



**MANAGEMENT BOARD REPORT ON THE
ACTIVITIES OF THE CD PROJEKT GROUP
BETWEEN 1 JANUARY AND 31 DECEMBER 2021**

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.

Disclaimer

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

Esteemed Shareholders,

It is with pleasure that I hand over to you our annual report which contains an overview of key business events along with a summary of our 2021 financial results.

The past year was a period of change. The release of *Cyberpunk 2077* gave us much food for thought while also filling us with resolve. The lessons we have learned guided us in updating our Group's development strategy, in which we focused on changing the way we develop games and communicate with the outside world, as well as on further expanding our team. In 2021 we put in place a strong foundation, enabling us to improve the efficiency of our development and project management processes – among others, by introducing the Agile model, as well as by redefining and strengthening the role of CTO. Even though we've only completed the first stage of this journey, our work is already becoming more efficient.



Our strategy update also heralded greater openness to M&A activities. True to word, we concluded two such transactions in the past year. The gamedev studios based in Vancouver and Boston add to our shared experience and know-how, and enable us to further grow our business – by recruiting talented professionals in these respective regions, and by carrying out autonomous work on new, ambitious projects, which we will eventually offer to gamers.

From the point of view of brand management – we continue to attach great importance to the *Cyberpunk* franchise, which we regard as one of the pillars of our future growth, and on which we have been hard at work this past year. The updates and patches for *Cyberpunk 2077* have been appreciated by the gaming community, and the game's next-gen console release, published in 2022, was warmly received. We are currently working in a major expansion for the game, and we believe in the long-term appeal of Night City adventures.

One of the key elements of the RED 2.0 transformation process is our strategic partnership with Epic Games and use of Unreal Engine 5 to power our future games. In this context, we're happy to have been able to announce – in March of the current year – that we had initiated work on the next instalment in *The Witcher* franchise, based on the new engine and by applying our new approach to development. We're very eager to revisit the universe we know and love. A new saga begins, and we share our anticipation with gamers throughout the world!

We realize there's much work ahead of us, but watching our transformation and the direction in which we're heading fills us with satisfaction. I would like to extend my deepest thanks to our employers for their involvement, and to gamers and shareholders for their continued trust and support. After all, our goal remains the same – to create peerless works which offer unforgettable entertainment and contribute to the long-term value of CD PROJEKT.

Respectfully,

Adam Kiciński



Table of Contents

6	Brief description of the CD PROJEKT Group
7	Activity profile
10	Values and ethics
12	CD PROJEKT S.A. on the capital market
16	CD PROJEKT Group activity profile
21	Organizational structure of the CD PROJEKT Group
23	Disclosure of business segments, products and services, outlets, suppliers and clients
43	Disclosure of external and internal factors affecting further growth of the CD PROJEKT Group
46	Disclosure of significant achievements in the scope of research and development activities
47	Disclosure of significant agreements
47	Risk management at the Group
60	Financial results of the CD PROJEKT Group
61	Overview of key economic and financial indicators disclosed in the consolidated and separate financial statement
91	Corporate Governance
92	Entity contracted to audit financial statements
93	Shareholders controlling at least 5% of the vote at the General Meeting
94	Agreements which may result in changes in the proportions of shares held by shareholders and bondholders
96	Information regarding the control system of employee share programs
96	Disclosure of the purchase of own shares
97	Company shares held by members of the Management Board and the Supervisory Board
97	Management structure
98	Composition of the Management Board of CD PROJEKT S.A.
99	Changes in the composition of the Management Board of CD PROJEKT S.A.
100	Composition of the Supervisory Board of CD PROJEKT S.A.
100	Changes in the composition of the Supervisory Board of CD PROJEKT S.A.
101	Gross compensation of members of the Management Board and Supervisory Board of CD PROJEKT S.A.
103	Compensation paid out in the framework of share-based incentive schemes
105	Assignment of benefits to Management Board members
105	Remuneration of Supervisory Board members
106	Changes in basic management practices at the Company and its Group
106	Corporate governance policies
107	Disclosure of significant legal proceedings



Key events of 2021

CD PROJEKT RED continued its work on updating *Cyberpunk 2077*, releasing 5 patches and 3 hotfixes in 2021¹

In March CD PROJEKT unveiled its updated strategy for the coming years, which involves, among others, transformation of the Studio (called RED 2.0) and parallel development of two AAA games starting in 2022

Within the framework of the RED 2.0 transformation project, 17 cross-functional agile teams have been established – these teams are now at work on the *Cyberpunk 2077* expansion, among others

Two development studios – Digital Scapes (later rebranded as CD PROJEKT RED Vancouver) and The Molasses Flood – joined the Group

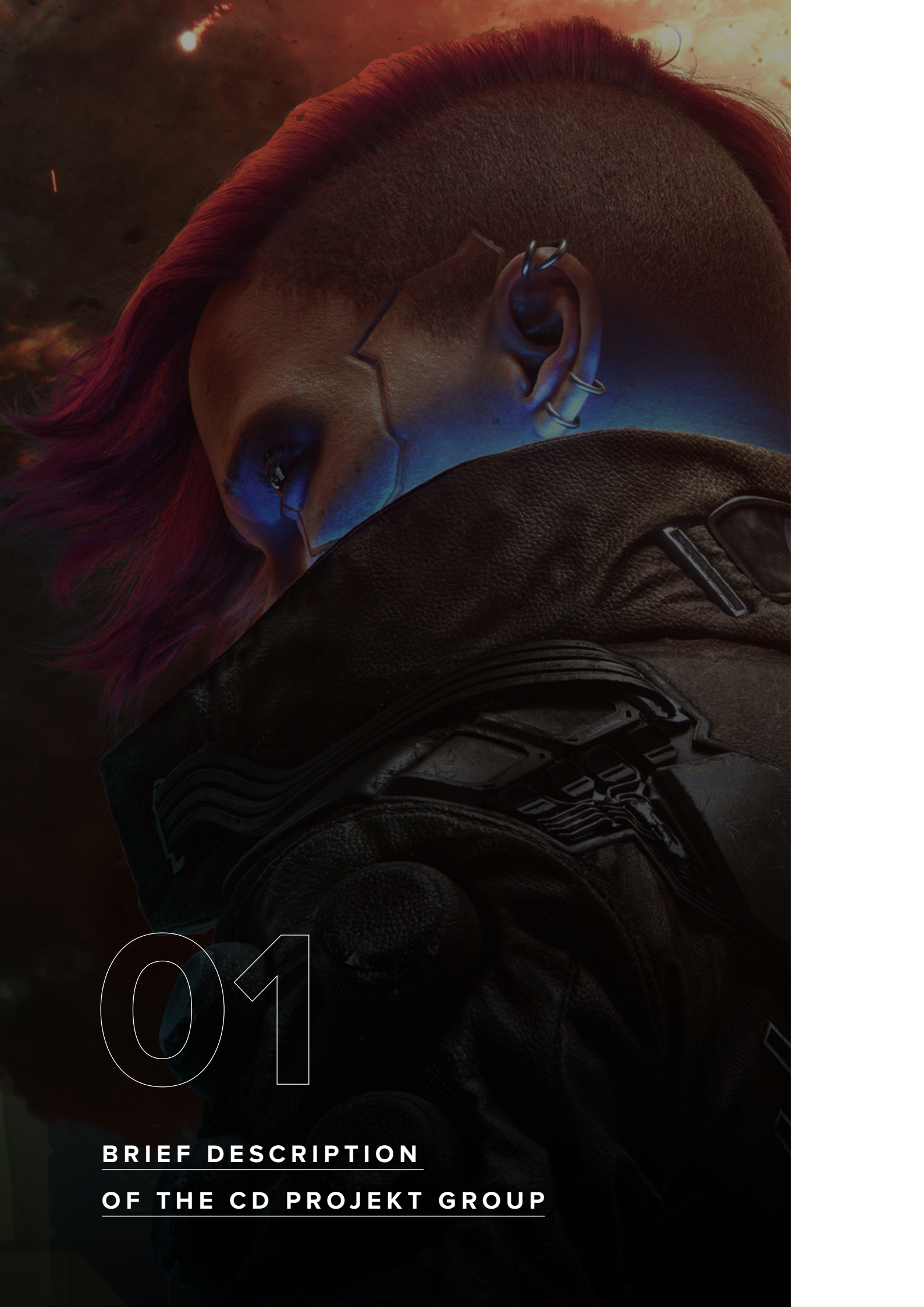
CD PROJEKT paid out its highest-ever dividend, at 504 million PLN, i.e. 5 PLN per share

WitcherCon – an event targeting fans of *The Witcher* franchise, co-organized with Netflix – took place on 9 and 10 July

In July the Group released *The Witcher: Monster Slayer* its first location-based AR mobile game, developed by Studio Spokko

Thronebreaker: The Witcher Tales was released for Android devices in June

¹ Altogether, between 10 December 2020 and the publication date of this report, 7 patches and 6 hotfixes have been released



01

BRIEF DESCRIPTION
OF THE CD PROJEKT GROUP

Activity profile

CD PROJEKT S.A. (also referred to as CD PROJEKT or the Company), headquartered in Warsaw, conducts business activities in the dynamically growing global digital entertainment segment. These activities have been ongoing on the domestic market for nearly 30 years under the CD PROJEKT brand name, and 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). Pivotal moments 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 RPG² – *The Witcher* – as well as in 2008, with the launch of GOG.COM.



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

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

CD PROJEKT RED

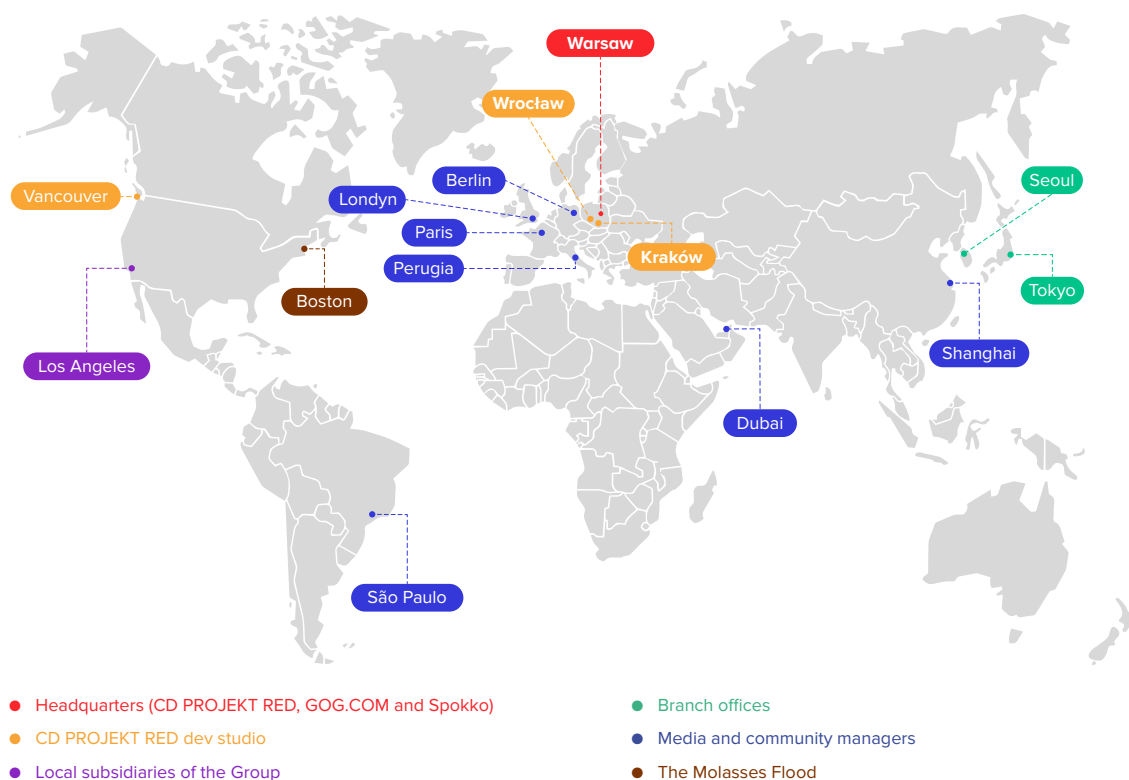
Developing and publishing videogames and tie-in products which exploit the commercial appeal of brands owned by the Company.

GOG.COM

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

During the reporting periods 97.6% of the CD PROJEKT Group's sales revenues were generated by exports. Throughout 2021 North America and Europe accounted for 73.2% and 15.8% of the Group's sales respectively. 86.5% 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



GROWTH STRATEGY

In March 2021 a Strategy Update was published by the Group, defining its mission statement as follows:

- To create revolutionary story-driven RPGs, which go straight to the heart of gamers from around the world;
- To be counted among the world's top three video game developers;
- To ensure a lasting place for our brands in the global popular culture.

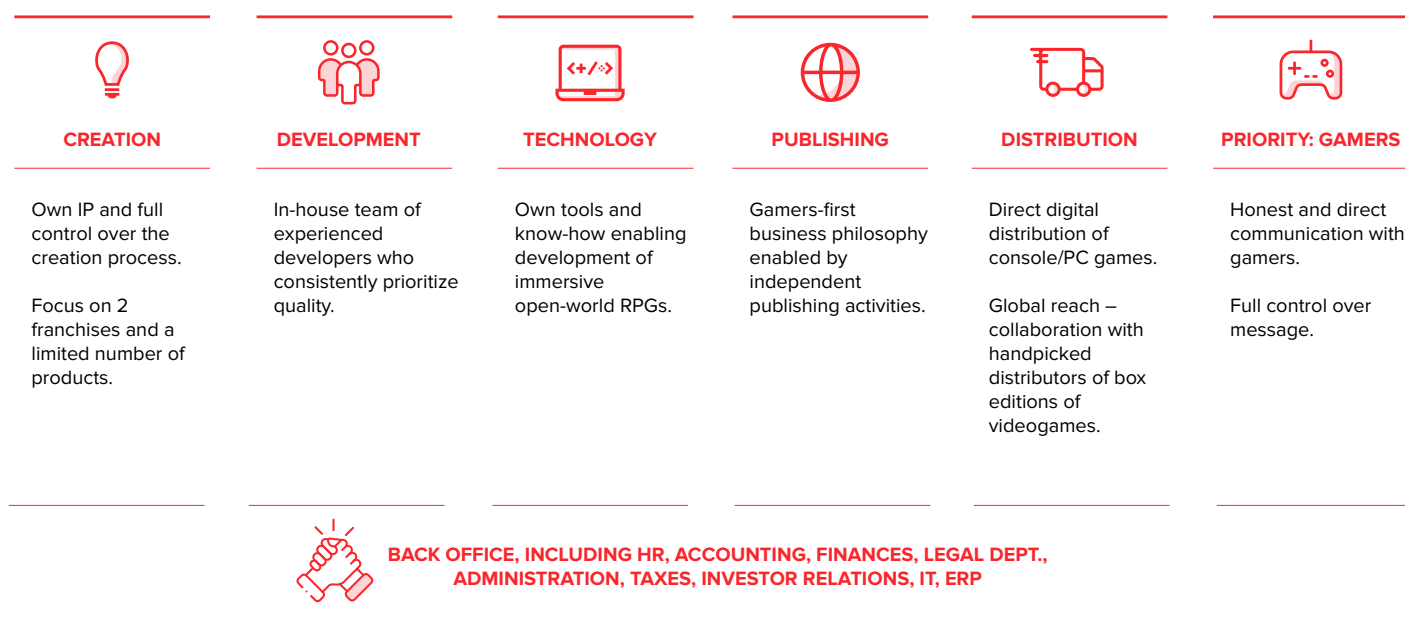
The document also charts three major areas where changes and growth is expected:

- RED 2.0 – the transformation of the studio will entail, among others, a change in its philosophy and approach to developing AAA games, implementing a more agile production cycle to enable parallel work on products representing two major franchises; changes in management practices and the work environment to foster expansion of the team and talent support, and changing ways in which the studio communicates with gamers;
- Brand development – going beyond AAA RPGs and exploiting the appeal of both *The Witcher* and *Cyberpunk* through new products, collaborations, media types and formats, in order to further enhance the reach, recognition and strength of both brands;
- Online development – enriching our IPs and future games with online elements.

A thorough presentation of the assumptions underpinning the strategy update can be found on the [Company website](#).

The Company's solid financial backbone is one of the elements which will support its further growth, enabling it to maintain creative independence and seek new ways of improvement, both as a business and as a studio – thus realizing its mission statement.

Scheme 1 Videogame development business model at CD PROJEKT RED



Values and ethics

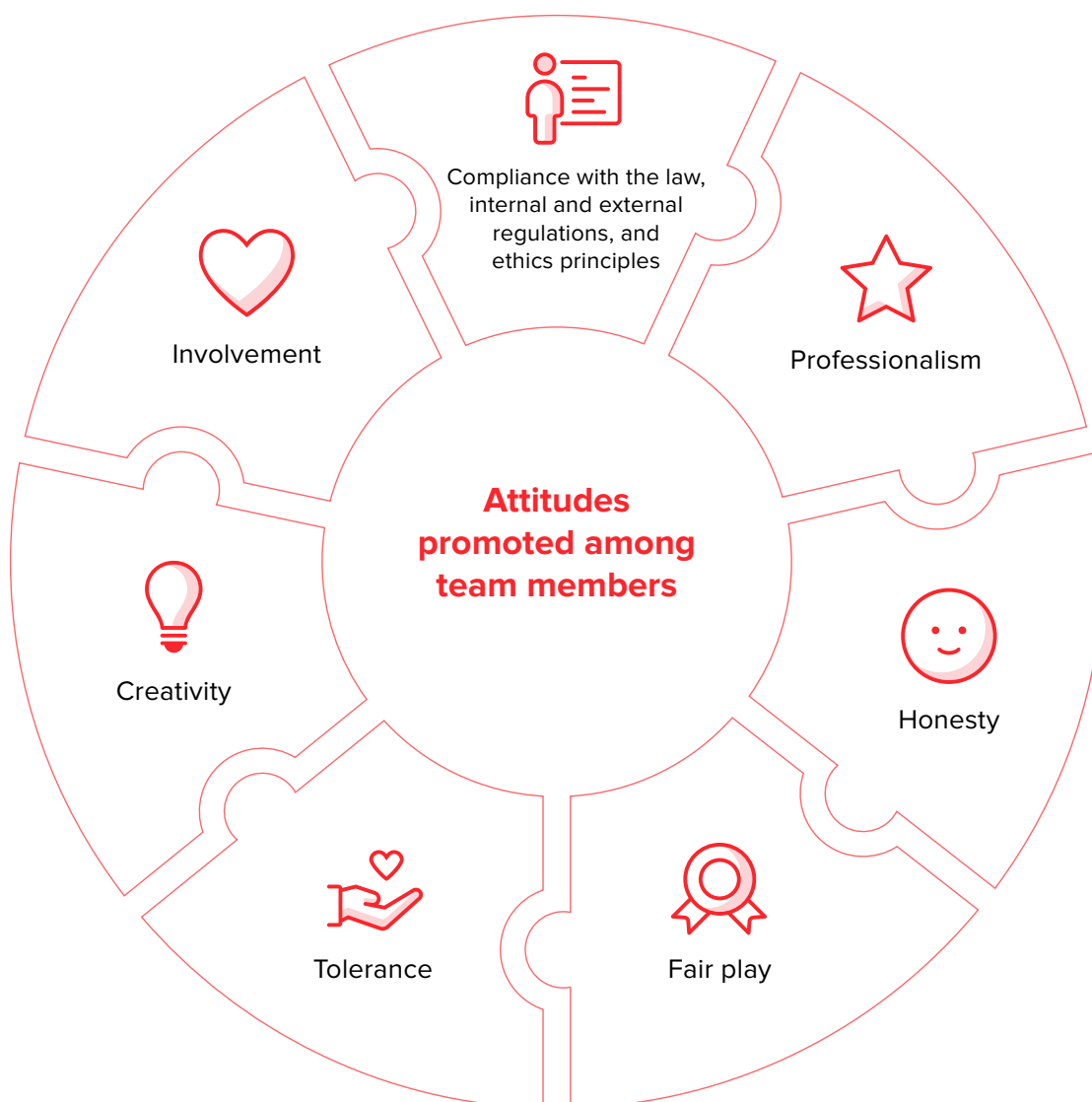
The Group's organizational culture is based on fair treatment of all stakeholders. In our dealings with shareholders, gamers and team members, we strive to be as transparent and ethical as possible.

