loss account.

The Group's **Long-term liabilities** were reported at 25 158 thousand PLN, having increased mainly due to recognition (as **Other financial liabilities**) of liabilities related to perpetual usufruct of land comprising the plots at Jagiellońska 74 and Jagiellońska 76, in accordance with IFRS 16.

Short-term liabilities reached a value of 273 299 thousand PLN, having increased by 156 016 thousand PLN (133%) throughout the reporting period.

The main contribution to the reported short-term liabilities during 2019 was from **Deferred revenues** (161 364 thousand PLN), where – following presentation adjustments – Group member companies report the following:

- CD PROJEKT RED – licensing royalties associated with preorders of digital editions of PC games scheduled for release in future reporting periods,
- CD PROJEKT RED – so-called minimum guarantees, i.e. prepayments paid or payable by foreign publishers and distributors in relation to licensing royalties for games scheduled for release in future reporting periods,
- GOG.com – preorders of games scheduled for release in future reporting periods,
- CD PROJEKT RED and GOG.com – deferred revenues related to subsidies,
- GOG.com – deferred revenues corresponding to transactions with customers (including Store Credit and Wallet contributions).

At the end of the reporting period the bulk of the Group's deferred revenues consisted of minimum guarantees and preorders of *Cyberpunk 2077*, as well as – to a lesser degree – subsidies received. Throughout 2019 the aggregate figure increased by 135 192 thousand PLN, mainly due to the very strong start of the *Cyberpunk 2077* preorder campaign on digital distribution platforms (PC edition).

The second largest item at the end of the reporting period was **Trade liabilities**, with an aggregate balance of 59 866 thousand PLN, representing an increase by 19.9% compared to the end of the reference period.

The reported increase in **Other financial liabilities** compared to 31 December 2018 is, much like in the case of long-term liabilities, caused by introduction of IFRS 16 and subsequent recognition of lease liabilities associated with office space lease agreements (offset by the recognition of assets representing the right to use such office space, aggregated with the Group's fixed assets).

Following presentation adjustments, the Group's **Other liabilities** as of 31 December 2019 were estimated at 11 122 thousand PLN and decreased by 6 663 thousand PLN compared to 31 December 2018. This reduction is mainly due to the eventual purchase of the Group's headquarters (at Jagiellońska 76), in conjunction with which the Group discharged its liabilities arising under the preliminary purchase agreement. The 2019 figure consists mainly of current tax liabilities (VAT, PIT) and liabilities related to social security programs.

Compared to the 2018 year-end status, the Group's **Other provisions** increased in 2019 by 15 509 thousand PLN (67%), reaching 38 673 thousand PLN. The 2019 figure consists mainly of provisions for compensation contingent upon current-period financial results, along with provisions for other liabilities in both of the Group's activity segments.

As of 31 December 2019 equity accounted for 78.7% of the Group's aggregate equity and liabilities, with short- and long-term liabilities making up the remaining 21.3%.

The segmented consolidated statement of financial position can be found in the *Consolidated Financial Statement of the CD PROJEKT Capital Group for 2019*.

STRUCTURING OF CONSOLIDATED ASSETS AND LIABILITIES WITH REGARD TO LIQUIDITY

Thanks to its excellent financial performance in 2019, as well as in the preceding years, the CD PROJEKT Capital Group amassed assets with an aggregate balance sheet value of 1.404 billion PLN. The Group's equity, despite two dividends paid out in recent years, reached 1.106 billion PLN on 31 December 2019, which corresponds to 78.7% of the aggregate value of the Group's assets.

At the end of the reporting period the Group held cash reserves worth 482 301 thousand PLN, mainly in bank deposits, and had no outstanding debt under any credit or loan agreement.

Working assets represent 51.6% of the Group's total assets, and the primary contribution to this figure is from **Cash assets** and **Bank deposits with maturity beyond 3 months** (34.3% of all assets). These cash reserves and deposits secure further dynamic growth of the Group, including development of new videogames and technologies, promotional activities supporting new releases and future investment plans. They also provide a cushion in case of unforeseen circumstances, and enable the Group to exploit emerging opportunities.

Regarding **Fixed assets** (48.4% of all assets), the main contribution is from **Expenditures on development projects** with a balance of 385 848 thousand PLN (27.5% of all assets), mainly related to the development of *Cyberpunk 2077*, which is now nearing its end, as well as the undepreciated portion of development

expenses related to *GWENT* and *Thronebreaker* (published in 2018 and generating revenues in 2019) as well as *The Witcher 3* for Nintendo Switch.

The Group also invests in infrastructure which it requires to carry out its activities. **Tangible fixed assets, intangibles** and **Investment properties** were jointly estimated at 209 990 thousand PLN, which represents 15.0% of the Group's consolidated assets.

The reported **Goodwill**, emerging from business combinations and acquisitions, along with **Shares in subsidiaries excluded from consolidation**, was estimated at 64 463 thousand PLN, i.e. 4.6% of the Group's consolidated assets.

Another important investment corresponds to minimum guarantees paid out in the GOG.com segment to suppliers of videogames distributed by the Group. These payments constitute the majority of the Group's **Prepaid expenses**, worth 38 286 thousand PLN (2.7% of the Group's consolidated assets).

Taken together, the abovementioned four asset categories, with an aggregate value of 698 587 thousand PLN, constitute 49.8% of the consolidated assets of the CD PROJEKT Capital Group, having increased by 295 644 thousand PLN in 2019 (i.e. by 73.4%) and charting out the main direction of the Group's investment activities, all of which are covered by its equity.

STATEMENT OF FINANCIAL POSITION OF CD PROJEKT S.A. – SELECTED HIGHLIGHTS

Table 14 Selected items from the statement of financial position of CD PROJEKT S.A.

	31.12.2019	31.12.2018
FIXED ASSETS	645 312	369 328
Tangible assets	100 684	16 507
Intangibles	109 573	99 848
Expenditures on development projects	360 030	218 795
Investment properties	44 960	9 553
Perpetual usufruct of land	–	3 478
Investments in subsidiaries	23 830	20 279
Other financial assets	2 650	298
Prepaid expenses	3 519	–
Other receivables	66	570
WORKING ASSETS	670 056	676 398
Inventories	8 485	258
Fixed assets held for sale	–	49
Trade receivables	124 853	31 397
Current income tax receivables	19 236	1 396
Other receivables	67 252	45 474
Other financial assets	1 037	421
Prepaid expenses	2 112	1 262
Cash and cash equivalents	14 186	41 149
Bank deposits (maturity beyond 3 months)	432 895	554 992
TOTAL ASSETS	1 315 368	1 045 726

	31.12.2019	31.12.2018*
EQUITY	1 071 925	971 515
Share capital	96 120	96 120
Supplementary capital	748 324	739 799
Other reserve capital	54 655	26 145
Net profit (loss) for the reporting period	172 826	109 451
LONG-TERM LIABILITIES	24 378	6 853
Other financial liabilities	15 915	163
Other liabilities	3 340	–
Deferred income tax liabilities	4 870	204
Deferred revenues	7	6 302
Provisions for employee benefits and similar liabilities	246	184
SHORT-TERM LIABILITIES	219 065	67 358
Other financial liabilities	1 432	246
Trade liabilities	25 067	10 429
Other liabilities	5 132	12 357
Deferred revenues	151 595	22 790
Provisions for employee benefits and similar liabilities	2	2
Other provisions	35 837	21 534
TOTAL EQUITY AND LIABILITIES	1 315 368	1 045 726

* adjusted data

CLARIFICATIONS REGARDING THE STATEMENT OF FINANCIAL POSITION OF CD PROJEKT S.A.

