

**CD PROJEKT S.A. Supervisory Board Report  
on its activities in the 2017 financial year, along with assessment of the operations of the  
Supervisory Board and summary assessment of the condition of the Company, including its  
internal control system and management of key risk factors relevant to the Company**

**1. Composition of the Supervisory Board in the 2017 financial year**

In the 2017 financial year the Supervisory Board consisted of the following persons:

Between 1 January 2017 and 11 October 2017:

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

Between 11 November 2017 and 31 December 2017:

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

**2. Scope of the Supervisory Board's activities in the reporting period, including fulfillment of Audit Committee duties**

In the course of discharging its legal and statutory obligations in 2017 the Supervisory Board conducted active oversight of all matters related to Company activities. In particular, the Supervisory Board performed analyses of the Management Board's plans concerning the strategy of the Company and its Capital Group, and provided ongoing assessment of the Company's operating and financial status.

In 2017 the Supervisory Board of CD PROJEKT S.A. properly discharged all duties incumbent upon the supervisory board of a public company under the relevant legislation, the Company Articles of Association and the Supervisory Board Regulations.

The Supervisory Board held five live meetings in 2017. Additionally, the Supervisory Board conducted its affairs by adopting resolutions outside of meetings.

In line with its prerogatives, in 2017 the Supervisory Board furthermore observed a significant portion of the Best Practices for WSE Listed Companies insofar as such practices apply to supervisory board of public companies.

Given that the Supervisory Board consisted of five members, the duties of the Audit Committee as specified in the Act of 7 May 2011 on certified auditors and their self-government, audit firms, entities authorized to perform audits of financial statements and public supervision, were discharge by the full Supervisory Board up until 11 October 2017.

On 11 October 2017, in accordance with the Act of 11 May 2017 on certified auditors, audit firms and public supervision (hereinafter referred to as “the Act”), the Supervisory Board appointed an Audit Committee with the following membership:

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

The Audit Committee held 2 live meetings during the reporting period. In the course of discharging the duties of the Audit Committee, first the Supervisory Board and later the Audit Committee monitored the financial reporting and financial audit activities, i.a. by analyzing the Company’s periodic financial statement prior to their publication and organizing periodic meetings with auditors.

In the auditor selection process, the Supervisory Board also performed an assessment of the independence of the auditor and audit firm contracted to audit the Company’s financial statements. Acting in compliance with Art. 130 of the Act, on 11 October 2017 the Audit Committee adopted a policy of selection and rotation of the entity contracted to audit financial statements and procurement from the entity contracted to audit financial statement of permissible services other than audit services.

In the Supervisory Board’s opinion, the current composition of the Supervisory Board enables fulfillment of all tasks incumbent upon the control organ of a public company.

In 2017 the supervisory activities of the Supervisory Board of CD PROJEKT S.A. were exercised on an ongoing basis and with due diligence. The Supervisory Board carefully monitored all significant matters related to the Company’s activities. As requested by the Supervisory Board, the Management Board provided up-to-date reports regarding the legal condition of the Company and activities undertaken in all of the Company’s activity areas.

In discharging its supervisory duties, the Supervisory Board relied on written documentation submitted by the Management Board as well as current information and explanations provided by Board Members during Supervisory Board meetings. As a rule, Supervisory Board meetings were attended by the Management Board except in matters related to assessment of the Management Board’s performance and other personal matters involving members of the Management Board. The Supervisory Board made extensive use of remote communication tools, enabling better control and day-to-day supervision of the Company’s matters.

### **3. Summary assessment of the Company’s condition, including its internal control system, risk management, compliance and internal audit mechanisms, as well as means of discharging disclosure obligations related to compliance with corporate governance principles**

Based on analysis of financial statements of the Company and its Capital Group for the year 2017 and the Management Board report concerning the internal control system and management of key risk factors relevant to the Company for 2017, submitted on 6 April 2018, in addition to information received directly from the Management Board, the Supervisory Board has determined that the Company had achieved the goals set by the Management Board with regard to development of its operating activities, i.e. development and digital distribution of videogames.

In the Supervisory Board’s opinion, the structure of the Company’s Capital Group has been optimized in such a way as to permit dynamic growth in its core areas of activity. The condition of the Company is stable. In assessing the Company’s condition in 2017 the Supervisory Board considered key risk

factors affecting the Company and did not identify any circumstances which would jeopardize continuation of its activities.

In 2017 the Company carried out its business in line with rules applicable to public companies, including its declared corporate governance principles. In the Supervisory Board's opinion in 2017 the Company adequately discharged its disclosure obligations related to adherence to corporate governance principles.

Internal control and risk management systems at the Company are fully controlled by the Management Board, which, in the course of publishing its periodic reports, conducts periodic assessment of risk factors relevant to the Company during each financial year. The Management Board is responsible for the effectiveness of the internal control system in the process of preparing financial statements. Control over the subject matter of the Company's financial statements and periodic reports is exercised directly by the Management Board. The Management Board is furthermore directly responsible for scheduling work related to the preparation of legally required financial statements. Financial data which comprises the basis of such statements is derived from the Company's accounting system which records transactions in accordance with the Company's accounting policy, itself consistent with International Financial Reporting Standards.