Core values which guide the Group in its activities are as follows:

- Quality is our priority
- A talented and passionate team is our strength
- We stand for tolerance, honesty and openness
- We regard independence as a cornerstone of creative freedom
- Gamers are always in our focus



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



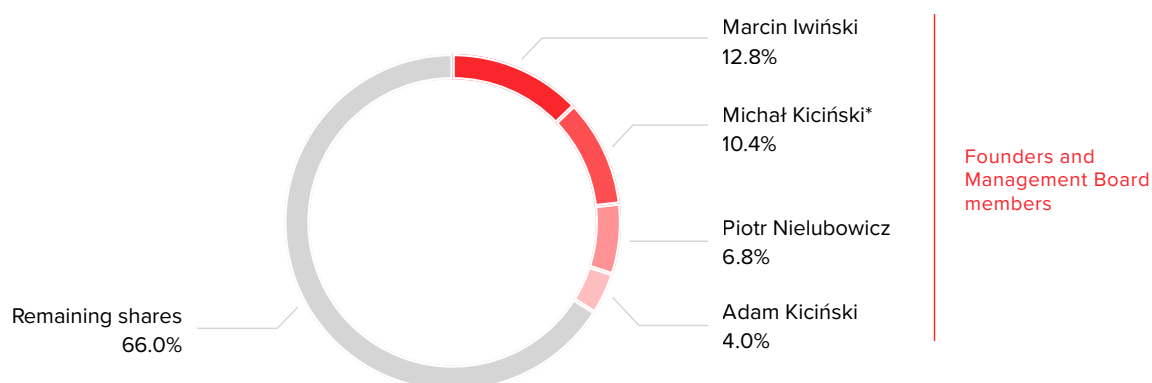
These values are an important aspect of our organizational culture. They support us in pursuing our goals, and they help make CD PROJEKT unique. Further information about the CD PROJEKT organizational culture can be found in the **CD PROJEKT Group's 2021 Sustainability Report**.

CD PROJEKT S.A. on the capital market

The CD PROJEKT brand has been present on the Warsaw stock exchange since 2010, when – as a result of an investment agreement concluded in 2009 by CDP Investment sp. z o.o.³ 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.

100 738 800 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.

Chart 1 Company shareholding structure as of the publication date of this report**



* According to a notice filled on 26 May 2021

**According to Current Report no. 9/2022 of 1 April 2022 the aggregate percentage share of votes controlled by The Goldman Sachs Group Inc. as a result of holding shares (0.41%) and other financial instruments (4.68%) was 5.09% as of 29 March 2022

In 2021 a change in the ownership structure of large stock packages took place following the vesting of the groupwide incentive program, in force between 2016 and 2019. 84 176 newly issued Series M shares were admitted to organized trading, following their take-up by entitled parties in the exercise of 84 176 subscription warrants entitling holders to claim newly issued shares in the framework of a conditional increase in the Company share capital. Consequently, by the end of 2021 the number of Company shares outstanding increased by 84 176.

As of the publication date of this report there remain 32 000 unexercised Series B subscription warrants entitling holders to claim the equivalent number of Series M shares. These warrants will expire on 31 October 2022.

³ Former CD PROJEKT Group holding company

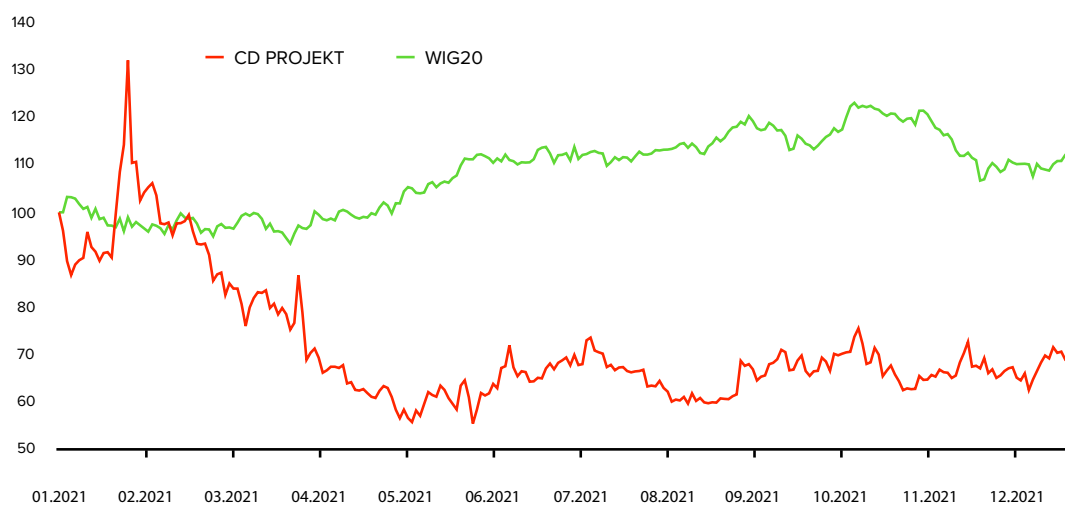
Since March 2018 CD PROJEKT has belonged to the WIG20 index which represents 20 of the largest and most liquid companies listed on the Warsaw Stock Market. As of 5 April 2022 the Company contributes 5.3% to the value of this index.

CD PROJEKT belongs to the WIG.GAMES5 sectoral index which covers five largest videogame developers listed on the Warsaw market. 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.GAMES5 has been limited – as of 5 April 2022 it stands at 41.7%.

A new index, WIG-Gry, was launched on 21 March 2022, representing videogame developers traded on the main market of the Warsaw Stock Exchange. As of 5 April 2022 the Company contributes 73.3% to this index.

CD PROJEKT is also part of the WIG-ESG index launched in 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 5 April 2022, CD PROJEKT contributes 4.9% to the WIG-ESG index.

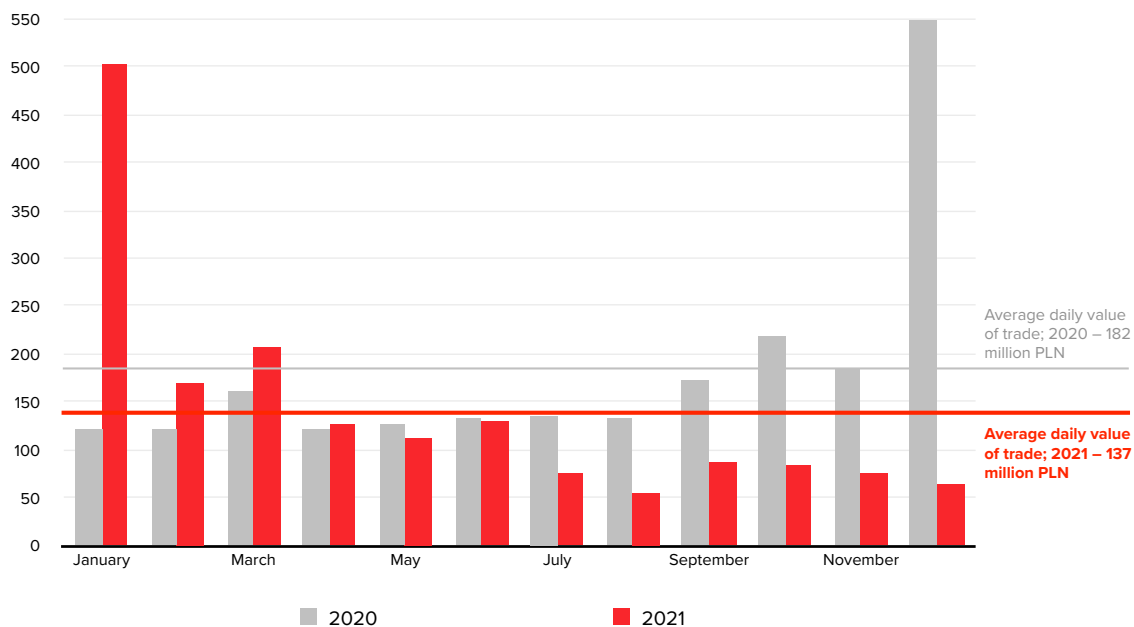
Chart 2 CD PROJEKT S.A. stock price and the WIG20 index between 1 January and 31 December 2021



Between 1 January and 31 December 2021 the Company stock price fluctuated between 153.38 PLN (1 June 2021) and 365.00 PLN (28 January 2021). During this period the stock price decreased by 29.8%, to 192.90 PLN at the close of the trading day on 30 December 2021. Over the same period the WIG20 index gained 14.3% while the main WIG index gained 21.5%.

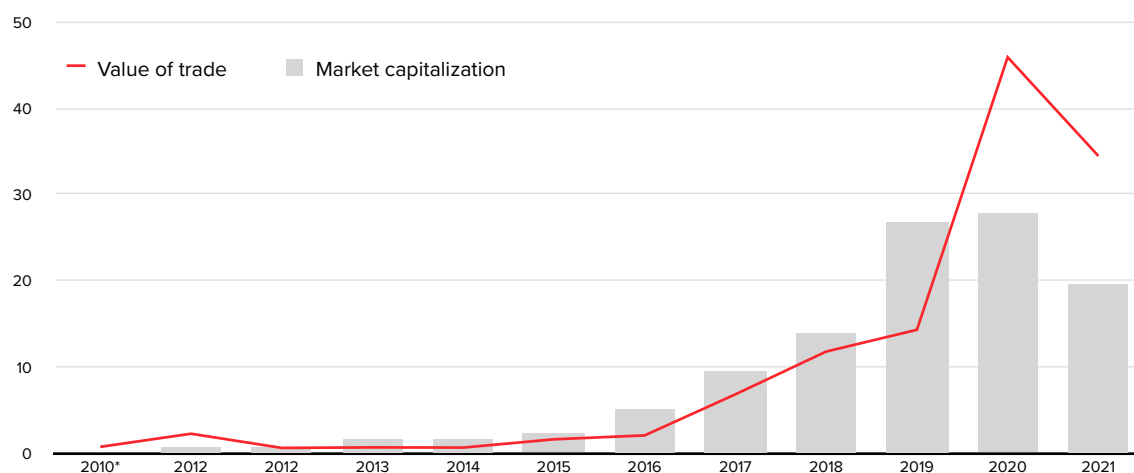
At the end of 2021 the Company's market capitalization was 19.4 billion PLN.

Chart 3 Average daily value of trade in CD PROJEKT S.A. shares (by month) between 1 January and 31 December 2021 (PLN millions)



In 2021 the liquidity of CD PROJEKT S.A. stock, measured in terms of value of trade, decreased. The aggregate value of trade for 2021 was 34.5 billion PLN compared to 45.9 billion PLN the year before. The average daily value of trade was 137 million PLN (out of 958 million PLN for the WIG20 index), compared to 182 million PLN in 2020. A decrease was also observed in the average number of transactions per trading day – from 11 307 to 10 732.

Chart 4 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 2021 (PLN billions)

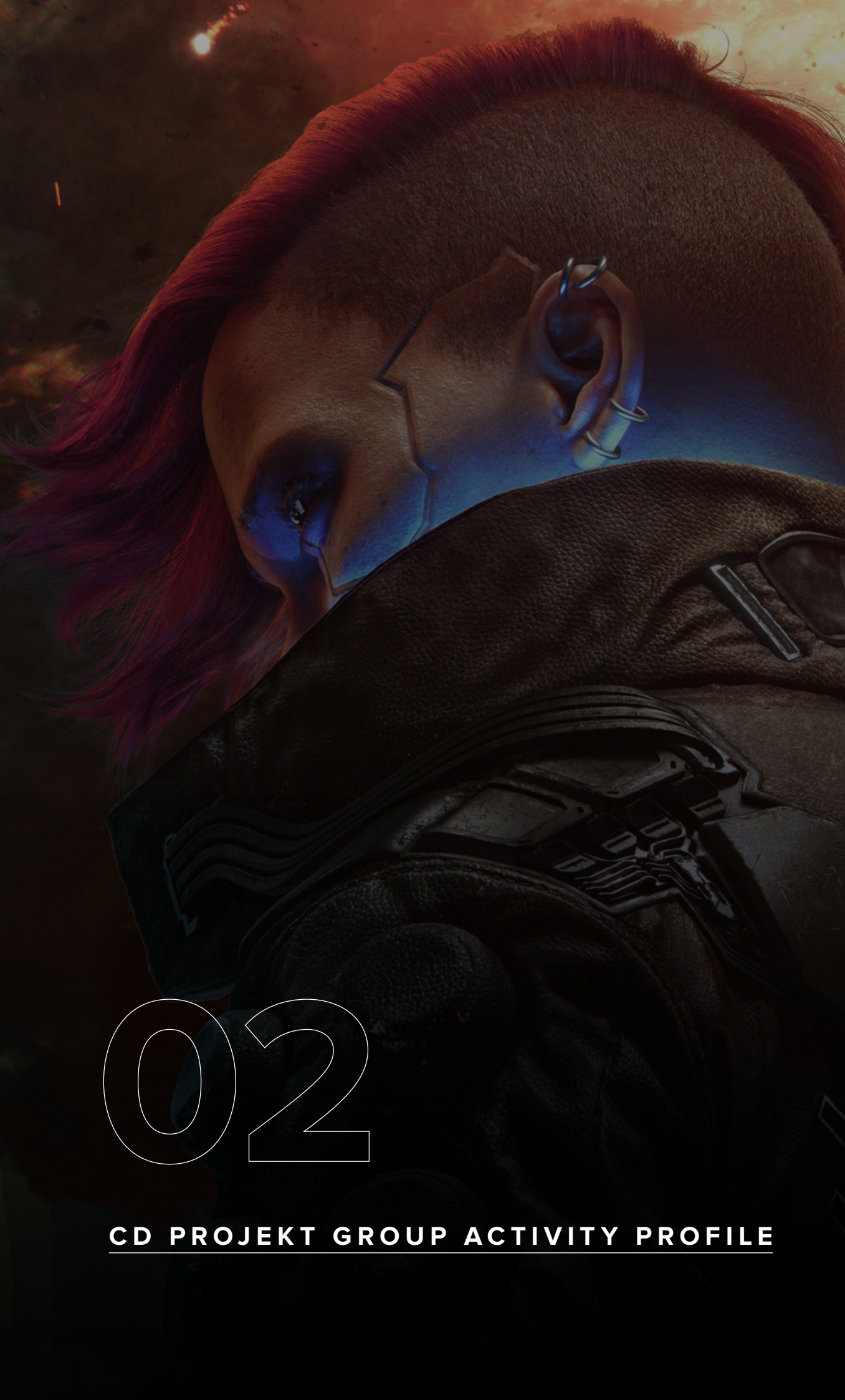


*between 01.05.2010 and 31.12.2010

Table 1 Key indicators of CD PROJEKT S.A. stock

	2021	2020	Change
Net earnings per share (PLN)	2.07	11.92	-82.7%
Quantity of shares in trading (in thousands) at end of period	100 738 800	100 654 624	0.1%
Highest closing price during fiscal year (PLN)	365.00	460.80	-20.8%
Lowest closing price during fiscal year (PLN)	153.38	216.10	-29.0%
Price at beginning of period (PLN)	276.40	286.80	-3.6%
Price at end of period (PLN)	192.90	274.70	-29.8%
Average price during period (PLN)	198.98	356.55	-44.2%
P/E ratio at end of period	93.0	24.0	287.5%
Market capitalization at end of period (PLN thousands)	19 432 515	27 649 825	-29.7%
Average number of transactions per trading day	10 732	11 307	-5.1%
Average daily value of trade (PLN thousands)	137 257	182 233	-24.7%
Average daily trading volume (shares)	633 562	536 374	18.1%

As of the publication date of this report 23 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 <https://www.cdprojekt.com/en/investors/analysts/>.



02

CD PROJEKT GROUP ACTIVITY PROFILE

CD PROJEKT Group activity profile

MARKET ENVIRONMENT AND GROWTH PROSPECTS OF THE CD PROJEKT GROUP

The CD PROJEKT 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 2024 the global videogame market will have expanded to 218.8 billion USD⁴, which implies a cumulative annual growth rate (CAGR) of 5.0% for the 2021-2025 period. According to PWC's "Global Entertainment & Media Outlook 2021-2025"⁵ report, the videogame and e-sports markets is expected to grow by 5.1% annually during this period.

The growth outlook of the 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, further development of digital means of reaching potential gamers and new game distribution channels.

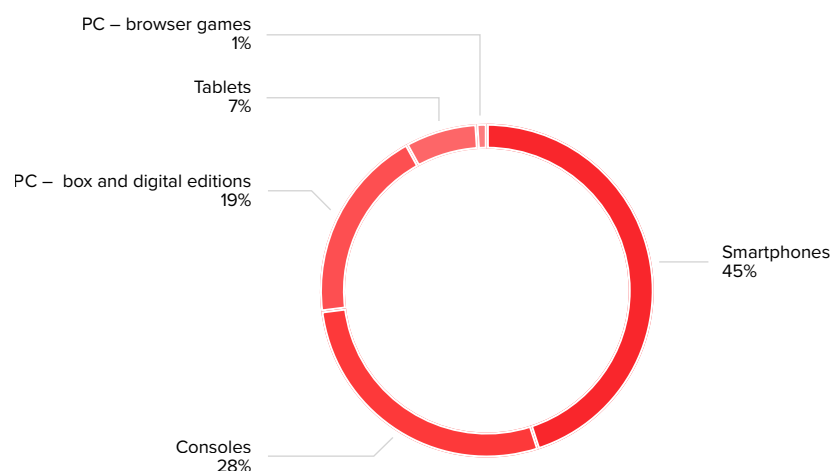
GLOBAL VIDEOGAME INDUSTRY

Newzoo⁴ – a renowned global provider of games and e-sports analytics – estimates the volume of the global videogame market at 180.3 billion USD at the end of 2021, which corresponds to a 1.4% increase over the 2020 year-end value and a 23.7% increase compared to the end of 2019. In the past year only the mobile market segment achieved growth (by 7.3% y-o-y, reaching 93.2 billion USD). Sales of PC and console games decreased, which Newzoo attribute, among others, to a lower number of new releases compared to 2020. According to these estimates the PC market shrank by 0.8%, reaching 36.7 billion USD, while the console market shrank by 6.6%, to 50.4 billion USD at the end of 2021.

4 The Games Market and Beyond in 2021: The Year in Numbers, Newzoo, 22 December 2021, accessed on: 17 February 2022, newzoo.com/insights/articles/the-games-market-in-2021-the-year-in-numbers-esports-cloud-gaming/

5 Perspectives from the Global Entertainment & Media Outlook 2021–2025, PwC, accessed on 17 February 2022, summary available at: [pwc.com/gx/en/entertainment-media/outlook-2021/perspectives-2021-2025.pdf](https://www.pwc.com/gx/en/entertainment-media/outlook-2021/perspectives-2021-2025.pdf)

Chart 5 Global videogame market in 2021 by device type (%)⁶



Estimates published by ESA (Entertainment Software Association)⁷ 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 particularly pronounced. 57% of American gamers include smartphones among their most frequently used gaming devices, with consoles and PCs coming in at 46% and 42% respectively.

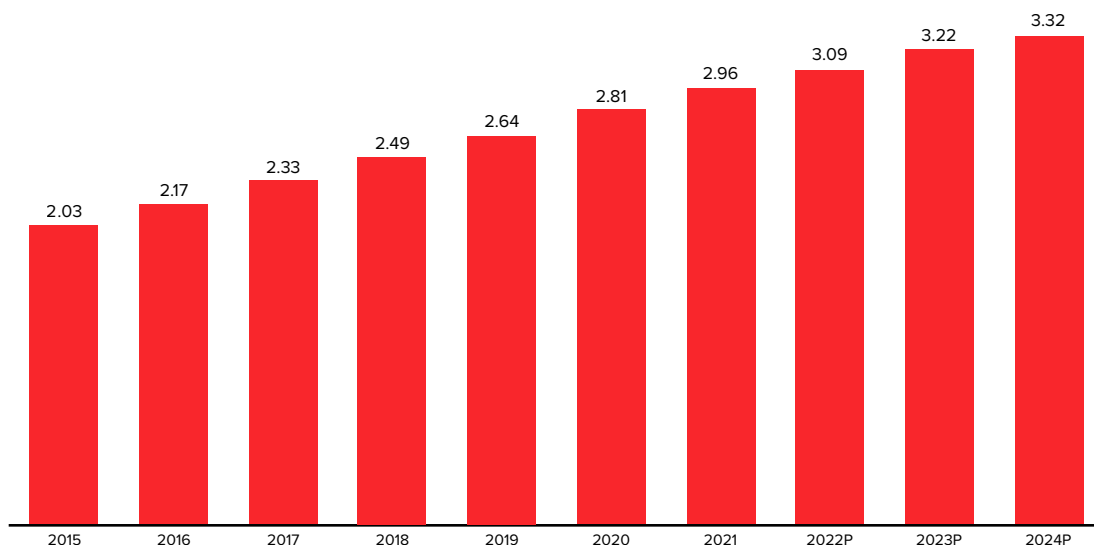
GAMERS

The global gaming community is growing each year, both quantitatively and in terms of involvement (time spent playing). Newzoo⁸ estimates that at the end of 2021 there were nearly 3 billion gamers worldwide. 2.8 billion of them accessed mobile games, while the PC and console gaming communities numbered 1.4 billion and 0.9 billion people respectively. In 2024 the total figure is expected to top 3.3 billion. Given that the 2015 there were fewer than 2 billion gamers, the cumulative annual growth rate for 2015-2024 is projected at 5.6%.