CD PROJEKT S.A. is the parent company of the CD PROJEKT Capital Group and the largest single entity within the Group. Consequently, clarifications regarding the consolidated statement of financial position of the Capital Group (except for data referring directly to the GOG.com segment and to two subsidiaries excluded from consolidation – CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc.) – are generally applicable to the activities and financial position of CD PROJEKT S.A.

The balance sheet total reported by CD PROJEKT S.A. at the end of 2019 was 1 315 368 thousand PLN, which is 88 740 thousand PLN less than the balance sheet total for the whole CD PROJEKT Capital Group. Thus, CD PROJEKT S.A. accounts for 93.7% of the Group's consolidated assets. At the end of 2018 the corresponding difference was 81 112 thousand PLN, with CD PROJEKT S.A. accounting for 92.8% of the Group's assets.

The most significant differences between the consolidated statement of financial position of the CD PROJEKT Capital Group and the separate statement of financial position of CD PROJEKT S.A. concern the following line items:

- Goodwill – defined as 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 – is presented as a component of the intangible assets of CD PROJEKT S.A., at 49 168 thousand PLN, while in the consolidated statement it is reported as a separate line item in the Fixed Assets category, at 56 438 thousand PLN.
- Investments in subsidiaries – CD PROJEKT S.A., being the proprietor of other member companies of the Group, reports investments in subsidiaries in its separate financial statement. In 2019 these investments amounted to 23 830 thousand PLN and were partly subject to consolidation eliminations, with the remainder reported as shares in subsidiaries excluded from consolidation.
- Other line items comprising Assets and Liabilities – the separate statement is exclusive of figures arising from consolidation of statements submitted by other member companies of the Capital Group, including in particular those attributable to the GOG sp. z o.o. subsidiary, whose balance sheet total represents 8.3% of the balance sheet total of the CD PROJEKT Capital Group.

CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CD PROJEKT CAPITAL GROUP – SELECTED HIGHLIGHTS

Table 15 Selected items from the consolidated statement of cash flows

	01.01.2019-31.12.2019	01.01.2018-31.12.2018*
OPERATING ACTIVITIES		
Net profit (loss)	175 315	109 334
Total adjustments:	54 769	32 600
Depreciation of fixed assets, intangibles, expenditures on development projects and investment properties	8 117	4 768
Depreciation of expenditures on development projects recognized as cost of products and services sold	29 370	11 867
Interest and profit sharing	(8 788)	(10 706)
Profit (loss) from investment activities	(1 283)	545
Change in provisions	10 585	(27 312)
Change in inventories	(12 604)	65
Change in receivables	(126 397)	8 310
Change in liabilities excluding credits and loans	11 421	15 290
Change in other assets and liabilities	115 774	20 027
Other adjustments	28 574	9 746
Cash flows from operating activities	230 084	141 934
Income tax on pre-tax profit (loss)	13 847	13 699
Income tax (paid)/reimbursed	(27 225)	(23 042)
Net cash flows from operating activities	216 706	132 591
INVESTMENT ACTIVITIES		
Inflows	881 888	1 136 419
Reimbursement of advance payment for investment properties and perpetual usufruct of land	1 667	–
Disposal of intangibles and fixed assets	136	230
Cash assets gained in acquisition of an enterprise	–	26
Closing bank deposits (maturity beyond 3 months)	870 742	1 125 444
Other inflows from investment activities	9 343	10 719

Outflows	1 046 386	1 230 913
Purchases of intangibles and other fixed assets	91 509	15 176
Expenditures on development projects	164 990	98 475
Purchase of investment properties and capitalization of subsequent expenditures	36 743	4 078
Capital contributions to subsidiary	4 500	2 000
Acquisition of an enterprise	–	10 550
Advance payment for investment properties	–	727
Opening bank deposits (maturity beyond 3 months)	748 644	1 099 907
Net cash flows from investment activities	(164 498)	(94 494)

FINANCIAL ACTIVITIES

Inflows	–	–
Outflows	107 180	706
Dividends and other payments due to equity holders	100 926	–
Payment of liabilities arising from lease agreements	5 708	693
Interest payments	546	13
Net cash flows from financial activities	(107 180)	(706)
Total net cash flows	(54 972)	37 391
Change in cash and cash equivalents on balance sheet	(54 972)	37 391
Cash and cash equivalents at beginning of period	104 378	66 987
Cash and cash equivalents at end of period	49 406	104 378

* adjusted data

CLARIFICATIONS REGARDING THE CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CD PROJEKT CAPITAL GROUP

In the framework of its **Operating activities** in 2019 the CD PROJEKT Capital Group posted 216 706 thousand PLN in positive net cash flows, i.e. 84 115 thousand (63.4%) more than in the reference period.

Continuing strong sales of *The Witcher* videogames, the release of *The Witcher 3* for Nintendo Switch and a range of successful promotional activities in the GOG.com segment enabled the Group to attain a net profit of 175 315 thousand PLN, which represents a strong basis for operating cash flows. The reported result is subject to the following adjustments:

- I. Non-cash items (total: +76 646 thousand PLN):
 - **Development work recognized as cost of sales** (+29 370 thousand PLN) – mainly depreciation of development expenditures related to *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, released in Q4 2018, as well as *The Witcher 3: Wild Hunt* for Nintendo Switch, released in Q4 2019,
 - **Other adjustments** (+28 574 thousand PLN) – mostly settlement of expenses related to the incentive program and adjustments in projections regarding attainment of its goals,
 - **Changes in provisions** (+10 585 thousand PLN) – mainly due to creation of additional provisions for compensation contingent upon the current-period financial result (commensurately greater than in 2018),
 - **Depreciation** (+8 117 thousand PLN).

- II. Items associated with changes in working assets and short-term liabilities (total: -11 806 thousand PLN):
 - **Changes in receivables** (-126 397 thousand PLN) – mostly increases in trade receivables reported at the end of December 2019 in association with the year-end spike in sales volume,
 - **Changes in other assets and liabilities** (+115 774 thousand PLN) – mainly deferred revenues which are mostly associated with the successful *Cyberpunk 2077* preorder campaign launched in June 2019,
 - **Changes in liabilities except credits and loans** (+11 421 thousand PLN) – mostly an increase in the balance of trade liabilities,
 - **Changes in inventories** (-12 604 thousand PLN) – the value of inventories has increased due to production of components of physical editions of *Cyberpunk 2077* in the run-up to its release, and inclusion of inventories held by the merch store at www.store.cdprojektred.com.

- III. **Interest and profit sharing** (-8 788 thousand PLN), recognized elsewhere in the cash flow statement.

- IV. Difference between the income tax reported in the profit and loss statement for 2019 and the tax actually paid in 2019 (-13 378 thousand PLN).