### **I. Internal control system**

A comprehensive functional control system is in place at the Company, encompassing internal control, forecasting, budgeting (including cash flows), financial analysis and analysis of key performance indicators.

Throughout 2017 the accounts of CD PROJEKT S.A. (hereinafter referred to as "the Company") were managed by its internal accounting department. The accounting and HR and payroll departments of CD PROJEKT S.A. also performed paid accounting and HR services. Additionally, these departments rendered paid accounting services to GOG sp. z o.o. The accounts of GOG Ltd., a foreign subsidiary, were – up until its merger with CD PROJEKT S.A. (in October 2017) – managed by EKAVI LIMITED, while the accounts of CD PROJEKT Inc. were managed directly by that company in collaboration with an external accounting firm – Armanino LLP.

Throughout 2017 the core accounting system in use at CD PROJEKT S.A. and GOG sp. z o.o. was IFS Applications (an ERP solution), augmented by the Workflow Plus system.

IFS Applications (Sweden) is among the world's most advanced Enterprise Resource Planning (ERP) systems, handling all aspects of company management (Finances, Accounting, HR, Payroll, Production and Distribution, Warehousing and Project Management). The deployment of IFS Applications at CD PROJEKT was done in order to ensure greater cohesion, reliability and level of detail of data required in managing the Company. It was also coupled with streamlining of business workflows in place at the Company.

Workflow Plus is a system which supports document flow through digitization. The system, as deployed at CD PROJEKT S.A. and GOG sp. z o.o., handles the flow of invoices and official mail. It provides fully electronic document flow and enforces digital allocation and approval of costs and expenditures. It also provides access to an electronic document archive. The deployment of Workflow Plus has minimized the need for paper documents, accelerated document processing, improved control over the flow of information within the Company and enabled financial data to be promptly fed into the ERP system.

The separate and consolidated financial statement of CD PROJEKT S.A. are subject to reviews and audits conducted by an independent auditor, in line with the applicable legislation.

Regarding financials, the internal control system mandates monthly assessment of results against the background of earlier projections within each activity segment/member company of the CD PROJEKT Capital Group. In justifiable cases, financial plans comprise several variants:

- “Conservative” plans – used in order to safely plan for allocation of the available monetary assets and sources of funding
- “Target” plans – communicated to managers of each business segment as desirable goals, characterized by ambitious and aggressive projections whose realization calls for multiple advantageous circumstances.

As part of its reporting and review scheme, the Management Board of CD PROJEKT S.A. performs monthly analysis of results and how they compare to earlier estimates. These analyses are conducted in collaboration with managers of each segment. The meetings also provide an opportunity to discuss important developments affecting each segment and the likelihood of meeting projections in further months.

Between its monthly meetings, the Management Board of CD PROJEKT S.A. participates in day-to-day business activities of the Company and its subsidiaries.

Liquidity planning at the CD PROJEKT Capital Group is also carried out in monthly cycles, subdivided into weekly periods.

All payments remitted by CD PROJEKT S.A. are based on properly filed accounting documents. A document may only be filed if it meets all the applicable accuracy and justifiability criteria, and has been approved by the person appointed for this purpose in the Company’s internal electronic document flow system. Validation of the above and the actual filing of the document is the responsibility of the assigned accountant. On a day-to-day basis, payments are handled by the financial department in collaboration with the accounting department. Any deviations from this rule require Management Board approval.

As part of the corporate governance scheme and formal and legal supervision principles in force at CD PROJEKT S.A., subsidiaries are able to solicit advice from experts employed by the parent company.

## **II. Key risk factors affecting current activities and the corresponding mitigation strategies**

A risk management system, involving analysis and identification of risk factors as well as any related standards and operations, is in place at the Company. Key risk factors affecting the Company and the corresponding mitigation strategies are described in the Management Board report on Company activities for the period between 1 January and 31 December 2017.

## **III. Compliance and internal audit**

Given the specific nature of the Company’s business, no formalized compliance and internal audit system has been instituted in the form of a separate organizational subunit. The Company’s organizational structure involves a number of formal procedures which aim to systematize and facilitate control over key managerial and organizational processes occurring at each department. Control over financial and cash management processes is exercised by employees of the financial department, with internal procedures for allocating and registering expenses, in addition to a hierarchical, multistage payment authorization system. Tax and legal teams which operate within the corporate governance department exert day-to-day control over the activities of the CD PROJEKT Capital Group and CD PROJEKT S.A., by monitoring changes in the Capital Group’s legal environment and discharging formal obligations incumbent upon the Company. In justifiable cases, in order to mitigate legal and fiscal risks, Capital Group member companies may also avail themselves of services provided by external law firms and tax advisors.

In addition to detailed guidelines applicable to specific activity segments, the Capital Group has also instituted comprehensive procedures for managing the flow and protection of inside information, counteracting mobbing and discrimination, guarding against money laundering and financing terrorism, as well as protection of personal data.

Any suspected violations or irregularities in the scope of the above-mentioned procedures are reportable directly to the Management Board.

### **Summary**

The Supervisory Board regards the previously described internal control and key risk management procedures as consistent. The Supervisory Board furthermore believes that throughout 2017 the Company's internal control system and key risk management system operated in a satisfactory manner, significantly mitigating key risk factors faced by the Company in the course of its business activities.