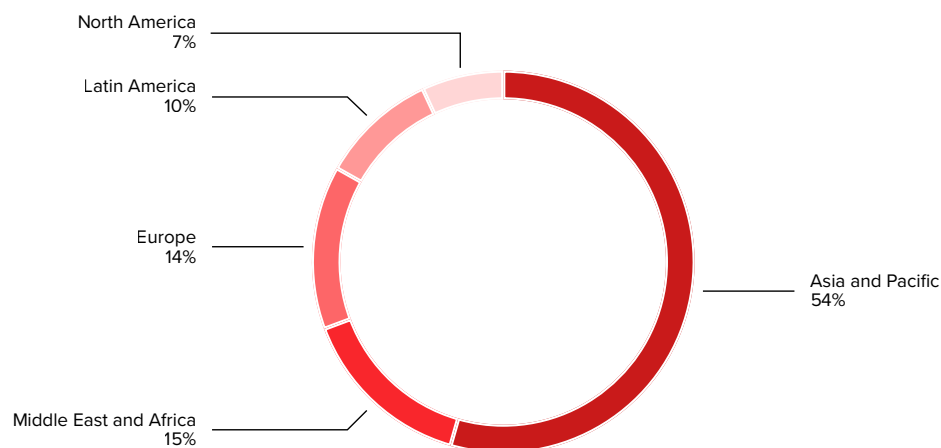
⁶ The Games Market and Beyond in 2021: The Year in Numbers, Newzoo, 22 grudnia 2021 r., accessed on 17 February 2022, newzoo.com/insights/articles/the-games-market-in-2021-the-year-in-numbers-esports-cloud-gaming/

⁷ 2021 Essential Facts About the Video Game Industry, accessed on 17 February 2022, theesa.com/resource/2021-essential-facts-about-the-video-game-industry/

⁸ 2015-2024 Global Players, accessed on 17 February 2022, newzoo.com/key-numbers/

Chart 6 Global gaming community in 2015-2024 (billions)⁹

55% of gamers¹⁰ – over 1.6 billion – reside in the Asia-Pacific region. This is followed by Middle East and Africa (434 million gamers) and Europe (408 million gamers). Middle East and Africa reported the strongest growth in 2021, having increased by 10.1% compared to 2020. Latin America and North America accounted for 289 million and 212 million gamers respectively.

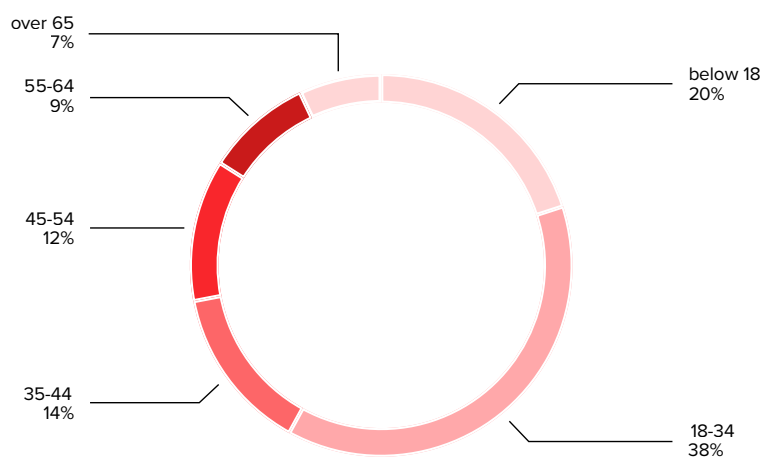
Chart 7 Global gaming community in 2021 by region (%)¹⁰

⁹ 2015-2024 Global Players, accessed on 17 February 2022, newzoo.com/key-numbers/

¹⁰ 2021 Global Players Per Region, accessed on 17 lutego 2022, newzoo.com/key-numbers/

According to ESA¹¹, 67% of US residents past age 18 and 76% of under-18s play videogames – an annual increase by 3 and 6 percentage points respectively. 45% of gaming community members identify as female. The most populous age group is the 18-34 bracket, accounting for 38% of the total 227 million-strong US gaming community.

Chart 8 US gamers by age bracket (%)¹⁰



¹⁰ 2021 Global Players Per Region, accessed on 17 February 2022, [newzoo.com/key-numbers/](https://www.newzoo.com/key-numbers/)

¹¹ 2021 Essential Facts About the Video Game Industry, accessed on 17 February 2022, theesa.com/resource/2021-essential-facts-about-the-video-game-industry/

Organizational structure of the CD PROJEKT Group

As of 31 December 2021 the CD PROJEKT Group consists of the parent entity – CD PROJEKT S.A. – and seven subsidiaries: GOG sp. z o.o., CD PROJEKT Inc., CD PROJEKT Co. Ltd. (undergoing liquidation), Spokko sp. z o.o., CD PROJEKT RED STORE sp. z o.o., CD PROJEKT RED Vancouver Studio Ltd. and The Molasses Flood LLC (a subsidiary of CD PROJEKT Inc.)

Chart 9 CD PROJEKT Group at the end of 2021 (capital and voting share)



*Consolidated companies

Table 2 Basic activity profile of each member company of the CD PROJEKT Group as of 31 December 2021

Company	Scope of activity
CD PROJEKT S.A.	The principal scope of activity of the company, carried out through its CD PROJEKT RED studio, involves 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 Group, and coordinates the activities of subsidiaries which comprise the 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 application.
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 merchandise through the CD PROJEKT RED GEAR online store throughout North America (with an office in Los Angeles).
CD PROJEKT Co. Ltd. (undergoing liquidation)	This company, with a registered office in Shanghai, is currently undergoing liquidation. Its principal scope of activity involved representing the CD PROJEKT Group in China (coordinating publishing and marketing activities).
CD PROJEKT RED Vancouver Studio Ltd.	This gamedev studio, based in Vancouver, develops videogames within the framework of CD PROJEKT RED.
CD PROJEKT RED STORE sp. z o.o.	This entity manages the CD PROJEKT RED GEAR merch store and markets tie-in products associated with CD PROJEKT RED videogames to customers throughout the EU.
Spokko sp. z o.o.	This gamedev studio specializes in mobile releases and is responsible for the development of <i>The Witcher: Monster Slayer</i> .
The Molasses Flood LLC	This gamedev studio, based in Boston, is working on a separate project based upon one of CD PROJEKT Group's IPs.

The above member companies of the CD PROJEKT Group, with exception of CD PROJEKT Co. Ltd., Spokko sp. z o.o., CD PROJEKT RED Vancouver Studio Ltd. and The Molasses Flood LLC were subject to full consolidation as of 31 December 2021. Detailed information can be found in the *Consolidated Financial Statement of the CD PROJEKT Group for 2021*.

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

In 2021 the Group conducted business activities in two segments:

- CD PROJEKT RED,
- GOG.COM.

CD PROJEKT RED

Target and scope of business activities

Developing and publishing videogames represents the main area of activity of the CD PROJEKT RED studio. It bases upon brands owned by the Company – CD PROJEKT RED is globally recognized for *Cyberpunk 2077* and for its series of *The Witcher* games – all of which are its flagship brands. It also develops *GWENT: The Witcher Card game*, an online card game with built-in microtransaction support.



The segment's 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.

This segment also includes the online merch store at gear.cdprojektred.com which markets products to fans of CD PROJEKT RED brands.

Key products

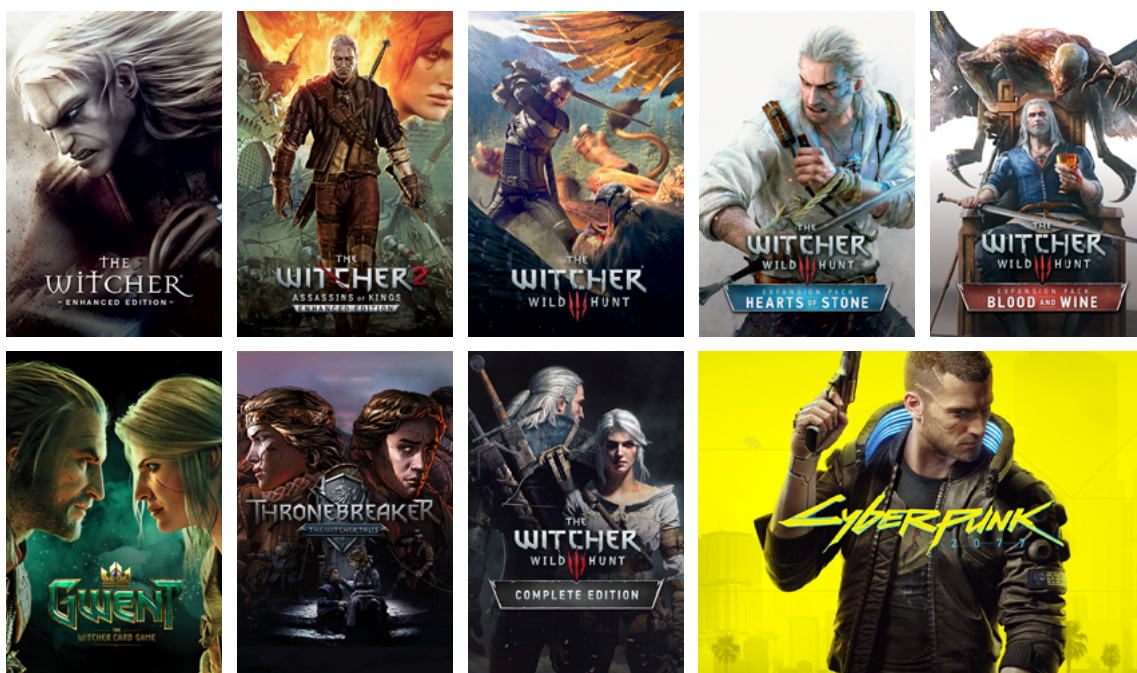
Videogame development commenced in 2002 and initially focused on the studio's RPG debut: *The Witcher*. This game, set in Andrzej Sapkowski's fantasy world, was released in 2007 to global acclaim, garnering over 100 awards and accolades.

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*, two expansion packs for the latter (Hearts of Stone and Blood and Wine) as well as *Cyberpunk 2077* – the Studio's first game set in the *Cyberpunk* universe, launched on 10 December 2020.

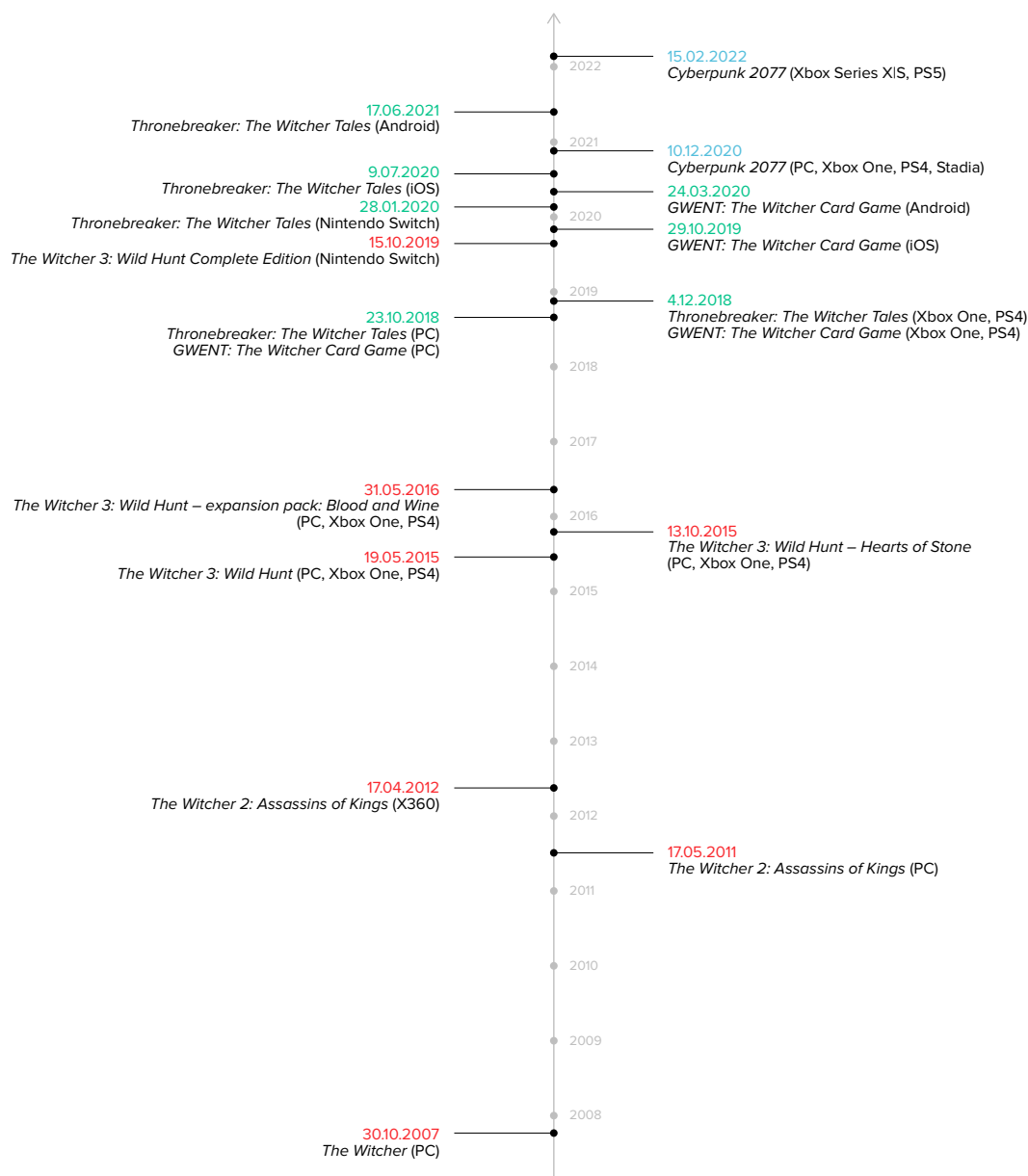
In 2018 the Company released the full version of *GWENT: The Witcher Card Game* (PC, iOS, Android), as well as a single-player game – *Thronebreaker: The Witcher Tales* (PC, iOS, Nintendo Switch, Xbox One, PlayStation 4), built around similar gameplay mechanics.

On 17 June 2021 *Thronebreaker: The Witcher Tales* was released for Android devices.

On 15 February 2022 CD PROJEKT RED released the dedicated next-gen console edition of *Cyberpunk 2077*.



Scheme 2 CD PROJEKT RED releases; 2007-2022



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, meteorite dust, add-ons, passes).

Digital distribution agreements concluded by the Company 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 2021 the most important CD PROJEKT RED products from the point of view of revenues were:

- *Cyberpunk 2077*,
- *The Witcher 3: Wild Hunt*, together with its expansions – *Hearts of Stone* and *Blood and Wine*.

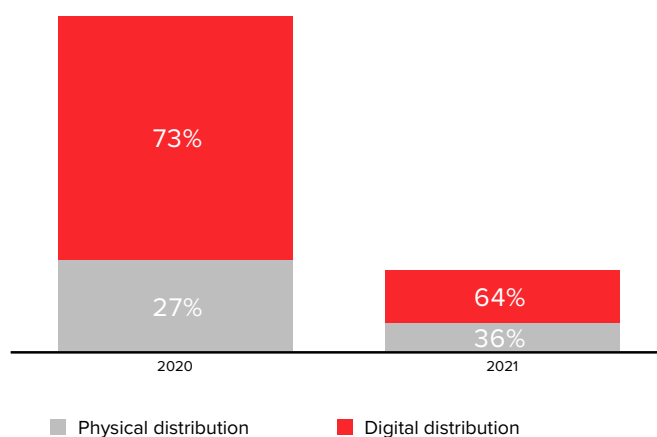
Revenues were also generated – to a lesser degree – by micropayments in *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. Additionally, the Company offered earlier instalments in *The Witcher* franchise, including *The Witcher* and *The Witcher 2: Assassins of Kings*, both of which continue to attract players and generate revenues.

By the publication date of this report aggregate sales of games from *The Witcher* saga topped 65 million copies, including more than 40 million copies of *The Witcher 3: Wild Hunt*.

The sell-through figures for *Cyberpunk 2077* shown below represent the Company's estimates concerning purchases of the game by retail clients in physical outlets.

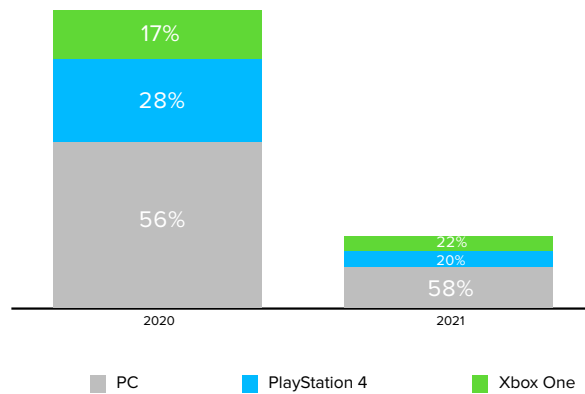
In 2021 64% of *Cyberpunk 2077* units sold were digital editions of the game.

Chart 10 *Cyberpunk 2077* – retail sales to gamers (sell-through) by distribution type (units sold; source: Company estimates based on information collected from distributors)

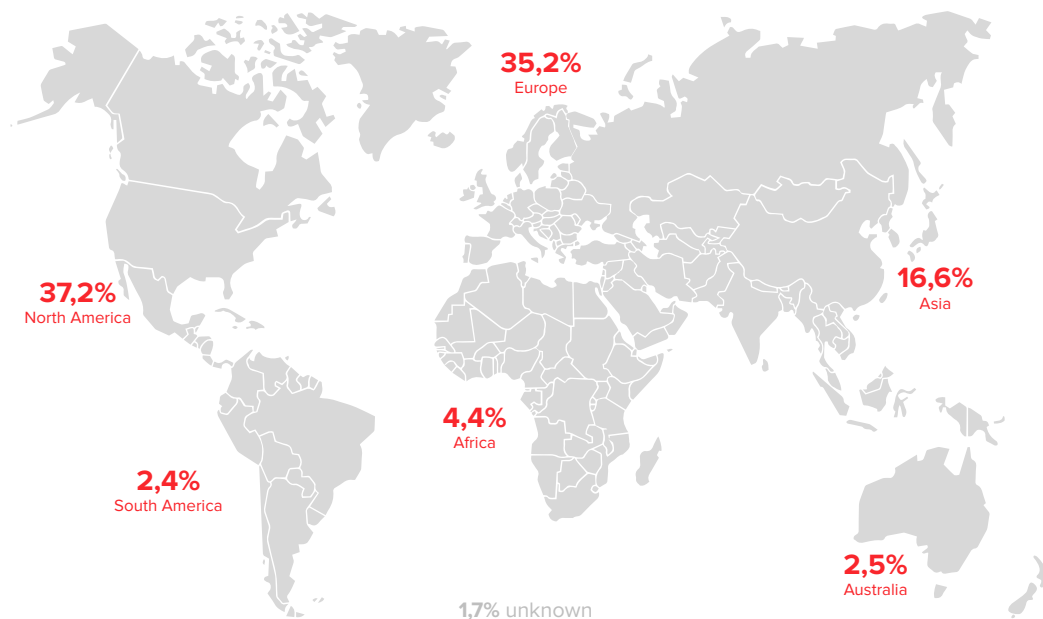


In 2021 the PC edition accounted for the largest share of *Cyberpunk 2077* unit sales.