Throughout the reporting period the Group reported negative net cash flows from **Investment activities** of 164 498 thousand PLN, compared to 94 494 thousand PLN in negative cash flows in the reference period.

Major investments include:

- **Expenditures on development projects** (164 990 thousand PLN) – mostly *Cyberpunk 2077*, which has entered its final, most intensive phase of development, and also other projects under way at CD PROJEKT RED, along with development of new technologies in the GOG.com segment,
- **Purchases of intangibles and tangible fixed assets** (91 509 thousand PLN), along with **Purchases of investment properties** (36 743 thousand PLN), where the reported figure is mainly driven by the purchase of the property at Jagiellońska 74 and eventual payment for the property at Jagiellońska 76, purchased in late 2018, along with other current investment-related outflows,
- capital contributions to the Spokko sp. z o.o. subsidiary (4 500 thousand PLN),
altogether, these investments caused 297 742 thousand PLN in outflows.

Regarding inflows from investment activities, the Group reports **Bank deposits held to maturity**, whose maturation decreases the Group's aggregate balance of bank deposits by 122 098 thousand PLN, along with interest from these deposits, aggregated with **Other inflows from investment activities** with a total value of 9 343 thousand PLN.

In 2019 the Group reported 107 180 thousand PLN in negative **Net cash flows from financial activities** (compared to 706 thousand PLN in net outflows in 2018). This figure results mainly from:

- payment of a **Dividend** by CD PROJEKT S.A. to its shareholders (100 926 thousand PLN),
- Increase in the balance of **Payment of liabilities under financial lease agreements**, primarily due to application of IFRS 16 in conjunction with office space lease agreements concluded by the Group.

Altogether, during the reporting period the Group generated negative **Total net cash flows** worth 54 972 thousand PLN, compared to a net inflow of 37 391 thousand PLN in 2018.

Throughout 2019 the balance of cash assets and bank deposits held by the Group decreased by 177 069 thousand PLN, to 482 301 thousand PLN. During this time the Group reported investments related to development of new videogames and technologies, carried out intensive promotional campaigns related to its products, paid out a dividend to its shareholders and invested in properties which will secure its future growth.

SEPARATE STATEMENT OF CASH FLOWS OF CD PROJEKT S.A. – SELECTED HIGHLIGHTS

Table 16 Selected items from the separate statement of cash flows of CD PROJEKT S.A.

	01.01.2019-31.12.2019	01.01.2018-31.12.2018*
OPERATING ACTIVITIES		
Net profit (loss)	172 826	109 451
Total adjustments:	62 345	12 340
Depreciation of fixed assets, intangibles and expenditures on development projects	5 059	2 730
Depreciation of expenditures on development projects recognized as cost of products and services sold	23 009	8 971
Exchange rate profit (loss)	42	(11)
Interest and profit sharing	(8 572)	(10 279)
Profit (loss) from investment activities	(1 270)	483
Change in provisions	8 905	(26 343)
Change in inventories	(8 227)	65
Change in receivables	(124 052)	(768)
Change in liabilities excluding credits and loans	15 540	2 657
Change in other assets and liabilities	121 481	25 991
Other adjustments	30 430	8 844
Cash flows from operating activities	235 171	121 791
Income tax on pre-tax profit (loss)	13 036	14 844
Income tax (paid)/reimbursed	(26 224)	(21 236)
Net cash flows from operating activities	221 983	115 399
INVESTMENT ACTIVITIES		
Inflows	908 223	1 136 575
Expenditures on development projects transferred in the framework of consortium settlements	16 122	–
Reimbursement of advance payment for investment properties and perpetual usufruct of land	1 667	–
Disposal of intangibles and fixed assets	130	229
Cash assets gained in acquisition of an enterprise	–	26
Repayment of long-term loans granted	10 605	584
Closing bank deposits (maturity beyond 3 months)	870 742	1 125 444
Other inflows from investment activities	8 957	10 292

Outflows	1 051 320	1 228 618
Purchases of intangibles and fixed assets	90 751	13 949
Expenditures on development projects	157 072	88 554
Purchase of investment properties and capitalization of subsequent expenditures	36 743	4 078
Expenditures on development projects transferred in the framework of consortium settlements	–	7 505
Acquisition of an enterprise	–	10 550
Long-term loans granted	13 610	848
Capital contributions to subsidiary	4 500	2 500
Advance payment for investment properties	–	727
Opening bank deposits (maturity beyond 3 months)	748 644	1 099 907
Net cash flows from investment activities	(143 097)	(92 043)

FINANCIAL ACTIVITIES

Inflows	484	–
Collected receivables arising from financial lease agreements	459	–
Interest collected	25	–
Outflows	106 333	706
Dividends and other payments due to equity holders	100 926	–
Payment of liabilities arising from lease agreements	5 000	693
Interest paid	407	13
Net cash flows from financial activities	(105 849)	(706)
Total net cash flows	(26 963)	22 650
Change in cash and cash equivalents on balance sheet	(26 963)	22 650
Cash and cash equivalents at beginning of period	41 149	18 499
Cash and cash equivalents at end of period	14 186	41 149

* adjusted data

CLARIFICATIONS REGARDING THE SEPARATE STATEMENT OF CASH FLOWS OF CD PROJEKT S.A.

CD PROJEKT S.A. is the parent company of the CD PROJEKT Capital Group and the largest single entity within the Group and the CD PROJEKT RED segment, controlling 92.7% of its cash assets and bank deposits (as of 31 December 2019) and having the greatest influence on the Group's reported cash flows with regard to operating, investment and financial activities. Consequently, clarifications regarding the consolidated statement of cash flows of the Capital Group – except for data referring directly to the GOG.com segment and the effect of subsidiaries excluded from consolidation (CD PROJEKT Inc. and CD PROJEKT RED STORE sp. z o.o.) – are generally applicable to the activities and results of CD PROJEKT S.A.

DISCLOSURE OF THE FEASIBILITY OF INVESTMENT PLANS

In line with the information presented above, at the end of 2019 the Group had no outstanding liabilities under any credit or loan agreements, and held 482 301 in its own cash assets and bank deposits. Future investment plans are expected to be financed with the Group's own resources along with positive cash flows from operating activities. Ongoing development of videogames may also be partly financed with prepayments received from distributors or publishers under the relevant licensing and distribution agreements. As of the publication date of this report the Group anticipates no difficulty in securing adequate financing for its near-term investment plans.

DISCLOSURE OF CREDITS AND LOANS IN 2019

Throughout 2019 the CD PROJEKT Capital Group had no outstanding debt under any credit or loan agreement.

DISCLOSURE OF CREDITS AND LOANS GRANTED IN 2019

In 2019 no member company of the CD PROJEKT Capital Group granted any credits or loans to external entities. CD PROJEKT Inc., GOG sp. z o.o. and CD PROJEKT RED STORE sp. z o.o. have access to financing under a loan agreement concluded with CD PROJEKT S.A.

DISCLOSURE OF GUARANTEES AND SURETIES GRANTED IN 2019, AND OTHER OFF-BALANCE SHEET ITEMS

Information regarding guarantees, sureties and other off-balance sheet items can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2019.

DISCLOSURE OF THE CURRENT ECONOMIC AND FINANCIAL STANDING OF THE CAPITAL GROUP

In 2015-2019, owing chiefly to the success of The Witcher 3: Wild Hunt and the subsequent expansion packs – Hearts of Stone and Blood and Wine – the Group reported a quantitative leap in its revenues, net profit, positive cash flows, equity and monetary assets, both within the CD PROJEKT RED segment and throughout the Group

as a whole. In the current reporting period the parent Company focused on expanding its videogame development potential by recruiting additional staff and deploying the necessary infrastructure. The GOG.com segment also expanded its operations and increased its revenues. The CD PROJEKT Capital Group holds significant cash reserves, and its current economic and financial condition should be regarded as stable.

DISCLOSURE OF THE PROJECTED ECONOMIC AND FINANCIAL STANDING OF THE CAPITAL GROUP

The enthusiastic reception of *The Witcher 3: Wild Hunt* by gamers and gaming media alike, as attested to by over 250 Game of the Year awards, ensured long-term popularity of the game, which, despite nearly 5 years having elapsed since its release, continues to generate revenues and positive cash flows for the Company and its Capital Group. The entirety of development expenses related to *The Witcher 3: Wild Hunt* and its expansion packs for the PC, PS4 and Xbox One have already been fully discounted in reporting periods preceding 31 December 2016; consequently all further sales of these products are characterized by large profit margins and generate strongly positive cash flows for the Group.

The release of *The Witcher 3: Wild Hunt* for Nintendo Switch, which took place in October 2019, should extend the life cycle of this product and bolster its commercial potential.

The Group's future condition is also dependent on the status of *GWENT: The Witcher Card Game*, a joint project by CD PROJEKT S.A. and GOG sp. z o.o. In the Board's opinion this project enables the Group to pursue several new opportunities, including developing and operating F2P games with optional microtransactions, publishing and maintenance of an online multiplayer game, securing a foothold on the Chinese market and engaging in e-sports activities. In Q4 2019 *GWENT: The Witcher Card Game* was released for iOS mobile devices, with an Android release following on March 2020 (after the balance sheet date). Both releases marked the Group's first foray into developing games for these respective operating systems. These activities enable the Group to gain experience and expand its skillset, which may prove crucial in expanding its development and publishing capabilities in the context of new projects.

It should also be noted that implementation of the Company's and Group's current plans will call for significant expenditures in future reporting periods – particularly related to development and promotion of new releases, including *Cyberpunk 2077*, which the Group will focus on in the coming quarters. The Group also anticipates further expansion of activities in its GOG.com segment, including further development and refinement of GOG GALAXY.

As of the publication date of this report the Board regards the Group's economic and financial standing as good and does not perceive any threats to its liquidity or solvency within 12 months of the balance sheet date.

For a description of the current and projected effects of circumstances related to the coronavirus pandemic, please refer to the section titled Effect of the COVID-19 pandemic on the activities of the CD PROJEKT Capital Group elsewhere in this report.

DISCLOSURE OF TRANSACTIONS WITH AFFILIATES

In 2019 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,
- subleasing 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,
- loans granted to CD PROJEKT Inc., GOG sp. z o.o. and CD PROJEKT RED STORE sp. z o.o. by CD PROJEKT S.A.,
- collaboration in the scope of maintaining the online merch store, licensing and developing merchandise – between CD PROJEKT S.A. (videogame developer and IP holder) and CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc. (operators of merch stores in their respective territories),
- other minor transactions associated with day-to-day activities (e.g. re-invoicing joint expenses).

Transactions between affiliates are concluded on market terms as required by the business profiles of each member of the CD PROJEKT Capital Group. A detailed description of procedures which govern transactions between affiliates is included in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2019.

CD PROJEKT S.A. and GOG sp. z o.o. cooperate in the framework of development of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. According to the consortium agreement, each company bears a portion of *GWENT* project expenses, and is entitled to the corresponding share of the associated revenues.

DISCLOSURE OF THE MAIN DOMESTIC AND FOREIGN INVESTMENTS AND OF THE STRUCTURE OF THE MAIN CAPITAL DEPOSITS

At the end of 2019 the Group's reported assets were primarily comprised of bank deposits with maturity periods exceeding 3 months (432 895 thousand PLN). Surplus cash is deposited in banks which cooperate with the Group or invested in low-risk financial instruments (in line with the principle of diversifying the deposit and investment portfolio). As of 31 December 2019 the aggregate value of cash, cash equivalents and bank deposits was 482 301 thousand PLN.

The business activities of the Group, and particularly of CD PROJEKT S.A., are directly associated with development and distribution of videogames. Development of new releases constitutes the primary investment activity of the Group and its parent Company. R&D expenditures are disclosed as part of the Fixed Assets category, in the Expenditures on Development Projects line item. At the end of 2019 the cumulative balance of these expenditures was 385 848 thousand PLN, which corresponds to a y/y increase of 143 032 thousand PLN. This increase was mostly related to development of *Cyberpunk 2077* and *The Witcher 3: Wild Hunt* for Nintendo Switch, along with other development projects under way at the Capital Group. As of 31 December 2019 the balance of development expenditures in the CD PROJEKT RED segment was 359 989 thousand PLN, while

the corresponding figure in the GOG.com segment was 25 878 thousand PLN.

On 31 October 2019 the Company purchased the immovable property located in Warsaw at Jagiellońska 74, which had served as its corporate headquarters for 20 years. This investment represent the main reason behind the reported increase in the value of tangible fixed assets and investment properties. The property, purchased during the reporting period, is directly adjacent to the property at Jagiellońska 76, which the Company purchased at the end of December 2018. The aim of both purchases was to facilitate further expansion of the Group, meeting its demand for office space, as well as to satisfy technical requirements specific to the Group's activity profile. In the interim period space not currently required by the Group will be leased to its existing tenants.

Significant fixed assets reported in the consolidated statement of financial position of the CD PROJEKT Capital Group for 31 December 2019 include 59 763 thousand PLN in intangibles – chiefly the CD PROJEKT brand and *The Witcher* trademark, along with other IPR and licensed acquired by the Group.

The Group's statement of financial position also acknowledges goodwill, i.e. the positive difference between the cost of establishing a business combination and the parent Company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. At the end of 2019 goodwill was estimated at 56 438 thousand PLN.

At the end of 2019 the CD PROJEKT Capital Group controlled two wholly owned foreign subsidiaries: CD PROJEKT Inc. (Los Angeles) and CD PROJEKT Co., Ltd. (Shanghai). Domestic subsidiaries of the Capital Group included GOG sp. z o.o. (100% share), Spokko sp. z o.o. (75% share) and CD PROJEKT RED STORE sp. z o.o. (incorporated on 14 January 2019; 100% share). The aggregate value of investments in domestic and foreign subsidiaries reported in the separate financial statement of CD PROJEKT S.A. – the Capital Group's holding company – was 23 830 thousand PLN.