Chart 11 *Cyberpunk 2077* – retail sales to gamers (sell-through) by platform type (units sold; source: Company estimates based on information collected from distributors)

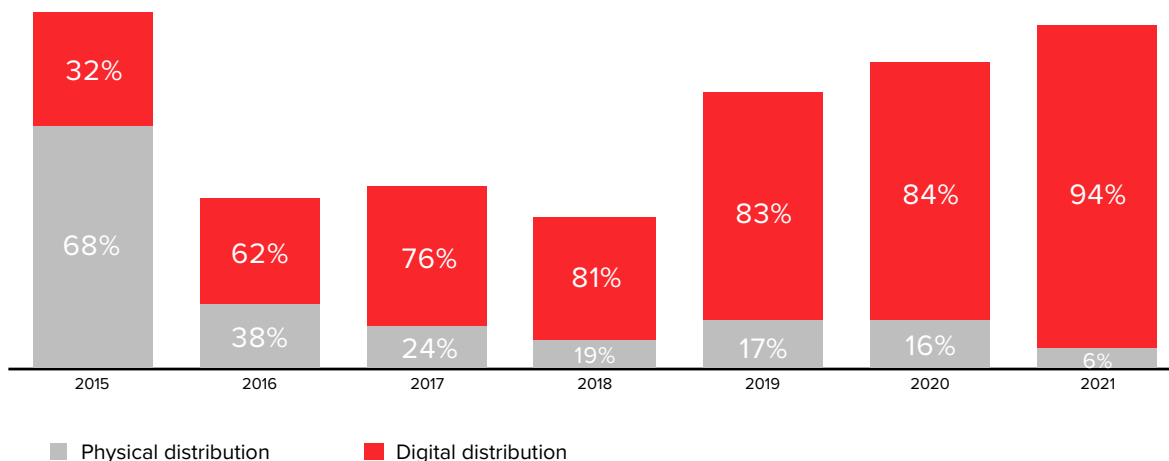


Map 2 Purchases of *Cyberpunk 2077* by region (2021)



The Witcher 3: Wild Hunt continued to sell well in 2021: with regard to the number of units sold, this was the second best year in the game's history. Digital channels accounted for 94% of these sales.

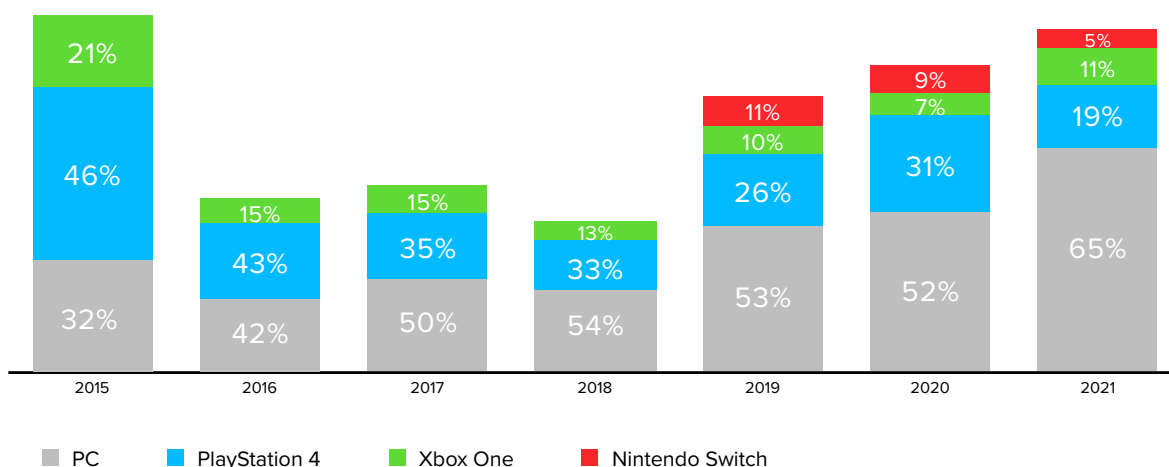
Chart 12 Sales of *The Witcher 3* by distribution channel (units sold; sell-in figure)¹²



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.

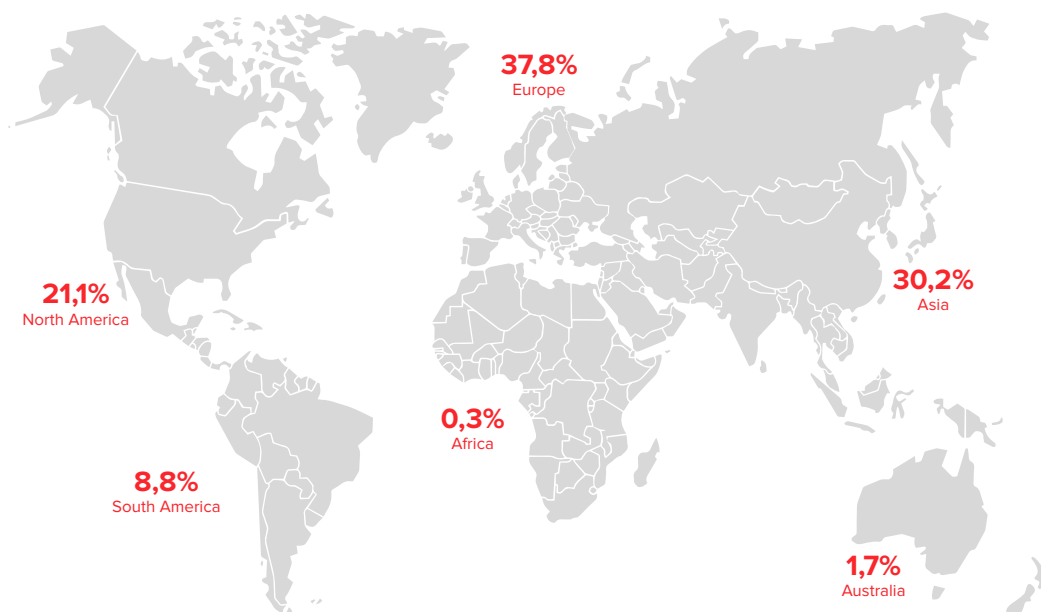
In 2021, much like in the preceding years, most purchases of *The Witcher 3: Wild Hunt* involved the PC edition of the game.

Chart 13 Sales of *The Witcher 3* by hardware platform (units sold; sell-in figure)¹²



¹² historical figures have been revised

Map 3 Purchases of *The Witcher 3* by region (2021)



Key suppliers and clients

Within the CD PROJEKT RED activity segment, the Group carries out active distribution of its games for various hardware platforms, through leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Epic Games Store, Nintendo, Stadia, Apple App Store, Google Play and Humble Bundle, along with its own proprietary GOG.COM platform) as well as 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, Cenega S.A., Spike Chunsoft Co., Ltd., Soft Club LLC).

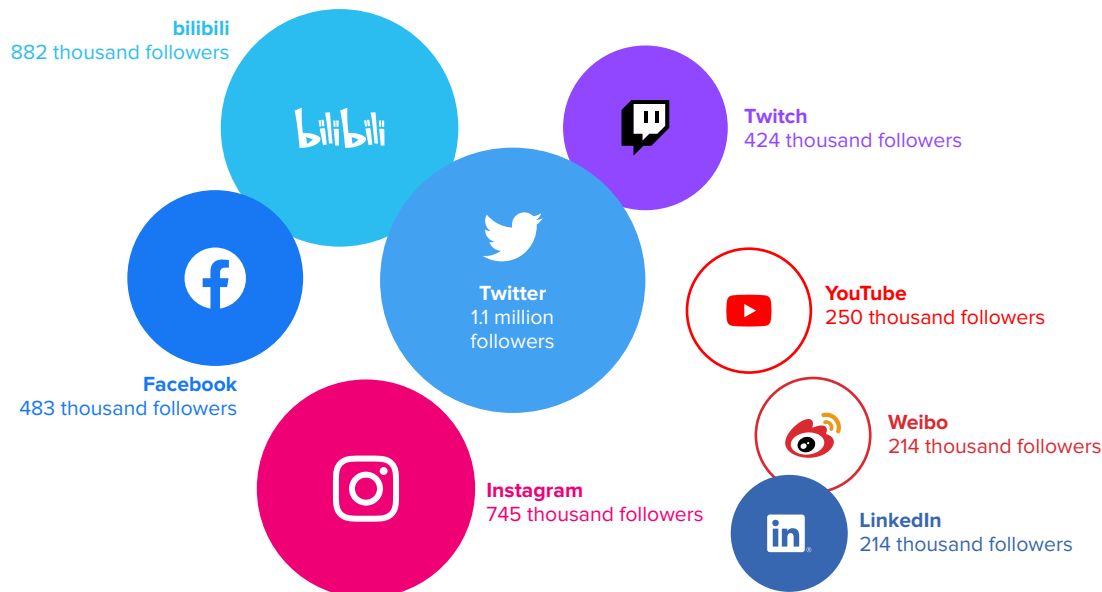
In 2021 sales to two clients exceeded 10% of the Group's consolidated sales revenues and totaled 265 675 thousand PLN and 150 911 thousand PLN respectively (29.9% and 17.0% of the Group's sales revenues respectively). These clients are not affiliated with CD PROJEKT S.A. or any of its subsidiaries. No 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 technical 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 Group in 2021.

Communication

CD PROJEKT RED prides itself on direct and honest communication 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).

Scheme 3 Followers and subscribers of CD PROJEKT RED social media profiles as of 10 March 2022



Key product and marketing events

Cyberpunk 2077

On 13 January 2021 in an official video feed, Marcin Iwiński confirmed that the Studio would continue to work on updating *Cyberpunk 2077*. The feed also presented plans regarding further work on the game in 2021, including patches and updates, as well as free DLC. By the publication date of this report CD PROJEKT RED had released a total of 13 updates for *Cyberpunk 2077*, introducing numerous gameplay improvements.

In 2021 *Cyberpunk 2077* received a number of awards. The game was acknowledged by gaming outlets – among others for its storyline, characters, soundtrack and RPG gameplay. It was also named 2020 Game of the Year by CD Action, Gry Online, IGN, Benchmark, Filmweb (PL) and Gameheadquarters (US) and SECTOR (SK). *Cyberpunk 2077* was furthermore nominated for the highly prestigious BAFTA and VES awards. At CEEGA'21 (Central & Eastern European Game Awards) held in Poznań, *Cyberpunk 2077* won three trophies: Best Audio, Best Narrative and the gala's main award – Best Game. For its part, the Japanese editorial board of IGN named *Cyberpunk 2077* Game of the Year and also presented it with awards for Best Sound and Best Visual Effects.

On 21 June the digital availability of *Cyberpunk 2077* was reinstated on PlayStation Store.

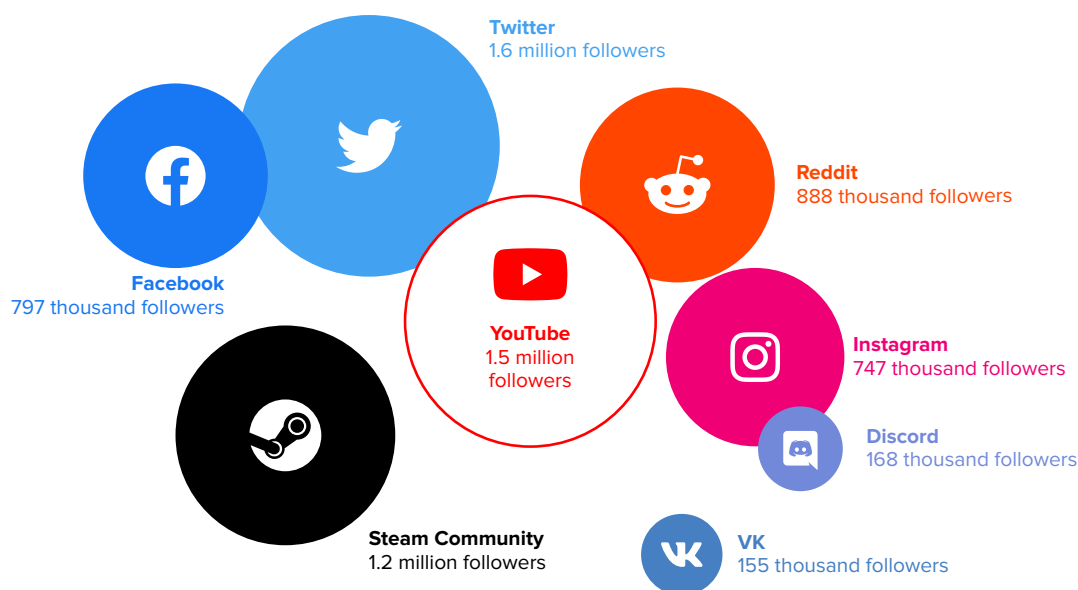
On 20 October 2021 CD PROJEKT RED announced that the planned releases of next-gen versions of *Cyberpunk 2077* and *The Witcher 3: Wild Hunt* would be postponed to the first and second quarter of 2022 respectively.

Cyberpunk 2077 won further accolades in early 2022: the game was nominated, among others, for Steam Awards 2021, eventually carrying the “Story-Rich Game” category.

On 15 February 2022 CD PROJEKT RED's official Twitch channel hosted a stream devoted to key new features and changes introduced by Patch 1.5 for *Cyberpunk 2077*. As the stream was drawing to a close, studio representatives surprised the audience by announcing that the patch had just been released on all supported

hardware platforms, including next-gen consoles, alongside the new edition of *Cyberpunk 2077* targeting Playstation 5 and Xbox Series X|S. A five-hour trial version of the game was made available free of charge to all gamers, for a period of one month. The launch of the game's next-gen edition was also accompanied by a reinvigorated marketing campaign titled "Love it, or burn it", which encouraged gamers to return to Night City and see for themselves how *Cyberpunk 2077* had changed since its original release in December 2020.

Scheme 4 Followers and subscribers of *Cyberpunk 2077* social media profiles as of 10 March 2022



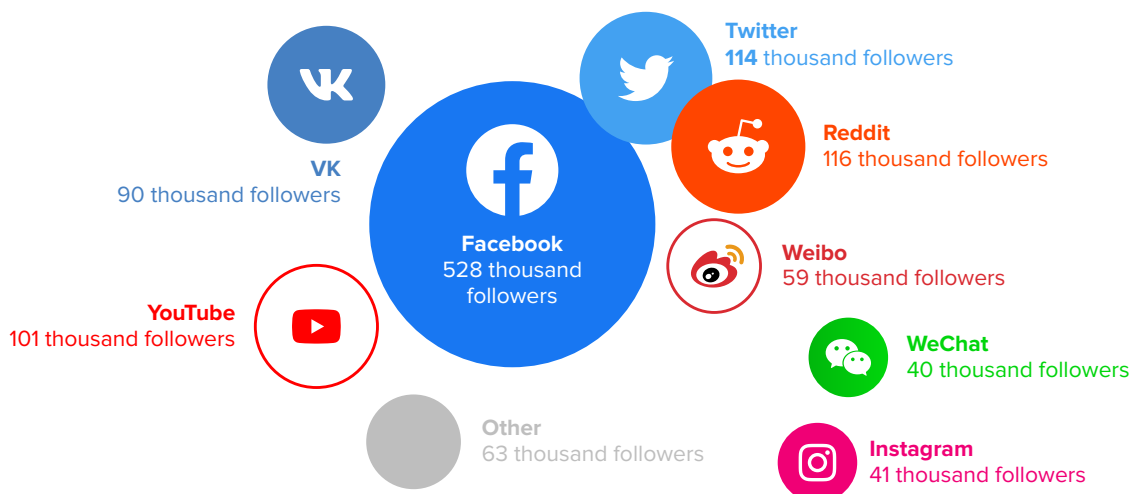
GWENT

Three *GWENT* expansions sharing a common storyline and introducing 26 new cards each were released in 2021: "Once upon a Pyre", "Thanedd Coup" and "Harvest of Sorrow". The third season of the *GWENT Masters* series was also organized during this period.

On 9 April 2021 CD PROJEKT RED announced that *GWENT: The Witcher Card Game* would be released for macOS devices incorporating the Apple M1 chip. The new macOS release support cross-platform gameplay and enables synchronization with supported PC (via GOG.COM and Steam), iOS and Android editions.

In January 2022 the Company announced that it was working on a new project dubbed "Golden Nekker", which builds upon *GWENT* gameplay. In an interview for the IGN media service Studio representatives confirmed that an entirely new single-player *GWENT* card-based adventure was under development.

Scheme 5 Followers and subscribers of GWENT social media profiles as of 10 March 2022



Events related to *The Witcher* videogame series

On 28 January 2021 CD PROJEKT RED announced that *The Witcher 3: Wild Hunt* would be available for Nintendo Switch in two versions: the Complete Edition bundle (consisting of the base game, both expansions and all free DLCs) as well as a collection of standalone products.

On 10 February 2021 Go on Board publishers and CD PROJEKT RED jointly announced a new board game: *The Witcher: Old World*. The game takes place many years before the time of Geralt of Rivia. Gamers will play as adepts of one of five witcher schools: School of Wolf, Viper, Cat, Bear or Griffin. The game's crowdfunding campaign was launched on 25 May on Kickstarter and Zagramw.to, and closed on 10 June having gathered nearly 38 million PLN. These funds will be used to prepare additional contents of the game. All supporters will also receive exclusive add-ons. The official release of *The Witcher: Old World* in two language editions (Polish and English) is scheduled for the second half of 2022.

On 7 May 2021 CD PROJEKT RED celebrated the 10th anniversary of the release of *The Witcher 2: Assassins of Kings*, as well as six years of market availability of *The Witcher 3: Wild Hunt*. As part of this double anniversary, a variety of social media activities targeting the *Witcher* community were organized in May.

On 1 June 2021 the Studio announced that *The Witcher 3: Wild Hunt* – Game of the Year Edition had been made available to PlayStation Now subscribers.

WitcherCon – the first ever event for fans of *The Witcher* universe, organized in collaboration with NETFLIX – took place on 9 and 10 June. In conjunction with this event, Twitch and YouTube held broadcasts featuring unique content as well as a range of engaging panel discussions.

During one of the WitcherCon panels the Studio announced *The Witcher: Ronin* – a new comic, inspired by the traditions of feudal Japan where Geralt is a ronin following the trail of yuki onna – also known as the Lady of Snow. Additionally, CD PROJEKT RED announced that the dedicated next-gen version of *The Witcher 3: Wild Hunt*, exploiting the additional potential of Xbox Series X, PlayStation 5 and PCs, will include unique items inspired by the Netflix series.

WitcherCon was also attended by Studio Spokko, which presented new content for *The Witcher: Monster Slayer* – a location-based AR mobile game set in *The Witcher* universe.

21 July 2021 marked the official launch of *The Witcher: Monster Slayer*. Within the game, users of iOS and Android devices may assume the role of freshly trained monster hunters. With help from advanced augmented reality, location and daytime tracking features, the game features encounters with over a hundred monsters from *The Witcher* universe. Within one month of release the game had been downloaded 1.7 million times, with strong ratings on App Store and Google Play (4.5/5 and 4.1/5 respectively).

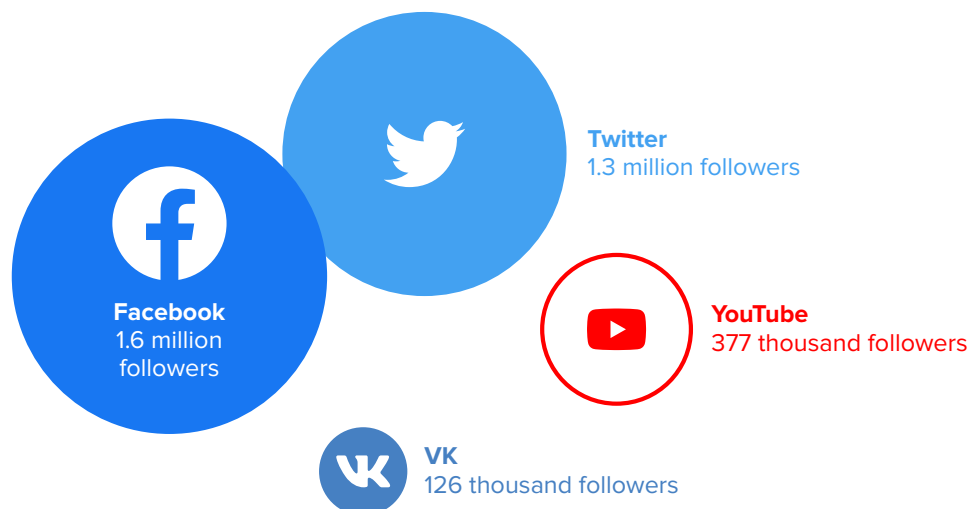
In August 2021 a Kickstarter crowdfunding campaign for the collector's edition of *The Witcher: Ronin* took place. The campaign attracted nearly 15.5 thousand supporters and reached over 750% of its original goal. The comic began shipping in March 2022.