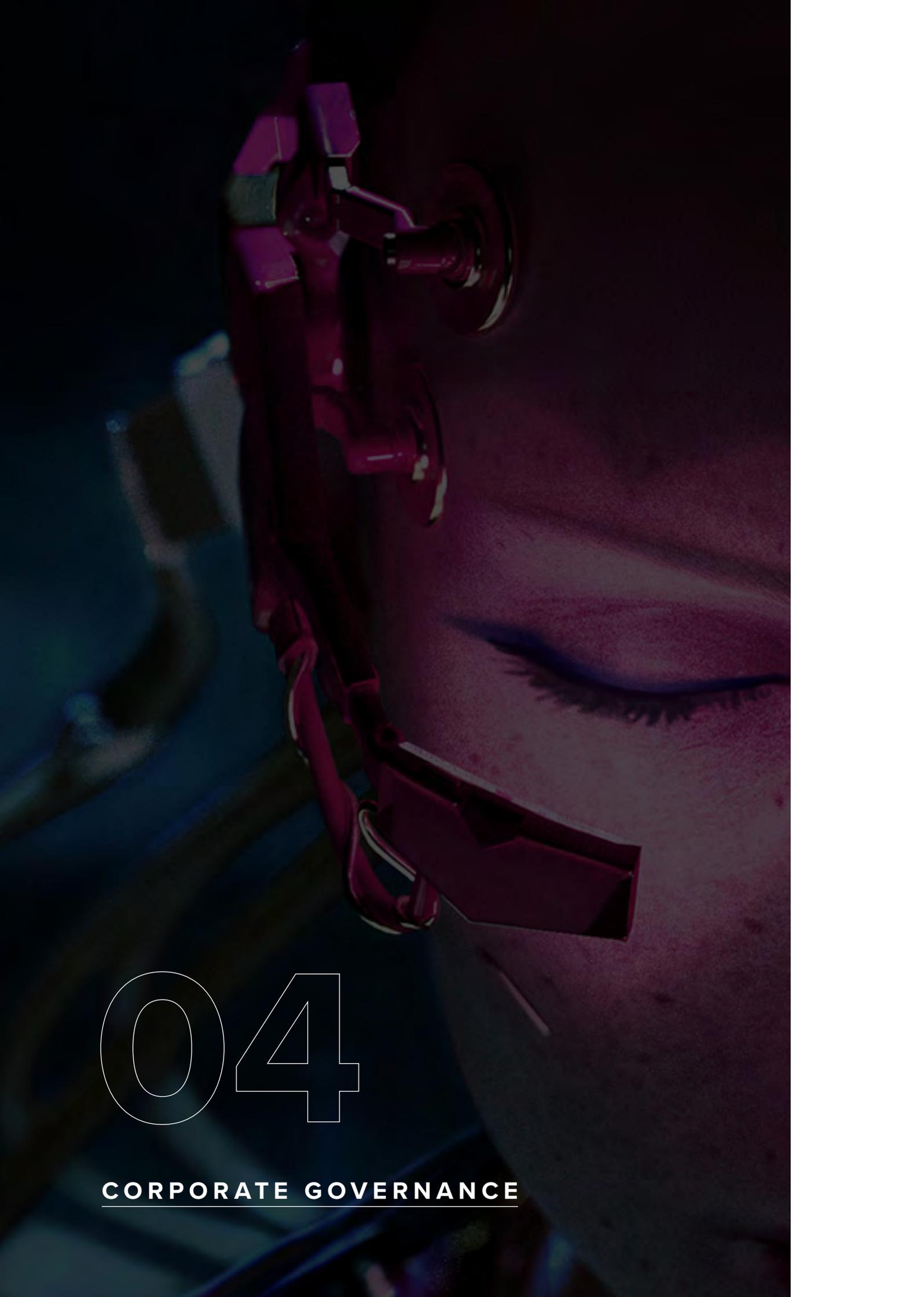
Throughout 2019 the CD PROJEKT Group financed its current activities and investments mainly from its own funds.

DISCLOSURE OF SIGNIFICANT DIFFERENCES BETWEEN THE FINANCIAL RESULTS REPORTED IN THE ANNUAL FINANCIAL STATEMENT AND EARLIER PROJECTIONS COVERING THE GIVEN YEAR

The CD PROJEKT Capital Group had never published financial projections for 2019. Accordingly, no description of the significant differences between the Group's actual results and earlier projections is provided.

DISCLOSURE OF THE APPROPRIATION OF REVENUES GENERATED BY ISSUING CAPITAL MARKET INSTRUMENTS UP UNTIL THE PUBLICATION DATE OF THE REPORT

The Company did not issue any new stock between 1 January and 31 December 2019, as well as by 8 April 2020.



04

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 conduct a review of the semiannual financial statement and audit the annual financial statement 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., Spokko sp. z o.o. and CD PROJEKT RED STORE 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 shareholding 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 17 Shareholders controlling at least 5% of the vote at the General Meeting as of the publication date of this report.

	Number of shares	% of share capital	Number of votes at the GM	% of total number of votes at the GM
Marcin Iwiński	12 150 000	12,64%	12 150 000	12,64%
Michał Kiciński*	10 486 106	10,91%	10 486 106	10,91%
Piotr Nielubowicz	6 135 197	6,38%	6 135 197	6,38%
Free float	67 348 697	70,07%	67 348 697	70,07%

* As disclosed in Current Report [49/2016](#) of 6 December 2016

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.

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

2016-2021 INCENTIVE PROGRAM

On 24 May 2016 the General Meeting adopted resolution no. 20, which provides a detailed description of the goals of the incentive program covering the 2016-2021 period. Implementation of this program may result in changes in the proportions of shares held by shareholders. The program covers a period of up to 6 years. A maximum of 6 million individual entitlements may be assigned under the program. As of the publication date of this report 5 535 000 entitlements have been assigned, as a result of which the entitled participants may potentially claim shares of Company stock in an amount not exceeding the number of assigned entitlements.

Implementation of the program may be carried out by issuing and assigning series B subscription warrants, entitling holders to claim parent Company shares issued as a conditional increase in the parent Company share capital, or by presenting entitled parties with an offer to buy existing shares which the parent Company will have previously bought back on the open market. In either case, implementation of the program is contingent upon meeting specific result goals (80% of entitlements) and market goals (20% of entitlements), in addition to a loyalty criterion which applies to each entitled party until such time as the attainment of either goal is officially declared.

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

RESULT GOAL – 80% OF ENTITLEMENTS

Attainment of the result goal will enable entitled parties to claim 80% of the total number of entitlements issued under the program. The program sets forth specific goals which must be attained, in terms of the minimum aggregate consolidated net earnings of the Capital Group from continuing operations, as follows:

- a) For the years 2016-2019 – consolidated net earnings of at least 618 427 thousand PLN, along with aggregate consolidated base net earnings per share from continuing operations of at least 6.51 PLN, or
- b) For the years 2016-2020 – consolidated net earnings of at least 855 538 thousand PLN, along with aggregate consolidated base net earnings per share from continuing operations of at least 9.01 PLN, or
- c) For the years 2016-2021 – consolidated net earnings of at least 1 092 649 thousand PLN, along with aggregate consolidated base net earnings per share from continuing operations of at least 11.51 PLN.

MARKET GOAL – 20% OF ENTITLEMENTS

The market goal, which is defined as an increase in the value of Company shares outperforming the corresponding increase in the WIG index during the measurement period by at least 100 p. p., enables entitled parties to

claim 20% of entitlements assigned under the program.