In October a special event called Monsters' Fall was organized in the world of *The Witcher: Monster Slayer*. The chance of encountering rare and legendary monsters was increased, along with the interaction range and overall monster population. A series of Monster Weeks was also brought to the game, with new timed quests appearing each week. Additional changes involved daily quests, the weather and time display system as well as the scheme for introducing new beasts to the game, whereby gamers can encounter a new monster species every two weeks.



On 21 March 2022 CD PROJEKT RED announced that it was working on a new saga within *The Witcher* videogame series. The corresponding social media announcement teased a new medallion. Within one day of publication, the tweet (posted on the official *The Witcher* profile) attracted over 300 thousand likes and was shared more than 70 thousand times, making it the most popular tweet ever posted by CD PROJEKT RED (a near fivefold increase in likes and shares over the previous record holder – i.e. the *beep* tweet teasing *Cyberpunk 2077*, posted in 2018). The Studio also announced that the next big game set in *The Witcher* universe would be based on Unreal Engine 5.

Scheme 6 Number of followers and subscribers of *The Witcher* social media profiles as of 10 March 2022



GOG.COM

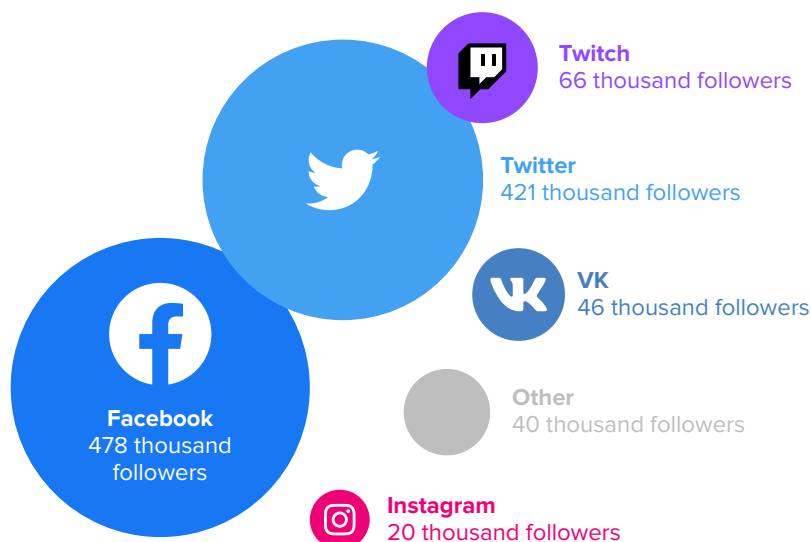
Target and scope of business activity

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.

Activities carried out in the GOG.COM segment 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, while the GOG GALAXY application provides – among others – automatic updates, cloud saves, online and cross-play features. It is also responsible for the online features of GWENT, as well as for processing in-game sales and payments within the PC edition of the game.

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 to its suppliers 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.

Scheme 7 Number of followers and subscribers of GOG.COM social media profiles as of 10 March 2022



Key products

As of the publication date of this report, the GOG.COM digital distribution platform offers over 6200 products from more than 1000 partners. This includes both timeless classics and fresh releases from such well-known brands as Bethesda, Disney, Electronic Arts, Ubisoft, Konami and Warner Bros.

The key difference between GOG.COM and its competition is its strong customer focus and the “gamers first” approach. This is evidenced, among others, by supporting the concept of ownership by striving to ensure that single-player gamers are distributed in the DRM-free model, free of restrictions which might otherwise prevent customers from enjoying their purchases. Products offered on GOG.COM are also richly featured and usually include bonus content such as soundtracks, maps and wallpapers. All games bought on GOG.COM can be returned within 30 days of purchase – the GOG.COM returns policy is among the most customer-friendly on the digital distribution market.

In addition to the above, GOG.COM ensures compatibility of its games with current versions of MS Windows, macOS and popular distributions of Linux, which is a particular advantage in the case of classic games and contributes to preservation of videogame history.

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 *Cyberpunk 2077*. Owing to GOG GALAXY in-game purchases placed by users of the PC edition of *GWENT* take advantage of GOG’s sales and payment services.

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.

Another notable source of revenue in the GOG.COM segment in 2021 was *Thronebreaker: The Witcher Tales* and *GWENT: The Witcher Card Game*, both of which were co-developed by GOG in the framework a consortium agreement. 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 by 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 by the consortium agreement.

GOG.COM's involvement in the GWENT consortium concluded at the end of 2021. Starting from 2022, GOG will not bear its share of expenses or obtain the corresponding share of revenues generated by this project. *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* will remain available for GOG.COM customers; however, cooperation and settlements between GOG.COM and CD PROJEKT S.A. will be based on standard practices related to digital distribution of videogames.

Key product and marketing events

Digital distribution of videogames

As of the publication date of this report, the GOG.COM catalog of products numbers over 6200 items.

In 2021 the catalogue was expanded, among others, with the following games: *Pathfinder: Wrath of the Righteous*, *Metro Exodus Enhanced Edition*, *Biomutant*, *Loop Hero*, *Mechwarrior 5: Mercenaries*, *EVERSPACE 2*, *Psychonauts 2*, *Inscription*, *The Medium*, *Timberborn*, *Stronghold Warlords*, *Trails of Cold Steel IV*, *Curse of the Dead Gods*, *Solasta* and *Gamedec*. GOG.COM also added classic games, including several games from the *Star Trek* series, *Blood Omen: Legacy of Kain*, *Commander Keen Complete Pack*, *Voodoo Kid*, *Operation Body Harvest*, *Corridor 7* and *M.U.L.E.*

Sales support

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

Key promotional campaigns supporting GOG.COM sales in the first half of 2021 included the We Love Games Sale, celebrating Valentine's Day; the subsequent annual Spring Sale offering discounts on over 3 thousand titles, as well as more than 20 games which users could enjoy free of charge as demos prepared especially for this occasion, and the annual Summer Sale held in June – the largest to-date event of 2021, involving over 3.5 thousand games.

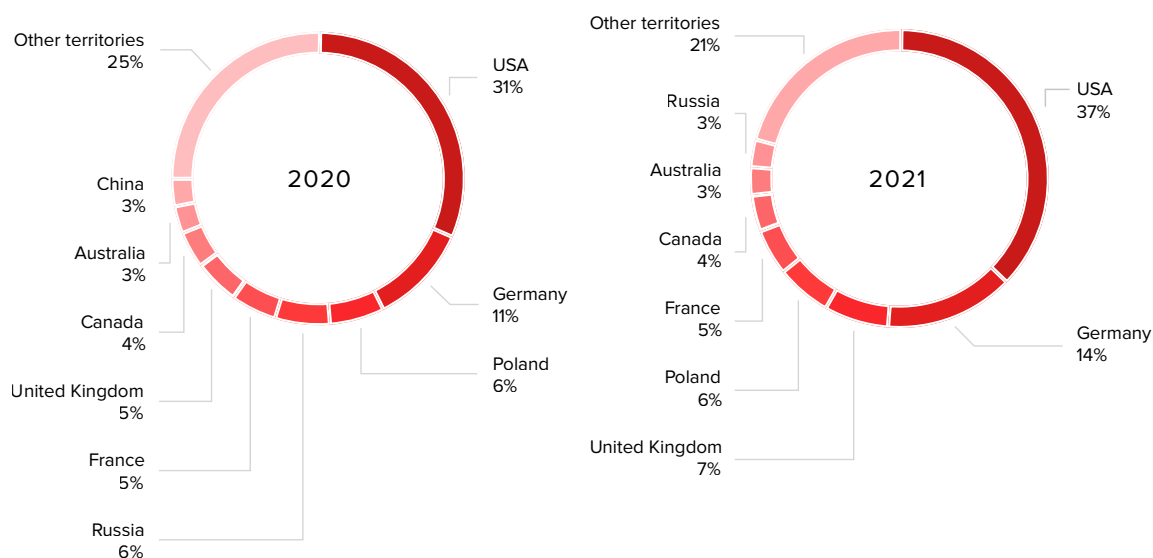
In the third quarter GOG.COM organized several promotional activities, including GOG Games Festival, French Week and a special birthday sale. September was branded as the RPG Month, with a range of articles and video feeds devoted to this genre, along with fresh releases and attractive discounts.

In line with tradition, the highlight of the fourth quarter was the Winter Sale, which involved over 4.5 thousand games and was GOG.COM's biggest promotional event of 2021. The platform's sales were also boosted by Black Friday and Cyber Monday events.

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 14 Sales of products and goods by GOG.COM in 2021 and 2020 by territory



The territorial breakdown of sales in 2021 was similar to 2020 figures. In 2021 the largest group of customers came from the United States (37%), followed by Germany (14%), the United Kingdom (7%) and Poland (6%).

As of 31 December 2021 no single supplier in the GOG.COM segment accounted for more than 10% of the Group's consolidated revenues.

KEY CORPORATE EVENTS

On 21 January 2021 the Management Board of the Company announced its current policy concerning diversification of surplus current cash. The policy specifies that debt instruments held by the Company may account for not more than 50% of the Company's current financial assets, which are defined as the sum of the following: cash and near-cash, bank deposits with maturity periods longer than 3 months, Polish State Treasury bonds, other bonds guaranteed by the Polish State Treasury and bonds issued by foreign governments, estimated at the price specified in the corresponding forward contract hedges.

On 29 January 2021 the Company was notified of a civil class action lawsuit filed in the US District Court for the Central District of California by five natural persons who had purchased videogames via the Steam platform which is owned by Valve Corporation ("Valve"). The lawsuit names Valve along with other developers and publishers of videogames, including the Company and its subsidiary which forms part of the Group – CD PROJEKT Inc., as defendants. The Plaintiffs asked the court to adjudicate whether the terms of the Steam Distribution Agreement violate US competition law. On 9 April 2021 the Company announced that allegations directed against CD PROJEKT S.A. and CD PROJEKT Inc. had been withdrawn from the filing and that consequently these entities had been excluded from the ongoing lawsuit.

In February 2021 CD PROJEKT fell victim to a hacking attack targeting its servers and CD PROJEKT RED re-sourced residing thereupon. Backups, which the Company had been creating on a regular basis, remained intact. The Management Board decided to immediately release information related to the attack and announced that it would not negotiate with hackers. The CD PROJEKT team was informed of the risks and recommended actions in relation to the attack. The incident was also reported to the appropriate authorities – the police and the Personal Data Protection Office. The Company also immediately moved to establish collaboration with providers of IT security services and commissioned a set of forensic analyses. In parallel, work began on restoring the affected systems. This involved using current backups to restore data which had been encrypted by hackers, scanning all personal computers used at the Company for malicious software and deploying new solutions to enhance IT security at the Group. The compromised resources have been fully restored and the entire infrastructure brought back into operation.

The Group subsequently commissioned an independent external audit of a wide range of its security arrangements. This was followed by drawing up a plan of further actions and improvements in the field of security, including IT security – these are currently being rolled out in a progressive fashion. Key changes involved the Company's network architecture and systems securing network access. All edge devices were replaced and the network traffic monitoring and analysis framework was redesigned. Following analysis of the internal permission management framework, access to key systems upgraded with next-generation security services. The Company's IT infrastructure was also subjected to audits and network penetration tests. Finally, security awareness courses were organized for all employees.

In March 2021 following exercise of 84 176 subscription warrants issued in the framework of the Company's incentive program covering the years 2016-2019, another batch of newly issued shares was assigned to entitled parties as a conditional increase in the Company share capital, pursuant to Resolution no. 21 of the Ordinary General Meeting of Shareholders of 24 May 2016. The shares were admitted to organized trading on 31 March 2021. As a result of the admission of Series M shares to organized trading, the Company share capital was conditionally increased by 84 176 thousand PLN, reaching 100 738 000 PLN divided into 100 738 800 shares with a nominal value of 1 PLN each.

On 30 March 2021 the Management Board published the CD PROJEKT Group Strategy Update. The new strategy includes, as one of its main points, a transformation of the CD PROJEKT RED studio, and of its game development methodology. This will enable to Studio to conduct parallel development of two AAA projects, which is set to commence in 2022. The updated strategy also entails strengthening of the Company's core IP – *The Witcher* and *Cyberpunk* – among others by entering new product areas, other than RPGs, and building expertise in the area of online gameplay. The updated strategy was discussed at length in a slide deck and video presentation available on the Company website.

On 22 April 2021 the Management Board of CD PROJEKT S.A. submitted a recommendation to the General Meeting concerning allocation of the net profit obtained by CD PROJEKT S.A. in 2020, in the amount of 1 132 234 728.22 PLN. The Board recommended that 503 694 000.00 PLN be divided among shareholders in the form of a dividend (at 5 PLN per share), with the remaining 628 540 728.22 PLN reassigned to the Company's reserve capital. The Supervisory Board subsequently endorsed this recommendation, which proposed a record date of 1 June and a payment date of 8 June 2021.

The General Meeting (GM) held on 25 May 2021 voted to approve statements and reports prepared by the Company's managerial bodies, grant discharge to members of the Management Board and Supervisory Board on account of the performance of their duties during the previous financial year, and pay out a dividend, at 5 PLN per share, financed from the Company's net profit in 2020. The General Meeting also approved an amendment to the Articles of CD PROJEKT S.A., systematizing the list of activities in which the Company engages, and approved a change in the remuneration of Supervisory Board members. Given the expiration of the Supervisory Board's term of office, the GM appointed Ms. Katarzyna Szwarz, Mr. Michał Bień, Mr. Piotr Pągowski, Mr. Maciej Nielubowicz and Mr. Jan Łukasz Wejchert to the Supervisory Board for the next term. All materials related to the General Meeting, including the wording of all adopted resolutions, can be found at www.cdprojekt.com.

On 26 May 2021 the Company was notified by one of its shareholders, Mr. Michał Kiciński, that his share in the total number of votes at the General Meeting had exceeded 10%. Following purchase of 365 410 shares of Company stock on the regulated market of the Warsaw Stock Exchange, Mr. Michał Kiciński held 10 433 719 shares and controlled 10 433 719 votes, representing 10.36% of the Company share capital and 10.36% of the total number of votes respectively.

On 15 June 2021 the Management Board disclosed the decision by Sony Interactive Entertainment concerning resumption of digital distribution of *Cyberpunk 2077* in PlayStation Store effective on 21 June 2021.

On 29 June 2021 the Company announced that it had received a transcript of a lawsuit filed against the Company and members of its Management Board by a law firm representing the lead plaintiff and other eligible holders of US securities traded under the ticker symbols "OTGLY" and "OTGLF". Court proceedings were subsequently suspended (in December 2021) pending negotiations, as a result of which on 27 January 2022 the Company was notified by its law firm of the conclusion of a formal Stipulation Agreement expressing the terms of settlement. Detailed information can be found in the section titled "Disclosure of significant legal proceedings" elsewhere in this report.

On 8 July 2021 the Company announced that it had signed an agreement concerning purchase of the Canadian Digital Scapes gamedev studio (later rebranded as CD PROJEKT RED Vancouver Studio Ltd.) with which CD PROJEKT RED had been collaborating since 2018. The Vancouver studio joined CD PROJEKT RED's three existing development teams – based in Warsaw, Kraków and Wrocław respectively – to jointly work on future projects.

On 1 October 2021 CD PROJEKT RED, in association with the "Perspektywy" educational foundation announced a scholarship program for young girls interested in pursuing a career in the gamedev industry. "Dziewczyny w grze!" (Girls at Play!) is Poland's first gamedev scholarship and mentoring program which specifically targets women – particularly high school students and inhabitants of small population centers. Participants are enrolled in a gamedev training course, supervised by a mentor – a CD PROJEKT RED representative. Financial support to cover the costs of education and professional development is also provided.

On 22 October 2021 the Company announced that it had concluded an investment agreement concerning purchase by CD PROJEKT Inc. (a subsidiary of CD PROJEKT S.A.) of The Molasses Flood gamedev studio based in Boston. In line with the agreement, CD PROJEKT Inc. acquired 60% of The Molasses Flood and a framework of transactions was agreed upon whereby CD PROJEKT Inc. would acquire the remainder of the studio, enabling its employees to be integrated in the organizational framework of the CD PROJEKT Group. The Boston studio,

founded in 2014, will closely collaborate with CD PROJEKT RED while retaining autonomy. It is currently working on a separate project based upon one of CD PROJEKT's IPs.

In the fourth quarter of 2021 the Management Board of CD PROJEKT decided to wind down its CD PROJEKT Co. Ltd. subsidiary, headquartered in Shanghai. The company is currently undergoing liquidation proceedings. Its main goal was to represent the CD PROJEKT Group in China (by coordinating publishing and promotional events) – henceforth these activities will be carried out from Poland, with support from a local community and media manager based in Shanghai.

EVENTS FOLLOWING THE BALANCE SHEET DATE

On 26 January 2022 the Supervisory Board of the Company adopted a resolution appointing Mr. Paweł Zawodny and Mr. Jeremiah Cohn to the Management Board of CD PROJEKT S.A. effective on 1 February 2022. As Management Board Member, Mr. Paweł Zawodny is responsible for the technological and organizational transformation of CD PROJEKT RED, while Mr. Jeremiah Cohn coordinates the activities of the Group's marketing and communication departments, and supervises franchise development.

On 3 March 2022 the Management Board of the Company announced that it had suspended sales of CD PROJEKT Group products and distribution of games on the GOG.COM platform in Russia and Belarus.

On 21 March 2022 the Company announced that it had concluded negotiations and signed a licensing and partnership agreement with Epic Games Epic Games International S.à r.l. The agreement concerns use of Unreal Engine by the Company as well as cooperation between the parties in the scope of enhancing and improving the engine. Under the agreement the Company gains the right to develop and publish games powered by Unreal Engine 4, 5 and subsequent versions. Epic Games will also provide dedicated technical support for games published by the Company. The agreement was concluded for a period of 15 years with a prolongation option. It places no restriction on the number of games created with the use of Unreal Engine.

On 25 March 2022 the Management Board of the Company announced its current policy concerning diversification of surplus current cash. The updated policy specifies that debt instruments held by the Company may account for not more than 80% (up from 50%) of the Company's current financial assets, which are defined as the sum of the following: cash and near-cash, bank deposits with maturity periods longer than 3 months, Polish State Treasury bonds, other bonds guaranteed by the Polish State Treasury and bonds issued by foreign governments, estimated at the price specified in the corresponding forward contract hedges. The updated policy also includes rating criteria for foreign bonds, and allows for up to 15% of total financial assets to be allocated to unhedged securities denominated in USD or EUR.

On 13 April 2022 the Management Board of the Company announced that, based on recommendations from persons in charge of development, the Company has decided to have its in-house development team conduct the remaining work on the next-gen version of *The Witcher 3: Wild Hunt*. The Company also informed that it has been in a process of evaluating the scope of work to be done and thus had to postpone the game's release, previously scheduled for Q2 2022.

EFFECT OF THE POLITICAL AND ECONOMIC SITUATION IN UKRAINE ON THE ACTIVITIES OF THE CD PROJEKT GROUP

Effect on sales

In response to the Russian armed invasion of Ukraine, on 3 March 2022 the Management Board of CD PROJEKT decided to suspend sales of CD PROJEKT Group products as well as games distributed on the GOG.COM platform on the territory of Russia and Belarus.

The Company estimates that throughout the 12-month period between March 2021 and February 2022 the aggregate share of Russia and Belarus in revenues from sales of products in the CD PROJEKT RED segment and in GOG.COM sales revenues amounted to 5.4% and 3.7% respectively.

At an early stage of hostilities the Polish currency (in which most expenses borne by the Group are denominated) weakened substantially against USD and EUR, i.e. the main currencies in which the Group obtains sales revenues. Given that most of the Group's sales are exports, this strengthening of foreign currencies against the domestic currency should be viewed as a favorable circumstance.

Risks associated with the current political and economic situation in Ukraine

The Company continually monitors the effects of the current political and economic situation in Ukraine, Russia and Belarus upon the activities of the CD PROJEKT Group.