The settlement period of the incentive program is 2016-2021, although the program may be settled earlier if the appropriate market and result goals are met in advance.

ATTAINMENT OF GOALS AT THE END OF 2019

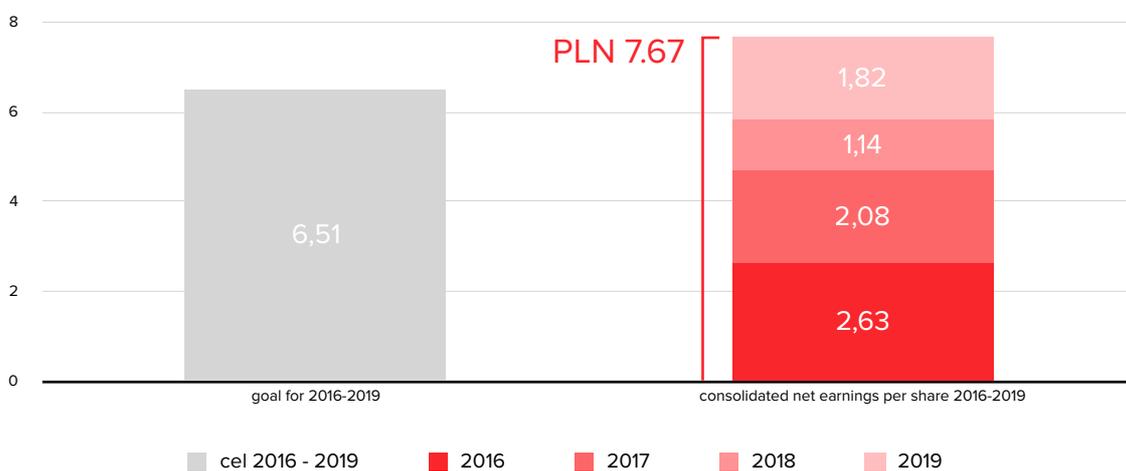
As of 31 December 2019 the result and market goals of the incentive program on the level of the Capital Group have been achieved, while in the GOG.com segment – which has its own result sub-goal – only the market goal has been achieved.

Result goal

The consolidated net earnings of the CD PROJEKT Capital Group from continuing operations for 2016-2019 were 735 433 thousand PLN (corresponding to consolidated base net earnings per share from continuing operations of 7.67 PLN).

Consequently, the result goal of 618 427 thousand PLN is considered to have been met on the level of the Capital Group, as the target set for the years 2016-2019 was exceeded by 117 006 thousand PLN, i.e. 18.9%, and in relation to earnings per share – by 1.16 PLN (17.8%).

Chart 28 Result goal for 2016-2019 – consolidated base net earnings per share from continuing operations – 80% of entitlements – attainment



Market goal

WIG index¹⁶:

- at the close of trading on 30 December 2015: 46 467.38 points
- at the close of trading on 30 December 2019: 57 832.88 points

Percentage increase in the WIG index during the presented period: 24.5%.

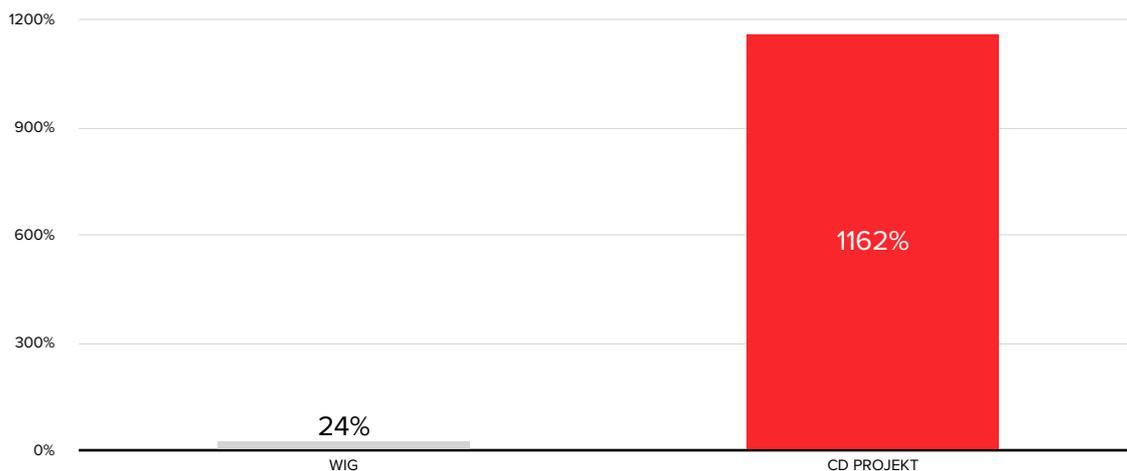
¹⁶ As published by WSE

Closing price of CD PROJEKT S.A. stock:

- on 30 December 2015: 22.15 PLN
- on 30 December 2019: 279.50 PLN

Percentage increase in the closing price of CD PROJEKT stock during the presented period: 1 161.9% (outperforming the WIG index by 1 137.4 p. p.).

Chart 29 Market goal of the incentive program – increase in WIG index and CD PROJEKT stock price – 20% of entitlements



Consequently, the market goal is considered to have been met – and indeed, greatly exceeded.

2020-2025 INCENTIVE PROGRAM

Given the attainment of the stated goals of the incentive program in force at the CD PROJEKT Capital Group since 2016, the Management Board intends to submit a motion to Company shareholders during the upcoming General Meeting requesting approval of a new incentive program for 2020-2025, based largely on the same model as the existing incentive program. It is the Board's intent to define the following goals for the new incentive program:

Result goal – 80% of entitlements

Base variant, entitling participants to exercise their assigned grants at the base price:

- a) for the 2020-2023 period – at least 6 000 000 thousand PLN, or
- b) for the 2020-2024 period – at least 7 000 000 thousand PLN, or
- c) for the 2020-2025 period – at least 8 300 000 thousand PLN.

Optimistic variant, involving achievement of any of the stated goals one year early, and entitling participants to exercise their assigned grants at a discount price:

Consolidated net profit of the CD PROJEKT Capital Group from continuing operations in successive evaluation periods, increased by the reported costs of the program's evaluation in the corresponding periods, of:

- a) for the 2020-2022 period – at least 6 000 000 thousand PLN, or
- b) for the 2020-2023 period – at least 7 000 000 thousand PLN, or

- c) for the 2020-2024 period – at least 8 300 000 thousand PLN, or
- d) for the 2020-2025 period – at least 10 000 000 thousand PLN.

Market goal – 20% of entitlements

A goal which is defined as an increase in the value of CD PROJEKT S.A. shares at the Warsaw Stock Exchange in such a way that the percentage change in this value, compared to the closing price on 31 December 2019, outperforms the corresponding increase in the WIG index during the measurement period by at least 100 p. p.

The Company is currently working to prepare the corresponding draft resolutions and incentive program regulations, and submit them to Company shareholders for approval.

Information regarding the control system of employee share programs

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

Disclosure of the purchase of own shares

No own shares were purchased by the Company in 2019.