The Company has terminated, or is in the process of terminating collaboration with Russian suppliers. At the present time the Company does not intend to initiate any further collaboration with Russian or Belorussian entities.

As of the publication date of this report the Group's operating activities proceed unhindered, and the effect of the Russian armed invasion of Ukraine do not have a significant negative impact on the Group's operations.

In the Management Board's opinion the current political and economic situation in Ukraine does not affect the quantitative data contained in the financial statement, does not provide a reason to suspect impairment of assets, should not have a significant negative effect on the Group's earnings in 2022, and does not jeopardize continuation of the Company's activities within 12 months of the conclusion of the reporting period. Given the unprecedented character of current events and significant uncertainty associated therewith – particularly the lack of reliable knowledge concerning the duration of the Russian invasion – as of the publication date of this report it is impossible to accurately predict the long-term effects of the invasion upon the condition and earnings of the Company and its Group. Any assessments and forecasts in this regard are fraught with uncertainty, and will be subject to further monitoring and analysis by the Group.

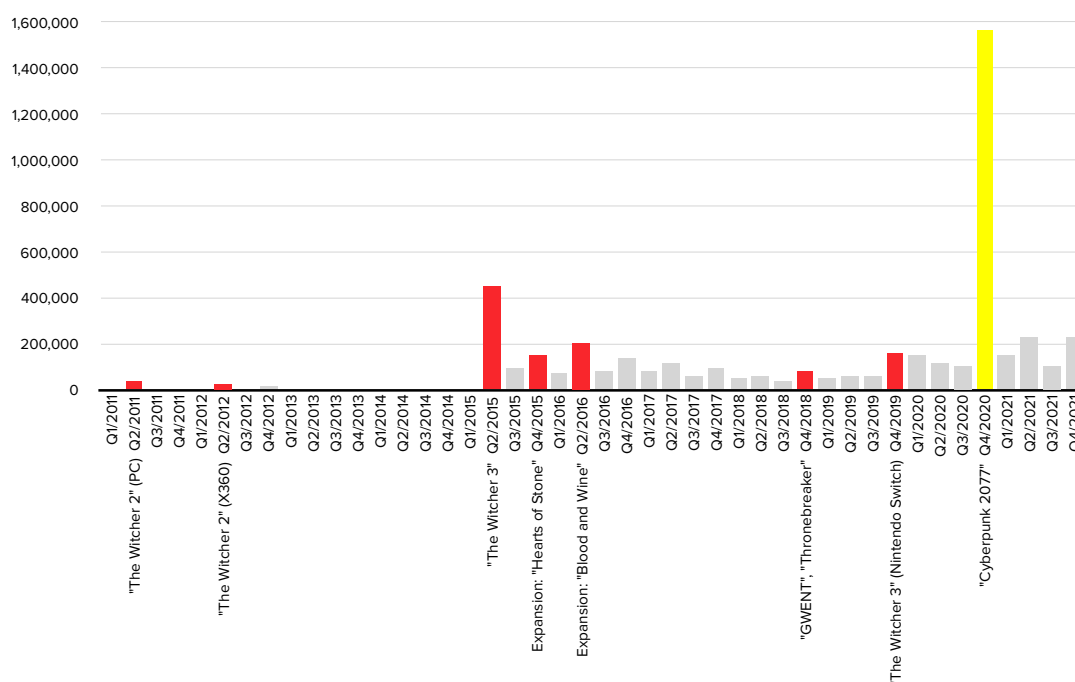
Insofar as possible, the above assessment reflects the Company's knowledge as of the publication date of this report.

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 5 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released.

Chart 15 Effect of new releases on the quarterly revenues from sales of products, goods and materials by CD PROJEKT RED in 2011-2021 (PLN thousands)



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 usually takes 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.

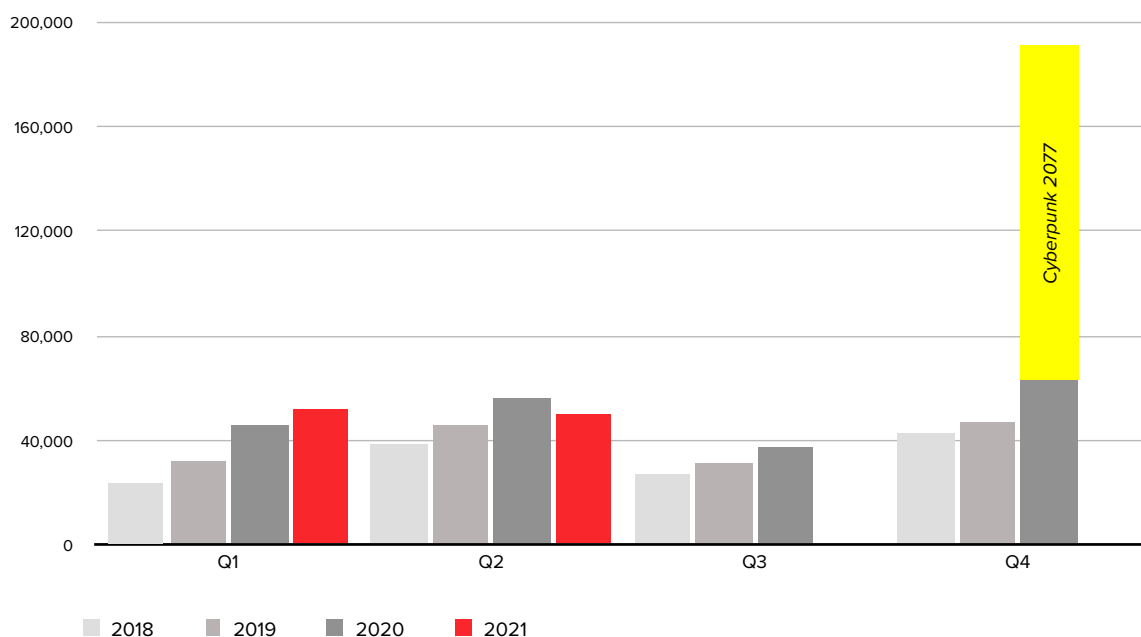
In addition to pure development activities, the Company also actively manages its franchises in other fields, working to continually expand its target audience, and exploring new media types and platforms.

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.

Chart 16 Sales of goods and materials in the GOG.COM segment in 2018-2021 (PLN thousands)



Up until the end of 2021 the GOG.COM segment had also been obtaining revenues from microtransactions carried out within *GWENT: The Witcher Card Game*.

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

Future growth of the Company and its 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. Strategic directions related to talent acquisition, team development and support are presented in the [CD PROJEKT Group Strategy Update](#) (including the attached [video commentary](#)) and in the [CD PROJEKT Group's 2021 Sustainability Report](#).

Ongoing expansion of the team and upscaling of development work calls for effective management of production and publishing activities at the Company HQ in Warsaw and at its branch offices in Kraków, Wrocław, Vancouver, Los Angeles, Boston, 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 Group is founded. Moreover, the activities of CD PROJEKT Group member companies are affected by external factors such as the macroeconomic outlook, 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, in the Board's opinion, may prove detrimental to the Group's activities and growth prospects are listed in the risk assessment section elsewhere in this report.

With regard to further quarterly periods in 2022 the CD PROJEKT Group intends to develop its activities in an organic manner. Additionally, while introducing the Group's strategy update the Management Board also announced increased openness to mergers and acquisitions, in order to assist the growth of CD PROJEKT RED and support implementation of the Group's strategy.

CD PROJEKT RED

Key factors which determine the growth of the CD PROJEKT RED segment include ongoing projects, the scale of development work associated with those projects and their perceived popularity among gamers. In this context, the most significant factors shaping the current results of the CD PROJEKT Group include the popularity of previously published games set in *The Witcher* and *Cyberpunk* universe, as well as – in future periods – events surrounding the development and market reception of further development projects.

In the coming quarters CD PROJEKT RED will focus on releasing the next-gen edition of *The Witcher 3: Wild Hunt*, releasing a large expansion for *Cyberpunk 2077* and launching the *CYBERPUNK: EDGERUNNERS* anime series, which will enrich the Studio's franchise with a new format and improve its global recognition.

Another important milestone for CD PROJEKT RED, scheduled for the coming quarters, involves integration of the Studio's development processes with a new game engine – specifically, Unreal Engine 5 – on the basis of the licensing and partnership agreement concluded with Epic Games in March 2022. Use of this engine should significantly streamline the game development process. The Company's strategic partnership with Epic Games involves further work on UE5 in the scope of support for open-world games, and adaptation and optimization of its elements to match the conceptual framework of future projects. In addition, Epic Games has also committed itself to providing dedicated technical support for CD PROJEKT RED games. Working with UE5 also significantly broadens the Studio's recruitment opportunities given that Unreal Engine is familiar to many game developers.

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 the capacity for effective communication with the global gaming community. Both aspects are crucial for Studio's ongoing transformation – labeled RED 2.0 – which aims, among others, to apply a more agile approach to the videogame development process, thereby improving quality, shortening future marketing campaigns and ensuring that such campaigns

are based on more polished content. In project management terms, maintaining two separate major franchises (*The Witcher* and *Cyberpunk*), along with several independent development teams, will enable the Company to conduct parallel work on several projects, beginning in 2022, and will smoothen its long-term release schedule. This migration towards a dual franchise model supported by several independent product lines also permits optimization of manufacturing and financial activities, mitigates important risk factors and makes it easier for Company employees to seek professional fulfillment.

GOG.COM

Sales in the GOG.COM segment sales have, in the recent years, benefitted from customers' increasing tendency to turn to online channels for purchases.

GOG.COM growth also depends on seeking additional brand-new products to add to its lineup. 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 gamers – those who have not yet set up a GOG.COM account. During the recent years the Company has been successful in this regard, owing to its PR activities and synergies resulting from cooperation with CD PROJEKT S.A. The GOG.COM customer pool continues to grow at a steady pace.

Further growth of activities in the GOG.COM segment, including the potential to acquire unique know-how and experience, and to fully leverage the Company's technological expertise, will be influenced by development of features which support sales on the platform, including better integration of GOG GALAXY monetization mechanisms with the GOG.COM storefront, as well as increased focus on expanding the GOG.COM catalogue with classic games.

OTHER FACTORS

The growth of the CD PROJEKT Group will also be affected by development work and other activities carried out by its subsidiaries – Spokko and The Molasses Flood. Spokko intends to continue developing *The Witcher: Monster Slayer*, thus naturally contributing to the Group's know-how and ensuring its presence on the mobile game market, which is currently the fastest growing market segment. As for The Molasses Flood, it is developing a new game based on one of CD PROJEKT IPs, with a view towards establishing a new product line for the Group.

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

With regard to development of videogames – R&D initiatives, including the ongoing search for new solutions and more effective use of existing technologies, constitute a core aspect of the Group's business profile and significantly affect its daily activities.

R&D work related to videogame development begins at the conceptual phase and lasts while successive prototypes are made available for testing and optimization, ensuring compatibility, usability and playability – all the way to the final product.

Development activities

In 2021 development activities were carried out in the framework of the following projects:

- *Thronebreaker: The Witcher Tales* for Android devices – work has concluded and the game was released on 17 June 2021;
- *Cyberpunk 2077* for next-gen consoles – work has concluded and the next-gen version was released on 15 February 2022, after the balance sheet date;
- *The Witcher 3: Wild Hunt* for next-gen consoles – in collaboration with Saber Interactive;
- *Cyberpunk 2077* expansion;
- *CYBERPUNK: EDGERUNNERS* anime series – in collaboration with Studio Trigger.

Research activities

In 2021 research activities were carried out in the framework of the following projects:

- New project carried out by The Molasses Flood and based on one of CD PROJEKT Group's IPs – the preliminary research phase concluded at the end of 2021; the project has since entered development (which entails capitalization of further investment expenditures);
- The next AAA game set in *The Witcher* universe (announced on 21 March 2022).

The above list is limited to projects which have been officially announced. Further exploratory and research work has been carried out in the framework of other, unannounced projects; in addition, the Company continued to expand and improve its earlier games, including in particular *Cyberpunk 2077* and *GWENT*.

In 2021 CD PROJEKT RED also carried out preparatory work related to collaboration with the Warsaw Technical University. The aim of this collaboration would be to facilitate R&D activities in the scope of new technologies which may be of future use to the Company.

A new, dedicated development team is at work on RED Play – a multiplatform framework for managing the Studio's game portfolio and support communication between CD PROJEKT RED and the gaming community.

In 2018 CD PROJEKT was granted the status of a Research and Development Center (RDC). On 11 August 2021 the Ministry of Development, Labor and Technology issued a decision confirming that the Company engages in R&D activities and upholding its RDC status.

Disclosure of significant agreements¹³

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

Risk management at the Group

Risk management

The CD PROJEKT Group is exposed to a range of risks, both financial and non-financial, associated with its operating activities. In 2021 a Risk Management Procedure was introduced at the Group, formalizing methods of managing and mitigating strategic risks.

Risk management at the Company comprises a clearly defined set of rules which permit identification, assessment and analysis of risks, as well as further action in order to achieve an acceptable level of risk given the identified threats and thereby mitigate the consequences of potential circumstances which may have a negative effect on the activities of CD PROJEKT S.A., including its financial stability.

A clear assignment of competences has been introduced as part of the risk management process. A Risk Management Committee has been established, comprising the so-called risk owners, i.e. top managers and executives who coordinate processes in respective branches of the Company. Risk management at the Company's subsidiaries is the responsibility of their respective management boards.

The Company performs analysis of risks to determine their likelihood of occurrence and impact. The former analysis acknowledges control mechanisms and their effectiveness, while the latter is based on potential consequences (financial and otherwise) for the Company.

The significance of a risk is calculated by multiplying the likelihood of occurrence by the impact, as listed in the risk value matrix. Following analysis of each risk, the Risk Management Committee submits results to the Management Board for approval, whereupon the Board may decide on further steps, depending on the significance of the risk. The Management Board may decide to accept, mitigate, transfer or avoid the risk. When the given risk exceeds the acceptability threshold, its owner, in collaboration with the Risk Management Committee, must develop suitable control mechanisms and mitigation actions, then submit them to the Management Board for approval.

Significant (strategic) risks

The following risks have been identified as significant. The description of each risk is accompanied by a list of actions which have been undertaken to mitigate the potential consequences of its materialization.

¹³ 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 Group.

While due diligence was applied in identifying and describing the risks described below, in the course of its daily activities the Group may be exposed to new types of risks which it had not previously faced, or which had not been heretofore identified.

BUSINESS MODEL RISKS

Risk associated with focusing on a limited number of projects with long investment cycles and unpredictable commercial potential

Description: CD PROJEKT RED focuses on developing single-player role-playing games. The Studio's ambition is to create multilayer RPGs with nonlinear storylines, based on cutting-edge technological solutions. Given the scope of such projects and their development lifecycles which span multiple years, these games – often referred to as “AAA” – require above-average development and marketing budgets. A hypothetical unsuccessful release of another AAA game by CD PROJEKT RED may potentially result from e.g. failure to meet gamers' high expectations with regard to quality, gameplay appeal or content, technical issues associated with the game or negative reviews by journalists and market experts. Materialization of the risk associated with focusing on a limited number of projects with long investment cycles and unpredictable commercial potential might suppress sales and have a detrimental effect on the Company's and Group's future earnings.

Actions taken: In line with the CD PROJEKT Strategy, in the coming years the Studio wants to base its growth on successive rollout of new products. Both flagship franchises will be enriched with additional content (other than large AAA games) and projects representing new market segments, including new media and platform types. Focusing on a limited number of key projects should provide the team with a comfortable work environment, required to ensure the quality of future products.

Risk associated with entering new market segments

Description: Entering new market segments, where the Company may not yet possess extensive experience and know-how, carries a risk of project failures and may cause the Company to incur additional costs or fail to obtain the expected revenues. In turn, investing in the development of own activities in collaboration with external partners, or – alternatively – taking over existing companies or teams may result in difficulties in ensuring optimal project management and integrating new entities or teams with the Group, and may also increase costs or prevent the Company from obtaining the expected revenues.

Actions taken: When deciding to initiate a new project, in order to ensure optimal control, Group member companies take action to develop in-house skills and competences by recruiting experts and specialists who are familiar with the given field. In selected cases expansion to new fields may be carried out in collaboration with external partners who possess greater experience in that context.

Risk of failure to meet development goals

Description: Engaging in R&D activities related to development and distribution of top-quality AAA games represents the core business model of CD PROJEKT RED, Spokko and The Molasses Flood. These kinds of projects are often characterized by long, complex and iterative development cycles, which requires the Company to adapt to the changing market, accurately predict gamers' preferences and follow up on trends created by competing gamedev studios. The Company faces the risk of incorrectly scheduling its development processes, which is an inherent aspect of innovative R&D work carried out by the Group.

The ability to meet development goals is also affected by technological progress, i.e. changes related to programming tools, software, technologies and gaming platforms applied in the development process. The digital entertainment industry, which represents the CD PROJEKT Group's primary area of activity, is characterized by increasing complexity of technologies and IT tools. Technological progress proceeds in lockstep with growing expectations on the part of consumers of CD PROJEKT Group products, which, in turn, drives competition on the digital entertainment market. New products tend to be increasingly complex and sophisticated, both with regard to the underlying technologies and artistic merit. This rapid pace of development necessitates frequent corrective actions, development of improved systems and increasing sophistication of the products offered. Technological changes may also influence the means by which games are delivered to the final customer, methods of interacting with and monetizing digital entertainment, as well as the capabilities of gaming platforms.

In 2022 the Company decided to enter into a licensing and partnership agreement with Epic Games Epic Games International S.à r.l. The agreement concerns use of Unreal Engine by the Company as well as cooperation between the parties in the scope of enhancing and improving the engine to adapt it to the needs of open-world games. However, creating and publishing games based on Unreal Engine requires the Company to familiarize itself with this technology, adapt the tools used by its developers, or develop entirely new tools. Furthermore, basing games on a licensed engine (i.e. Unreal Engine) may render the Company's basic business activities dependent on collaboration with the license provider.

Materialization of the risk of failing to meet development goals may result, among others, in a decrease or loss of trust on the part of investors and gamers, a lowering of the Company's position on the market and a reduction in sales revenues or increase in costs.

Actions taken: In order to meet its development goals the Company strives to deliver games on time while upholding high quality standards. In the CD PROJEKT Group Strategy Update, published on 30 March 2021, the Management Board announced long-term changes to enhance the flexibility and comfort of the CD PROJEKT work environment and the game development process. This transformation, called RED 2.0, involves a shift to the agile development model. In line with the adopted principles gamer experience should be prioritized, which is why the Studio works to uniformize and improve its project management methods to facilitate a more efficient production process. To this end, interdisciplinary teams are being set up, each equipped with the appropriate expertise and skills. Members of such teams can exchange knowledge and experience; additionally, the Studio continues to expand its game development workforce. The Company also introduces solutions aimed at enhancing communication and transparency in collaboration between teams, works to introduce clearly defined roles and responsibilities in the decision-making process, and institute a training program to build the necessary agile development skillsets.

Member companies of the CD PROJEKT Group continue to monitor technological progress related to hardware and software insofar as such progress may affect their activities. The goal of this monitoring is to adapt strategies taking into account breakthroughs in videogame quality, development or distribution processes.

The licensing and partnership agreement concluded with Epic Games International S.à r.l. enables the Company to use cutting-edge IT solutions and participate in their further development. Applying this external technology also provides an opportunity to improve the Company's internal toolkit, and to involve team members (particularly programmers) in close collaboration with Epic Games in order to exchange experience. The partnership with Epic Games is long-term and strategic in nature – the contract was concluded for a period of 15 years,

with a prolongation option. It does not restrict the number of games which the Company may develop with the use of Unreal Engine, and provides for dedicated technical support for the Company's products on the part of Epic Games. The existing proprietary REDengine, which powers Cyberpunk 2077, will remain in use in the upcoming expansion for that game.

Risk of losing key suppliers

Description: In the course of its operations, the Group relies on external suppliers for certain specialized applications and software required in the development of games, along with the associated licenses. The Group's member companies also collaborate, on an ongoing basis, with creators, developers, subcontractors and publishers. Terminating cooperation with suppliers of products or services required in ongoing projects may negatively affect sales and impact the Group's earnings. The strategic licensing and partnership agreement signed in 2022 with Epic Games International S.à r.l., which also provides for dedicated technical support for the Company's products on the part of Epic Games, entails the risk of terminating cooperation with this key business partner, which would affect the Company's development schedule, as well as the related goals and financial expenditures.

Actions taken: The Group minimizes the risk of losing key suppliers by maintaining good trade relations with business partners and by actively seeking new collaboration opportunities. Member companies of the Group actively monitor the market and may take steps to replace selected components or tools used in the production process, should such changes become necessary. To mitigate the risk of losing key suppliers the Company takes steps to ensure far-reaching contractual protections. The licensing and partnership agreement with Epic Games International S.à r.l. was signed for a period of 15 years with a prolongation option; the agreement also does not restrict the number of games which can be developed with the use of Unreal Engine.

Risk of temporary restriction of access to distribution channels which carry the Group's products, or to certain markets and hardware platforms

Description: The Company distributes its own products via physical channels (retail outlets) as well as digitally, which – except for the Group's proprietary GOG.COM platform – relies on cooperation with external distributors. Company games may be withdrawn from selected storefronts and their return to such storefronts may depend on multiple factors, some of which may be outside of Company control. There is also a risk of temporary unavailability of Company products in certain distribution channels due to dissolution or expiration of distribution agreements. Temporary withdrawal of Company products from certain traditional and digital distribution channels may negatively affect sales of such products and thereby impact the Company's and Group's earnings.

Development of games for "closed" platforms, such as gaming consoles or iOS devices, and distributing games on markets where the applicable legislation calls for certification (e.g. China) requires direct cooperation with the certifier. Changes in local regulations or internal requirements and procedures affecting the Group's business partners are a significant risk, as is termination of cooperation between the developer and the platform proprietor, delays in the certification process, denial of certification or revocation of previously granted certification. Each of those events may adversely impact revenues from sales of the Group's products on selected territories or platforms.

Actions taken: To minimize the risk of unavailability of CD PROJEKT RED products the Company cooperates with a broad range of distribution partners and works to ensure that its products meet the demands of platform owners as well as consumers. As for risks associated with denial of certification and, consequently, the inability

to market products on certain territories and on certain hardware platforms, in justifiable cases the Company engages with local partners who possess the experience and knowledge required to secure certification of the game (or of its new editions or supplementary content) prior to its rollout on the given market.

Cybersecurity risks related to leakage, loss or unauthorized modification of data

Description: Data storage and data processing in IT systems carries the risk of leakage, loss or unauthorized modification. Cybersecurity risks go beyond corruption or destruction of data and the associated financial loss, and may include theft of intellectual property, loss of productivity or loss of reputation. Cybersecurity risks may involve internal or external circumstances, whether intentional or inadvertent, which result e.g. from cyberattacks, deployment of malicious software or other breaches of security.

Actions taken: To minimize cybersecurity risks the Group has developed a plan based on the “defense in depth” principle, with multiple overlapping security systems. The Group continues to roll out and improve technical measures which contribute to the security of its IT infrastructure. Security requirements are uniformized and iterated to ensure that access to information and data processing are performed in a controlled manner. An important aspect of the Group’s approach to cybersecurity is a series of internal training courses related to IT security, raising awareness of threats related to social manipulation as well as phishing. The Group continues to monitor its data processing systems to ensure appropriate technical safeguards against potential evasion of security measures.

Risk of unavailability of IT infrastructure or services

Description: The risk of unavailability of IT infrastructure or services refers to unforeseen events which prevent access to the IT infrastructure, business applications and software used in the development process, or structures and systems needed to ensure continuity of operations, including the GOG.COM and GOG GALAXY platforms. IT systems, including servers and networks, including Internet access devices, may be subject to outages and technical malfunctions, which may negatively affect the continuity or efficiency of ongoing development projects. Such risks may result from internal as well as external causes, including human error, time pressure, DDOS attacks or unavailability of SaaS resources. They are also affected by the current “remote work” model, which calls for additional technical arrangements, as well as the Group’s reliance on electrical power, which – in the case of a protracted power outage – would require restoration of development environments at backup locations.

Actions taken: In order to minimize the risk of unavailability of IT infrastructure or services, IT teams monitor the selection of IT tools used to ensure high availability of critical systems and services. Given that most of these systems are located on the Group’s premises, the main server room has been equipped with uninterrupted power supply devices, access control systems as well as alarms and systems which monitor key environmental parameters. All servers are backed up in accordance with a formalized procedure. The Information Security team screens the Group’s suppliers and develops plans to ensure continuity of operations and regular testing.

LEGAL RISKS

Risk associated with regulatory compliance

Description: The activities of the CD PROJEKT Group are subject to a wide range of legal regulations which may differ depending on the territory where Group member companies carry out activities and distribute products, services or licenses. Numerous aspects require constant legal oversight, especially as relates to protection of

intellectual property, antitrust regulations, consumer rights or labor law. Frequent changes in the applicable laws or interpretations, occurring both in Poland and abroad, carry the risk of noncompliance or infringement on the part of the Group's member companies. Some changes in legal regulations may fail to acknowledge the specific nature of the videogame industry, exposing Group member companies to major unforeseen expenditures as they work to maintain legal compliance. Each change in legal regulations or interpretations thereof may potentially have a negative impact on the Group's activities, causing financial loss, legal action taken against the Group, or loss of reputation.

Large portions of sale, purchase and licensing agreements concluded with foreign parties fall within the jurisdiction of countries indicated by the Group's business partners. 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.

Actions taken: The Company takes a number of actions to mitigate the risk of noncompliance. Changes in regulations, case law and best practices are monitored on an ongoing basis, as are the official communiques issued by public authorities and supervisory bodies (this monitoring is performed by the internal legal team and also subcontracted to specialized law firms). By formalizing its compliance processes and establishing a distinct Privacy & Compliance department, tasked with monitoring and coordinating the Company's compliance requirements (both internal and external), the Company attempts to ensure that upcoming legal changes are taken into account ahead of time, and that appropriate safeguards and adaptations are put in place at the Group's member companies. Furthermore, the Company also works to raise the expertise of personnel charged with maintaining compliance, through training courses, certification and involvement in expert panels, including at conferences devoted to the legal aspects of carrying out business activities in Poland as well as on the international stage.

Risk associated with processing personal data

Description: The risk associated with processing personal data affects a range of data processing activities carried out by Group member companies which fall within the scope of Polish and foreign legal regulations on territories where the Group conducts its business. Such risk may materialize e.g. through infringement of the confidentiality, integrity or availability of personal data, resulting in significant financial penalties. It may also involve noncompliance with legal regulations which govern privacy, causing Group member companies to incur excessive administrative costs (whether operational or financial) in order to ensure proper observance of such regulations.

Should data protection measures – whether existing at present or expected to be rolled out in the future – prove insufficient, exposure, corruption or loss of personal data may ensue. This may be caused by IT system failures, human error or malicious third-party interference.

Actions taken: With regard to processing of personal data, CD PROJEKT Group member companies are assisted by internal mechanisms in place at the Group, as well as by external entities. The Group takes action to mitigate and control risks associated with processing personal data. This includes internal audits, confidentiality audits carried out in the framework of specific projects, data protection and privacy impact analysis, and ad-hoc consultations held for the benefit of employees who supervise processing of personal data. Additionally, a dedicated Privacy & Compliance department has been established at the Company, tasked, among others, with organizing regular training courses related to protection of personal data and information security in general, as well as with assisting Group member companies in minimizing the presented risk.

Risk associated with intellectual property rights

Description: Products and services offered by Group member companies are based upon intellectual property. Effective acquisition, licensing and protection of intellectual property rights (including trademarks) held by the Group is therefore an important aspect of the Group's activities.

In the course of their operating activities, including in the videogame development process, Group member companies acquire copyright to third-party works or images on the basis of contracts concluded with authors. The Group invests substantial effort in monitoring intellectual property (e.g. as relates to images, names or items); however, given the large number of such entities as well as the variability of legal regulations which extend protection to their creators throughout various territories, the risk of inadvertent infringement of third-party IPR, ineffective acquisition of copyright, or acquisition of copyright from an unauthorized party, cannot be entirely ruled out. An important risk also relates to third-party infringement of Company rights caused by illegal distribution of products offered by Group member companies.

Due to the global reach of CD PROJEKT 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.

Group member companies monitor the impact of intellectual property regulations upon the Group's activities; however, claims related to inadvertent infringement of third-party IPR 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

Actions taken: The CD PROJEKT Group is actively involved in activities related to protection of intellectual property. It continually works to analyze and adapt its contracts to the existing legal circumstances in order to minimize the above-mentioned threats. In doing so, the Group enlists the assistance of domestic and foreign law firms. As a result, the legal safeguards present in the Group's third-party contracts are iteratively improved. To protect its own brands, the Group registers trademarks throughout the European Union and elsewhere. It also monitors, on an ongoing basis, the registration of trademarks by third parties, and conducts analysis of existing trademarks before deciding on names for its own products. Furthermore, the Group performs ongoing legal verification of its products and services in order to prevent infringement of third-party IPR, and takes action to combat infringement of its own IPR – among others, by monitoring online auction portals and distribution platforms in Europe, the United States and Asia. Auctions which violate the Group's IPR are regularly struck down, depending on the solutions offered by the given portal.

Risk associated with improper assessment or unauthorized access to inside information

Description: As an issuer of securities, the Company must observe disclosure obligations and perform assessment of emerging information to determine whether it might constitute inside information. Given the need to assess the confidentiality of information prior to its disclosure, the Company runs the risk of incorrectly concluding that certain information does not constitute inside information, and, consequently, failing to meet its disclosure obligations, which may result in fines or other penalties. Employees and collaborators of the Group gain access to information which may be regarded as inside information in the course of participating in the Group's operations. This includes e.g. information about future unannounced projects, estimated release dates,

significant transactions, financial results or marketing plans. Improper discharge of disclosure obligations through unauthorized disclosure of inside information, whether intentional or unintended, may result in financial penalties and impact the Company's and the Group's financial standing.

Actions taken: The Company has instituted a set of regulations governing circulation and protection of inside information at the CD PROJEKT Group, listing events which the Company regards as representing inside information. The Company also maintains lists of individuals who have access to inside information, and advises these individuals of their rights and responsibilities in this regard. Moreover, the Company signs non-disclosure agreements with its employees, collaborators and business partners. These agreements specify the basic responsibilities associated with potential access to inside information. The Group works to train and raise the awareness of its employees and collaborators with regard to circulation of inside information at the Group's member companies.

Risk associated with changes or differing interpretations of legal regulations, and with subsidies

Description: Significant changes are occurring in 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 Group must develop appropriate internal documentation and settlement standards, which, in turn, may potentially be brought into question by tax authorities.

Group member companies also benefit from subsidies which support ongoing investment and development projects. Relying on this form of funding may involve a risk of having the relevant documentation, justifications for funding requests or calculations and settlements questioned by the authorities – while the projects are in progress as well as following their conclusion.

Actions taken: To minimize the risk of rejection of its fiscal or subsidy-related settlements, the Group has established an internal tax unit, charged with overseeing such settlements as well as overall compliance with tax law. This unit monitors legislative processes and interpretations issued by tax authorities, and implements procedures which aim to systematize internal procedures and guarantee proper discharge of fiscal obligations by the Group. In specific cases the Group's member entities also enlist the help of external tax experts, both domestic and foreign.

TEAM-RELATED RISKS

Risk associated with departure of team members

Description: The risk associated with departure of team members, including a high churn rate, is an important threat to the continuity of the Group's operations and attainment of its business objectives. Talent and commitment are highly prized in the gamedev industry, and there is strong competition among commercial entities wishing to attract skilled professionals. Loss of key team members may harm innovation, the pace of work and the quality of products and processes. It may also cause the Company to forfeit unique opportunities and, as a consequence, blunt its competitive edge.

Actions taken: The CD PROJEKT Group involves its employees in large-scale, ambitious and innovative projects, which offer many opportunities for career and personal development. The Group's internal training and

workshop curriculum actively supports development of capabilities and soft skills. In addition to professional training, the Group also offers competitive salary and compensation packages by monitoring trends related to various job positions.

The Group has instituted a system of annual bonuses (profit sharing) for all team members. Bonuses assigned under this system depend on the Group's net profit, or that of its individual segments, for the given financial year. CD PROJEKT also presents persons regarded as crucially important for the Group and who meet its internal criteria with an option to enroll in long-term incentive programs where participants may become eligible to claim Company shares at a predetermined historical price. Persons employed by member companies of the Group have access to competitive benefits packages (including medical care, fitness programs, internal gym, healthy food at the office, etc. – the composition of the benefits package varies between subsidiaries and office locations). The Group also supports flextime arrangements and offers a customizable work model (office work, remote work or a mix of both).

Regardless of the actions undertaken by the Group, a certain level of churn is unavoidable and natural. Given the specific nature of the Group's activities, which focus on long-term projects, such churn typically increases in periods following each release.

Risk associated with availability and recruitment of specialists

Description: The activities and growth prospects of CD PROJEKT Group member companies are greatly dependent on maintaining an experienced, knowledgeable and motivated workforce. The videogame industry is among the most dynamically expanding industries in the world, which results in fierce competition for access to specialized talent. Given the observed economic growth and opening of foreign markets, the Group's development plans call for continual 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 growth rate and financial result.

Actions taken: Member companies of the Group work to expand and upgrade their internal HR and recruitment departments, including through candidate experience surveys, periodic analysis of their outcomes, and introducing new solutions which assist in the search for new specialists. Recruitment indicators are monitored and analyzed on a monthly, quarterly and annual basis with respect to the number of job applications, process duration, number of employment offers and principal sources of prospective candidates. The Group works to enhance its recruitment process by applying a customized approach to recruitment (depending on position) and attempting to streamline the process for candidates. It also engages in internal and intragroup recruitment. A relocation package is offered to foreign nationals who arrive in Poland, with a range of activities available in order to ease their immigration and settlement. Hired candidates are offered salary packages and other benefits, as listed in the Actions taken section of the preceding risk description. The Company also operates an internal recommendation system whereby existing employees may point out prospective candidates for employment. In addition, in 2021 a dedicated Employer Branding unit was established to coordinate long-term activities aimed at promoting CD PROJEKT's image as a desirable "employer of choice". The goal of these activities is to attract fresh talent and gain a competitive advantage. The team familiarizes prospective candidate with various aspects of employment at the CD PROJEKT Group – an attractive environment in which to further one's professional career.

Risk of noncompliance with employment regulations

Description: Given the number and diversity of individuals employed at the Group there is a risk of violating employment regulations in the course of daily activities at Group member companies. In this context the Group may be subject to periodic inspections carried out by institutions and authorities authorized to perform such inspections, as well as to lawsuits filed by former employees alleging breaches of labor law and employment regulations. Such noncompliance may also cause undesirable dynamics in employer-employee relations, and undermine the substance of civil law agreements related to the videogame development cycle.

Actions taken: With regard to proper management of employment risks, the Company undertakes a range of activities to safeguard its team members. Each team at the Company is assigned a HR Partner; furthermore, procedures which regulate the rights and responsibilities of employees are implemented and enforced – this includes a procedure for counteracting undesirable conduct in employee relations, as well as a formal Diversity Policy. Employees are able to anonymously or personally report any irregularities, including breaches of employment regulations, and there are systems in place which protect the confidentiality of such reports and their authors, and which protect whistleblowers from potential retribution. The Company also works to ensure transparent internal communication related to employment, including changes in regulations, types of agreements, absences, leaves (including parental leave) and feedback options.

FINANCIAL RISKS**Risk of loss of liquidity and credit risk**

Description: Improper management of working assets, dependence on a single client or a narrow group of clients, and excessive concentration of cash assets at a single financial institution may jeopardize the Group's liquidity. Additionally, when agreeing to deferred payment for products sold, or obtaining licensing revenues which are typically accounted for and remitted post factum after the close of the given accounting period, the Group faces the risk of insolvency of its contractors. In the course of its activities the Group encounters concentration of demand, where sales to individual clients exceed 10% of the Group's aggregate sales revenues.

Actions taken: The Group actively manages its working assets, monitoring its financial resources and debt in relation to equity and financial result, both current and anticipated, as well as its future investment plans. As of the publication date of this report the CD PROJEKT Group has no outstanding debt under any credit or loan agreement. Surplus cash is deposited in several banks with which Group member companies collaborate in order to diversify allocation of their cash and deposits. Additionally, CD PROJEKT S.A., which holds the bulk of the Group's financial resources, invests part of these reserves in treasury bonds and bonds guaranteed by the State Treasury.

As of 31 December 2021 CD PROJEKT S.A. held treasury bonds with a total balance sheet value of 477 415 thousand PLN.

Treasury bonds held on 31.12.2021	S&P	Fitch	Moody's	
Polish State Treasury bonds (denominated in PLN)	A-	A-	A2	248 754
US Treasury bonds (denominated in USD)	AA+	AAA	AAA	204 144
German Treasury bonds (denominated in EUR)	AAA	AAA	AAA	24 517
Total treasury bonds held				477 415

The goal of liquidity management at the Group is to ensure the highest possible level of security required for the Company to discharge its obligations and permit unhindered implementation of videogame development, publishing and investment plans. To mitigate the risk of client insolvency, the Group performs ongoing monitoring of the collection of receivables. Collection of impaired receivables is subcontracted to external entities which specialize in such activities.

Currency risk

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

Most of the publishing and distribution contracts to which CD PROJEKT S.A. is party (as a videogame developer) are settled in foreign currencies – typically in USD or EUR. As a result, the strengthening of PLN against USD or EUR is regarded as an unfavorable circumstance by the Group, reducing its revenues from distribution and licensing contracts. GOG sp. z o.o. obtains revenues 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 weakening of currencies in which GOG.COM obtains revenues against USD or PLN is, as a rule, viewed as an unfavorable circumstance by the CD PROJEKT Group, reducing the revenues and profitability of GOG sp. z o.o.

Group member companies also make purchases of products and services in foreign currencies – in these cases, the weakening of PLN against such currencies may result in unfavorable exchange rate differences.

Actions taken: CD PROJEKT S.A. attempts to minimize its exposure to fluctuations in exchange rates, however the corresponding risks cannot be entirely eliminated. Regarding risks inherent in investing in foreign treasury bonds, denominated in the issuer's currency, the Company's exposure to variable exchange rates is limited by concluding offsetting forward currency sale transactions whenever financial resources are transferred to the corresponding investment accounts.

The following table summarizes the forward contracts concluded in 2021 for each currency.

Forward contract currency	Value of forward contracts (foreign currency units)	Value of forward contracts (PLN equivalent, according to forward exchange rates)	Estimated fair value of forward contracts as of 31 December 2021 (PLN)
EUR	5 550	25 425	(455)
USD	49 740	184 921	(17 451)
Total		210 346	(17 906)

In line with its surplus cash diversification policy adopted in March 2022, CD PROJEKT S.A. may allocate up to 15% of its total cash assets to unhedged securities denominated in USD and EUR.

GOG Sp. z o.o. secures cash flows associated with existing or future trade contracts denominated in foreign currencies by concluding forward currency exchange transactions. As a rule, these contracts correspond to gross currency exposure (i.e. the full amount of the anticipated cash flow).

Risk associated with interest rates and inflation

Description: The overall condition of the global economy, including political, economic and military crises as well as the spread of pandemics may affect the activities, financial standing and earnings of the CD PROJEKT Group. A negative pandemic-related, macroeconomic or political outlook may hinder access to sources of financing, drive up the prices of goods and services, induce consumers to adopt a conservative stance, or result in restrictions upon the sale of products as a result of economic sanctions or local regulations.

The monetary policy pursued by the Polish National Bank with regard to interest rates affects the inflation rate in Poland and, consequently, may affect the Group's financial revenues. Given that surplus cash is invested, among others, in bank deposits and treasury bonds, a decrease in interest rates may lead to a reduction in such revenues. Financial gains obtained from allocating surplus cash to bank deposits and investment in treasury bonds not fully offset losses due to inflation.

Changes in interest rates may also affect the market valuation of treasury bonds.

Actions taken: Group member companies monitor the impact of global economic conditions upon their respective markets and adjust their actions accordingly, to the best of their abilities. The risk related to variable exchange rates and market expectations regarding inflation is partly mitigated by investing some of the Company's surplus cash assets in bank deposits, Polish State Treasury bonds, bonds guaranteed by the Polish State Treasury and foreign treasury bonds whose issuers' credit rating is not worse than Aa3 according to Moody's. The Company also takes care to diversify the maturity schedules of said instruments.

In the current macroeconomic conditions it is effectively impossible to fully secure the amassed cash assets against inflation while also preserving their security.