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

Table 18 Shares held by members of the Management Board and Supervisory Board of the Company

Name	Position	as of 08.04.2020	as of 31.12.2019	as of 01.01.2019
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	37 650	37 650	37 650
Piotr Karwowski	Board Member	3 100	3 100	8 000
Katarzyna Szwarc	Chairwoman of the Supervisory Board	10	10	10
Maciej Nielubowicz	Supervisory Board Member	51	51	51

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

In Current Report no. 16/2019 of 3 September 2019 the Company announced that it had been notified on 3 September 2019 of a sale of Company stock by an individual discharging managerial responsibilities at the Company. According to the notice, on 30 August 2019 Mr. Piotr Karwowski – member of the Management Board of CD PROJEKT S.A. – sold 4 900 shares of Company stock on the regulated market of the Warsaw Stock Exchange at 255.44 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 – 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, being responsible, among others, for design and development of the GOG.com platform and of the GOG GALAXY application. Supervises online services and CD PROJEKT Capital Group's online activities. Also responsible – starting in 2019 – for the operation and further development of GWENT.

Management Board members represent the Company and its Management Board. Management Board members cooperate with one another, share information regarding important matters affecting the Company, jointly manage the Company and jointly bear the associated responsibility. The Management Board, acting as a collective body, formulates the Company's strategies, develops its financial plans and manages the Company in such a way as to ensure implementation of these strategies and plans. The Management Board has embraced the concept of collective management in order to enhance its own capabilities for strategic thinking, build upon its positive energy and uphold the belief that nothing is truly impossible. Deep mutual trust, coupled with a shared set of core beliefs and ethics, enable the Management Board to discharge its duties efficiently and without undue bureaucracy.

Changes in Management Board composition

On 4 April 2019¹⁷ Mr. Oleg Klapovskiy tendered his resignation from the Management Board of the Company, effective on the day of the nearest General Meeting, i.e. 23 May 2019.

The stated reason behind the resignation was the need to become fully involved in the activities of the Management Board of the Group's subsidiary – GOG sp. z o.o., which include further development of GOG.com and work on new projects which will affect the operations of the online store and the platform itself.

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

Katarzyna Szwarc – Chairwoman of the Supervisory Board; Audit Committee Member

Piotr Pągowski – Deputy Chairman of the Supervisory Board; independent Audit Committee Member

Maciej Nielubowicz – Secretary of the Supervisory Board; Audit Committee Member

Michał Bień – Supervisory Board Member; Chairman of the Audit Committee

Krzysztof Kilian – Supervisory Board Member; independent Audit Committee Member

¹⁷ See Current Report no. [3/2019](#)

Changes in Supervisory Board composition

No changes in the composition of the Company's Supervisory Board occurred in the reporting period.

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

ADAM KICIŃSKI, PRESIDENT OF THE BOARD

Mr. Kiciński's base remuneration paid by CD PROJEKT S.A. in 2018 was 420 thousand PLN, all of which represented his base salary. In 2019 this base salary remained unchanged at 420 thousand PLN. In 2018 Mr. Kiciński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2018, was 2 296 thousand PLN, while the portion associated with the net result of the Capital Group in 2019 was 3 682 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

MARCIN IWIŃSKI, VICE PRESIDENT OF THE BOARD

Mr. Iwiński's base remuneration paid by CD PROJEKT S.A. in 2018 was 336 thousand PLN, all of which represented his base salary. In 2019 this base salary remained unchanged at 336 thousand PLN. In 2018 Mr. Iwiński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2018, was 2 296 thousand PLN, while the portion associated with the net result of the Capital Group in 2019 was 3 682 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

PIOTR NIELUBOWICZ, VICE PRESIDENT OF THE BOARD

Mr. Nielubowicz's compensation paid by CD PROJEKT S.A. in 2018 was 348 thousand PLN, all of which represented his base salary. In 2019 this base salary remained unchanged at 348 thousand PLN. In 2018 Mr. Nielubowicz also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2018, was 2 296 thousand PLN, while the portion associated with the net result of the Capital Group in 2019 was 3 682 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

ADAM BADOWSKI, BOARD MEMBER

Mr. Badowski's compensation paid by CD PROJEKT S.A. in 2018 was 396 thousand PLN, all of which represented his base salary. In 2019 this base salary remained unchanged at 396 thousand PLN. In 2018 Mr. Badowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the net result of the Capital Group in 2018 was 1 585 thousand PLN, while the portion associated with the net result of the Capital Group in 2019 was 2 542 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

MICHAŁ NOWAKOWSKI, BOARD MEMBER

Mr. Nowakowski's compensation paid by CD PROJEKT S.A. in 2018 was 360 thousand PLN, all of which represented his base salary. In 2019 this base salary remained unchanged at 360 thousand PLN. In 2018 Mr. Nowakowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the net result of the Capital Group in 2018 was 1 585 thousand PLN, while the portion associated with the net result of the Capital Group for 2019 was 2 542 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

PIOTR KARWOWSKI, BOARD MEMBER

Mr. Karwowski's compensation paid by CD PROJEKT S.A. in 2018 was 60 thousand PLN, all of which represented his base salary. In 2019 this base salary remained unchanged at 60 thousand PLN. Mr. Karwowski does not participate in the incentive program in force at CD PROJEKT S.A., however he does participate in the incentive program in force at GOG sp. z o.o. as a board member thereof. His compensation, disbursed by GOG sp. z o.o. in association with the aforementioned function, is disclosed in the table below.

OLEG KLAPOVSKIY, BOARD MEMBER

Mr. Klapovskiy's compensation paid by CD PROJEKT S.A. in 2018 was 60 thousand PLN. In 2019 his base salary for the period between the beginning of the year and his resignation on 23 May 2019 was 24 thousand PLN. Mr. Klapovskiy did not participate in the incentive program in force at CD PROJEKT S.A., however he does participate in the incentive program in force at GOG sp. z o.o. as a board member thereof. The associated compensation had not been disbursed by GOG sp. z o.o. prior to Mr. Klapovskiy's resignation from the Management Board of CD PROJEKT S.A. (i.e. prior to 23 May 2019), and is not included in the table below.

Table 19 Compensation paid to members of the Management Board of CD PROJEKT S.A. during their tenure as members of the Company's managerial bodies, and paid by the Company's subsidiaries in association with discharging managerial duties at these subsidiaries (PLN thousands)

	01.01.2018-31.12.2018	01.01.2019-31.12.2019
Marcin Iwiński	24	24
Piotr Karwowski	1 089	725
Oleg Klapovskiy	1 064	88*

* up to 23 May 2019

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

Table 20 Entitlements granted to members of the Management Board in association with their participation in the 2016-2021 incentive program, and value thereof (in PLN thousands)

Name	Position	Entitlements granted	value of potential benefits	
			01.01.2018-31.12.2018	01.01.2019-31.12.2019
Adam Kiciński	President of the Board	800 thousand	1 378	3 850
Marcin Iwiński	Vice President of the Board	800 thousand	1 378	3 850
Piotr Nielubowicz	Vice President of the Board	800 thousand	1 378	3 850
Adam Badowski	Board Member	600 thousand	1 034	2 877
Michał Nowakowski	Board Member	600 thousand	1 034	2 877
Piotr Karwowski	Board Member	200 thousand	345	235
Oleg Klapovskiy	Board Member	200 thousand	345	*

* resigned from the Board of CD PROJEKT S.A. on 23 May 2019

The value of potential benefits payable to Management Board in light of their participation in the incentive program settled in Company shares, as indicated in the above table, is based on the fair value of assigned entitlements as calculated by a licensed actuary. These values have been duly recognized as Company expenses in the years 2019 and 2018 respectively.

The current surplus of the market value of CD PROJEKT shares over their respective claim or purchase prices as mandated by the incentive program is significantly greater than the estimation prepared by the actuary on the grant date and recognized on the Company's balance sheet. Future benefits obtainable by participants of the program will depend on the share price after the end of the mandatory one-year lock-up period, which begins on the date of effective payment for shares or submission of a notification confirming the intent to claim Company shares in the exercise of subscription warrants. The right to claim Company shares incorporated by the warrants expires on 31 October 2022.

Assignment of bonuses to Management Board members – general rules

The variable portion of the Management Board members' compensation under the groupwide incentive program is strictly dependent on the net financial result of the Group and settled in annual cycles.

Compensation of Supervisory Board members

Table 21 Gross compensation paid out to members of the Supervisory Board of CD PROJEKT S.A. in 2018 and 2019 (PLN thousands)

Name	01.01.2019- -31.12.2019	01.01.2018- -31.12.2018
Katarzyna Szwarc – Chairwoman of the Supervisory Board	120	112
Piotr Pągowski – Deputy Chairman of the Supervisory Board	63	48
Maciej Nielubowicz – Secretary of the Supervisory Board	72	64
Michał Bień – Supervisory Board Member; Chairman of the Audit Committee	72	64
Krzysztof Kilian – Supervisory Board Member	63	48

DISCLOSURE OF RETIREMENT BENEFITS AND SIMILAR COMPENSATION PAYABLE TO FORMER MEMBERS OF THE COMPANY'S EXECUTIVE, SUPERVISORY OR ADMINISTRATIVE BODIES, AND OF ANY LIABILITIES ASSOCIATED WITH SUCH BENEFITS, SPECIFYING THE AGGREGATE AMOUNTS FOR EACH CATEGORY OF RECIPIENTS

As of 31 December 2019 the Company had no such liabilities.

AGREEMENTS BETWEEN THE COMPANY AND MEMBERS OF ITS MANAGING AND SUPERVISORY BODIES CONCERNING COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL

As of 31 December 2019 and as of the preparation date of this report all members of the Company's managing and supervisory bodies discharged their duties on the basis of General Meeting appointments and there were no provisions in force regulating compensation in the event of their resignation or dismissal.

TRANSACTIONS BETWEEN THE COMPANY AND MEMBERS OF ITS MANAGING AND SUPERVISORY BODIES NOT OTHERWISE REPORTED

In 2019 there were no significant transactions between CD PROJEKT S.A. and members of its managing and supervisory bodies. This does not include medical insurance premiums, use of company cars, reimbursement of official expenses and minor purchases of Capital Group products by members of the Management Board and Supervisory Board.

CHANGES IN BASIC MANAGEMENT PRACTICES AT THE COMPANY AND ITS CAPITAL GROUP

No significant changes in basic management policies affecting the Company and its Capital Group occurred in 2019.

Corporate governance policies

CD PROJEKT S.A. follows the corporate governance policies listed in the “Best Practice for WSE Listed Companies 2016” document, published as an attachment to Resolution no. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2019 constitutes a separate part of this annual report can be found on the Company website at www.cdprojekt.com.

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. On 21 December 2018 the Appellate Court altered the judgment of the court of first instance by dismissing the Company’s lawsuit in its entirety.

The Company subsequently filed a cassation appeal against the portion of the judgment which reverses the earlier judgment of the District Court in Kraków by dismissing the lawsuit, as well as the portion in which the judgment dismisses the Company's appeal concerning the costs of legal proceedings.

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.

No other significant legal, arbitration or administrative proceedings which would involve the parent Company or its subsidiaries as parties were initiated in the reporting period.

Adam Kiciński President of the Board	Marcin Iwiński Vice President of the Board	Piotr Nielubowicz Vice President of the Board	Adam Badowski Board Member	Michał Nowakowski Board Member	Piotr Karwowski Board Member
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Strona	Disclosure number	Tytuł wskaźnika
3	GRI 102-14	Statement of senior management
8	GRI 102-6	Markets served
	GRI 102-1	Name of the organization
	GRI 102-3	Location of headquarters
9	GRI 102-4	Location of operations
11	GRI 102-40	List of stakeholder groups engaged by the reporting organization
	GRI 102-42	Identifying and selecting stakeholders
	GRI 102-43	Approach to stakeholder engagement, including the frequency of engagement
	GRI 102-44	Key issues and concerns raised by stakeholders and the organization's response, also by reporting them
14	GRI 102-16	Organization's values, code of ethics, principles and norms of behavior
	GRI 102-12	External initiatives, externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses
	GRI 206-1	Legal steps taken against the organization for anti-competitive behavior, anti-trust, and monopoly practices
	GRI 417-3	Incidents of non-compliance with regulations and voluntary codes concerning marketing communications
	GRI 418-1	Substantiated complaints regarding breaches of client privacy and data loss
	GRI 419-1	Non-compliance with laws and regulations in the social and economic area
16	GRI 102-13	Membership in associations and organizations
	GRI 102-17	Mechanisms for advice and concerns about ethics
	GRI 406-1	Incidents of discrimination and corrective actions taken
	GRI 205-3	Confirmed cases of corruption and actions taken
18	GRI 405-1	Composition of supervisory bodies and employees broken down into employee groups by gender, age and other diversity factors
19	GRI 405-1	Composition of supervisory bodies and employees broken down into employee groups by gender, age and other diversity factors
20	GRI 102-8	Information on employees and other workers
	GRI 401-1	New employee hires and employee turnover
	GRI 405-1	Composition of supervisory bodies and employees broken down into employee groups by gender, age and other diversity factors
24	GRI 401-2	Benefits provided to employees
26	GRI 404-3	Percentage of employees receiving regular performance and career development reviews
	GRI 404-2	Programs for upgrading employee skills and transition assistance programs
28	GRI 404-3	Percentage of employees receiving regular performance and career development reviews
29	GRI 401-2	Benefits provided to employees
34	GRI 302-4	Reduction of energy consumption
	GRI 306-2	Waste by type and disposal method
36	GRI 102-15	Key impacts, risks, and opportunities
	GRI 102-5	Ownership and legal form
43	GRI 102-15	Key impacts, risks, and opportunities
46	GRI 102-45	Entities included in the consolidated financial statements
53	GRI 417-1	Internal requirements for product and service information and labeling
	GRI 417-2	Incidents of non-compliance with regulations and voluntary codes for product and service information labeling
53	GRI 102-9	Supply chain description
72	GRI 102-15	Key impacts, risks, and opportunities
76	GRI 102-11	Precautionary Principle or approach
	GRI 102-15	Key impacts, risks, and opportunities
87	GRI 201-1	Direct economic value generated and distributed