ENVIRONMENTAL RISKS

Risk related to regulatory and market pressure to undertake activities related to environmental and climate protection

Description: The risk of facing pressure to undertake activities in the scope of environmental and climate protection results from the increasing expectations on the part of business partners and regulators, and is associated with dynamic changes in environmental law – both domestic and European. Newly introduced legislation related to environmental and climate-centric transformation under the European Green Deal requires Group member companies to monitor emerging regulations and adapt to changes, among others by disclosing their greenhouse gas emissions, investigating the mutual links between Group member company activities and climate changes, and taking concrete steps to reduce harmful emissions throughout the value chain. Potential noncompliance with environmental law may result in administrative penalties and loss of reputation. Environmental risks also apply to ownership, leasing and use of business properties, where additional expenses are incurred while undergoing transformation to a zero-emissions energy-efficient economic model.

Actions taken: Minimizing environmental impact and introducing solutions which benefit the environment are among the Group's priorities. In 2021 the Management Board of CD PROJEKT S.A. decided to initiate preparations for the deployment of an environmental management system which involves, among others, ongoing analysis and staying up to date with the relevant regulations, assessment of the environmental consequences of the Group's activities against the backdrop of measurable indicators, and analysis of the Group's compliance in this regard. The Company is also preparing to institute a formal Environment Policy. It carries out periodic audits of its compliance with environmental regulations and works to raise environmental awareness of its team members by becoming involved in actions which benefit the environment and the climate. In 2022 the Company intends to expand its identification of emission sources and its carbon footprint to include Scope 3 (i.e. other indirect emissions in the value chain) and undertake measures to reduce such emissions. Moreover, the Company monitors its environmental indicators and the associated costs, including consumption of energy and water, waste management and atmospheric emissions, and rolls out novel environmentally-conscious technologies. The Company's energy efficiency and environmental impact are improved on a regular basis, facilitating control and mitigation of potential environmental risks.



03

FINANCIAL RESULTS
OF THE CD PROJEKT GROUP

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

DESCRIPTION AND ASSESSMENT OF FACTORS AND UNUSUAL CIRCUMSTANCES AFFECTING THE GROUP'S FINANCIAL RESULT IN 2021

No unusual circumstances affecting the CD PROJEKT Group's activities occurred in 2021.

KEY FACTORS AFFECTING THE FINANCIAL RESULT OF THE CD PROJEKT GROUP

2021 was the first year of post-release sales of CD PROJEKT RED's newest videogame – *Cyberpunk 2077*, which launched on 10 December 2020. As a result, events related to *Cyberpunk 2077* and the CD PROJEKT RED segment in general had a significant effect on the CD PROJEKT Group's earnings, assets, liabilities, equity and cash flows in the reporting period. Key factors affecting the Group's activities in 2021 which had no direct counterpart in 2020 (with regard to type or scale) are listed below:

- collection of trade receivables associated with the game's release resulted in a record balance of cash flows from operating activities for the reporting period, at 967 825 thousand PLN;
- CD PROJEKT S.A. paid out its highest-ever dividend to shareholders, at 503 694 thousand PLN;
- expenses associated with intensive work on updates and further development of *Cyberpunk 2077* increased the reported cost of products and services sold by 80 792 thousand PLN;
- following the decision to change the underlying game engine and conclusion of a licensing and partnership agreement with Epic Games International S.à r.l., the Company gained access to multiplayer solutions available in Unreal Engine 4 and 5, as a result of which it abandoned further R&D work on adding multiplayer elements to REDEngine. The corresponding to-date expenditures, at 20 806 thousand PLN, were reassigned from Fixed Assets to Other operating expenses.
- Changes in provisions for returns and expenses (unrelated to provisions for remuneration dependent on the Company's financial result), resulting mainly from settlement of sales and expenses with key distributors of physical editions of *Cyberpunk 2077* during the game's release period and throughout four subsequent quarters, resulted in the following:
 - provisions for returns – the surplus of provisions dissolved over provisions created during the reporting period was 58 301 thousand PLN, resulting in a corresponding increase in Revenues from sales of products (parallel to recognition of provisions for expenses, as indicated below),
 - provisions for expenses – the surplus of provisions created over provisions dissolved during the reporting period was 77 118 thousand PLN, resulting in an increase in the reported Cost of products and services sold,
 - the cumulative effect of the above operations was a reduction in the Company's gross profit for the reporting period by 18 817 thousand PLN.
- GOG.COM revised its earlier projections due to a change in expectations which do not constitute rectification of an error concerning depreciation of existing client technologies and features, which have been deemed to not support sales, recognizing 13 775 thousand PLN in Other operating expenses.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Table 3 Selected data from the segmented consolidated profit and loss account of the CD PROJEKT Group
(PLN thousands)

	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020*	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020*	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020
	CD PROJEKT GROUP		CD PROJEKT RED segment		GOG.COM segment		Consolidation eliminations	
Sales revenues	888 172	2 138 875	701 739	1 895 913	199 983	343 748	-13 550	-100 786
Revenues from sales of products	691 564	1 839 932	678 507	1 786 145	8 264	12 937	4 793	40 850
Revenues from sales of services	5 865	2 242	8 103	5 251	286	132	-2 524	-3 141
Revenues from sales of goods and materials	190 743	296 701	15 129	104 517	191 433	330 679	-15 819	-138 495
Cost of products, services, goods and materials sold	250 234	491 364	118 547	347 436	144 458	243 653	-12 771	-99 725
Cost of products and services sold	107 391	256 105	104 933	252 340	4 236	5 963	-1 778	-2 198
Cost of goods and materials sold	142 843	235 259	13 614	95 096	140 222	237 690	-10 993	-97 527
Gross profit (loss) from sales	637 938	1 647 511	583 192	1 548 477	55 525	100 095	-779	-1 061
Selling costs	299 225	408 016	239 160	341 633	60 382	67 344	-317	-961
General and administrative costs	71 949	66 435	65 413	59 426	6 735	7 195	-199	-186
Other operating revenues	17 376	8 535	18 999	8 835	1 640	1 469	-3 263	-1 769
Other operating expenses	51 231	24 421	34 065	25 243	20 609	813	-3 443	-1 635
(Impairment)/reversal of impairment of financial instruments	-6	-97	-6	-97	-	-	-	-
Operating profit (loss)	232 903	1 157 077	263 547	1 130 913	-30 561	26 212	-83	-48
Financial revenues	9 523	17 081	3 831	15 912	5 692	1 169	-	-
Financial expenses	23 318	9 209	15 036	6 278	8 380	3 032	-98	-101
Profit (loss) before tax	219 108	1 164 949	252 342	1 140 547	-33 249	24 349	15	53
Income tax	10 200	14 801	13 664	11 097	-3 458	3 694	-6	10
Net profit (loss)	208 908	1 150 148	238 678	1 129 450	-29 791	20 655	21	43

* adjusted

CLARIFICATIONS REGARDING THE SEGMENTED CONSOLIDATED PROFIT AND LOSS STATEMENT OF THE CD PROJEKT GROUP

CD PROJEKT RED

In the CD PROJEKT RED segment **Sales revenues** were reported at 701 739 thousand PLN, which is 63.0% less than the 2020 figure. This year-over-year difference is due to sales of *Cyberpunk 2077* in its release window (in Q4 2020). Compared to the 2019, i.e. the last financial year preceding the release of *Cyberpunk 2077*, CD PROJEKT RED's sales revenues were higher by 332 407 thousand PLN (90% increase).

Revenues from sales of products, at 678 507 thousand PLN (reduction by 62.0% compared to 2020), which represent 96.7% of the segment's total revenues, comprise:

- a) revenues generated by *Cyberpunk 2077*;
- b) revenues generated by *The Witcher 3: Wild Hunt* and its expansions (*Hearts of Stone* and *Blood and Wine*);
- c) settlement of provisions for returns of *Cyberpunk 2077*, created in late 2020, resulting in increased sales revenues during the reporting period (by 58 301 thousand PLN, which represents the surplus of provisions dissolved over provisions created during the reporting period – this, however, was offset by the surplus of provisions for expenses created over the corresponding provisions dissolved during the reporting period, as described further on in this section);
- d) revenues generated by *GWENT: The Witcher Card Game*;
- e) royalties associated with CD PROJEKT RED's franchises;
- f) royalties associated with *The Witcher 2*, *The Witcher* and *Thronebreaker: The Witcher Tales*.

Revenues from sales of services in 2021 amounted to 8 103 thousand PLN (54.3% increase) and comprised mainly revenues from barter advertising deals, revenues from services provided to affiliates, and shipping fees paid by customers of the CD PROJEKT RED GEAR merch store.

Revenues from sales of goods and materials in the CD PROJEKT RED segment were reported at 15 129 thousand PLN (85.5% decrease). This figure comprises mainly revenues from sales of box sets and elements of box sets of the Studio's own videogames (including carrier media, boxes, figurines and gadgets) to external distributors – primarily *The Witcher 3* – as well as sales carried out by the CD PROJEKT RED GEAR merch store, which markets tie-in products associated with the Group's games and brands to fans throughout Europe and North America. The reported increase in revenues over the reference period was mainly influenced by sales of physical goods related to the release of *Cyberpunk 2077*.

The **Cost of products, services, goods and materials sold**, directly offsetting sales, was reported at 118 547 thousand PLN and decreased by 65.9% compared to the 2020 year-end figure.

The **Cost of products and services sold**, at 104 933 thousand PLN, decreased by 58.4% compared to 2020. This line item represents depreciation of development projects at CD PROJEKT S.A. – mainly development of videogames.

In line with the accounting policies in force at the Group expenditures on development projects for which a reliable estimate of the quantity and volume of sales budgets can be provided, are depreciated in proportion to the consumption of economic benefits, measured as the number of copies sold. For other projects, the Group recognizes depreciation using the straight-line method. For projects whose development costs were subject

to depreciation in 2021 the following rules apply:

- 40% of *Cyberpunk 2077* development expenditures was recognized as costs in 2020, in the release quarter, while the remaining 60% will be depreciated throughout a five-year economic use period, at 3% per quarter – 52% of the corresponding expenditures had been depreciated by the balance sheet date;
- *GWENT* development expenditures were depreciated using the straight-line method, throughout three years following the game's full official release (October 2018) – depreciation of these development expenditures concluded at the end of September 2021;
- Development expenditures related to *Thronebreaker: The Witcher Tales* (released in October 2018) and *The Witcher 3: Wild Hunt* for Nintendo Switch (released in October 2019) are depreciated throughout three years following their respective releases; however, in their case depreciation is based on the expected breakdown of future revenues, projected on the basis of sales data for past projects. Depreciation of past development expenditures related to these projects will conclude at the end of August 2022.

The reported reduction in the value of this line item compared to yearend 2020 is mainly due to lower than before depreciation of *Cyberpunk 2077*, but also to completion of depreciation of *GWENT: The Witcher Card Game*.

Additionally, effective on 31 December 2021, the Company revised its projections regarding the economic effects of key distribution contracts concerning physical editions of *Cyberpunk 2077*, setting aside 18 848 thousand PLN in provisions for final settlement of expenses related to such contracts.

This line item also includes the Group's own costs related to the reported revenues from sales of services.

The Cost of Goods and materials sold in the CD PROJEKT RED segment in 2021 was 13 614 thousand PLN, which is 85.7% less than in 2020. This line item comprises the cost of producing box sets, elements thereof, and franchise products which are then sold to distributors in the CD PROJEKT RED segment.

In 2021 the CD PROJEKT RED segment generated 583 192 thousand PLN in **Gross profit from sales**, which is 62.3% less than in 2020 (the release year of *Cyberpunk 2077*).

Selling costs in the CD PROJEKT RED segment were reported at 239 160 thousand PLN, having decreased by 30.0% compared to yearend 2020.

In the CD PROJEKT RED segment the main contribution to selling costs came from maintenance of previously published products, at 95 993 thousand PLN. This value includes, among others, the cost of servicing *Cyberpunk 2077*, including intensive development work on the game's updates (which had no counterpart in the reference period) as well as costs related to further development of *GWENT: The Witcher Card Game*.

Additionally, during the reporting period the CD PROJEKT RED segment reported significant promotional expenditures – primarily support for sales of *Cyberpunk 2077*, which includes costs and provisions for settlement of the promotional campaign accompanying the game's release, as provided for in key physical distribution contracts, in addition to costs related to preparations for the next-gen release, which took place after the balance sheet date.

This line item also aggregates costs related to fixed and result-dependent remuneration of the Studio's internal publishing teams, as well as costs of result-dependent remuneration of board members at the Group's member companies.

General and administrative expenses in the CD PROJEKT RED segment were reported at 65 413 thousand PLN, having increased by 10.1% compared to the reference period. These expenses include:

- fixed and result-dependent remuneration of administrative teams and external support costs related to companies which make up the segment and qualify for this category – the reported increase was due to expansion of the workforce and upscaling of the segment's activities over the past 12 months;
- costs related to future videogame projects (23 985 thousand PLN vs. 1 889 thousand PLN in 2020) during their early (exploratory) phase, before actual development begins (at which point further costs are capitalized as Expenditures on development projects in the Fixed assets category) – this is the main reason behind the reported increase in General and administrative expenses compared to the reference period;
- fixed remuneration of board members at the Group's member companies;
- estimation of entitlements assigned under the 2020-2025 incentive program – decrease by 1 026 thousand PLN at CD PROJEKT S.A. due to a negative outlook regarding the Company's ability to meet its stated earnings goals throughout the duration of the program, as declared by the Management Board at the end of 2021.

Other operating revenues, at 18 999 thousand PLN, comprised mainly revenues obtained by the CD PROJEKT RED segment from subleasing of office space belonging to the commercial campus in Warsaw (at Jagiellońska 74 and 76), along with subsidies received in this segment.

Regarding **Other operating expenses**, in 2021 the segment reported 34 065 thousand PLN in such expenses (increase by 8 822 thousand PLN, i.e. 34.9%). In addition to standard maintenance and upkeep of office space subject to subleasing, this category also comprises the following categories, which, together, are responsible for the increase compared to the 2020 year-end figure:

- costs related to abandonment of R&D work on adding multiplayer features to REDEngine (20 806 thousand PLN) in the wake of the Company's decision to change its underlying technology base and conclude a licensing and partnership agreement with Epic Games International S.à r.l. which regulates the Company's access to Unreal Engine 4 and 5 (both of which already contain advanced multiplayer features), as well as joint work on further development and improvement of that engine;
- provisions for the uninsured portion of costs related to the legal settlement in the class action lawsuit pending before the US District Court for the Central District of California.

The CD PROJEKT RED segment generated 3 831 thousand PLN in **Financial revenues** in 2021. The bulk of these revenues was from settlement and estimation of forward exchange rate hedges related mainly to foreign currency bonds purchased by CD PROJEKT S.A., as well as interest from bonds.

Financial expenses in the reporting period, at 15 036 thousand PLN, were dominated by surplus negative exchange rate differences.

The segment's consolidated **Gross profit** in 2021 amounted to 252 342 thousand PLN – 888 205 thousand PLN less than in 2020 (77.9% decrease).

Income tax due for 2021 was 13 664 thousand PLN.

The consolidated **Net profit** of the CD PROJEKT RED segment for 2021 was 238 678 thousand PLN, which is 890 772 thousand PLN (78.9%) less than the year before.

GOG.COM segment

In the GOG.COM segment, 2021 **Sales revenues** were reported at 199 983 thousand PLN, which is 41.8% less than in 2020. The reported decrease compared to the reference period was mainly due to record-breaking 2020 sales achieved as a result of the release of *Cyberpunk 2077*. Compared to yearend 2019, the Company's sales revenues increased by 23.3%.

The bulk of GOG.COM's 2021 sales revenues (95.7%) was related to **Revenues from sales of goods and materials**. These cover digital distribution of products licensed from external supplies directly to end clients, via the GOG.COM platform and the GOG GALAXY application. The highlight of 2021 in the GOG.COM segment was the release of a series of Activision classics: *Star Trek Armada I* and *II*. The platform's catalogue was also expanded with other fresh releases, including *Pathfinder: Wrath of the Righteous*, *Psychonauts 2*, *Everspace 2* and *Biomutant*, along with classics such as *Blood Omen: Legacy of Kain*, along with *Star Trek™: Armada* and *Star Trek™: Elite Force*, both of which enjoy a cult following.

Revenues from sales of products, at 8 264 thousand PLN (36.1% decrease compared to the reference period) covered GOG's share of revenues generated by *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, apportioned in line with GOG's consortium agreement with CD PROJEKT RED.

The **Cost of products, services, goods and materials sold**, directly offsetting sales, was reported at 144 458 thousand PLN, having increased by 40.7% compared to the 2020 year-end figure.

The **Cost of goods and materials sold** in the GOG.COM segment in 2021 was 140 222 thousand PLN – 41.0% less than in 2020. The entirety of this figure comes from the cost of sales of goods licensed from external suppliers on the GOG.COM platform; the reported decrease is mainly due to a reduction in the volume of sales of such goods and materials.

The **Cost of products and services sold**, at 4 236 thousand PLN, was 29.0% lower than in 2020. This line item mainly comprises depreciation of development expenditures related to *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*.

In 2021 the GOG.COM segment reported 55 524 thousand PLN in **Gross profit from sales** – 44 569 thousand PLN (44.5%) less than in 2020, which was marked by the release of *Cyberpunk 2077*.

Selling costs in the GOG.COM segment were reported at 60 382 thousand PLN, having decreased by 10.3% compared to yearend 2020. Among the expenditures reported by GOG.COM in the context of upkeep of the GOG.COM platform and GOG.COM's share of expenditures related to maintenance and development of *GWENT: The Witcher Card Game* (apportioned under a consortium agreement), the following should be regarded as dominant:

- remuneration of the team responsible for maintenance, development and promotion of the GOG.COM platform as well as for maintenance and further development of GOG GALAXY;
- transaction costs related to processing payments on GOG.COM;
- costs of IT services involved in processing sales;
- marketing costs related to GOG.COM and GOG GALAXY – in the reporting period these included mainly promotion of digital distribution of videogames via GOG.COM, and – to a lesser extent – ongoing marketing

support for *GWENT: The Witcher Card Game*, where GOG.COM bears some of the associated costs in line with its consortium settlements;

- depreciation, including of finished development projects.

GOG.COM's participation in the *GWENT* consortium concluded at the end of 2021. Accordingly, from 2022 onwards GOG will neither bear its share of costs nor receive revenues generated by this project. *GWENT: The Witcher Card* game and *Thronebreaker: The Witcher Tales* will remain available to GOG.COM clients; however, cooperation and settlements between GOG.COM and CD PROJEKT S.A. will follow standard practices applicable to business deals and settlements on the digital videogame distribution market.

General and administrative expenses in the GOG.COM segment were reported at 6 735 thousand PLN, which is 6.4% less than in the reference period. This line item mainly comprises remuneration of administrative teams, fixed remuneration of board members, expenditures related to the incentive program and costs of bought-in services which qualify for this category.

The reported decrease in General and administrative expenses compared to the reference period was mainly due to a reduction in costs recognized under the 2020-2025 incentive program. Estimation of entitlements granted under the program produced a figure of -101 thousand PLN (compared to 391 thousand PLN during the reference period) as a result of the Management Board's negative assessment of the Company's ability to meet the earnings goals defined for the full duration of the program, performed at the end of 2021.

Other operating revenues in the GOG.COM segment, at 1 640 thousand PLN, comprise mainly re invoicing revenues and sales of other services, including intragroup IT services.

GOG.COM recognized **Other operating expenses** at 20 609 thousand PLN for the reporting period. This line item is mainly affected by the following one-time events, which, taken together, contribute to the significant increase over the 2020 year-end figure:

- revision of past assumptions related to depreciation of existing client technologies and features, which have been deemed to not support sales – resulting in additional expenses recognized in 2021, at 13 775 thousand PLN;
- provision for potential CIT arrears related to ongoing administrative proceedings at the customs office. As of the publication date of this report, no quantitative decision has been issued. GOG.COM and its legal counsel dispute the position expressed by the fiscal authorities; however, the management board of the subsidiary has decided to exercise prudence and recognize the aforementioned provision;
- costs related to a revision of estimates regarding recoverable long-term prepayments (referred to as minimum guarantees) remitted by GOG.COM to suppliers of digital content marketed on the GOG.COM platform.

In 2021 the GOG.COM segment reported 5 692 thousand PLN in **Financial revenues** – a 386.9% increase compared to 2020. This increase is mainly due to recognition of exchange rate hedges, most of which are related to foreign-currency liabilities payable to suppliers.

Financial expenses for the reporting period reached 8 380 thousand PLN. This figure, along with the reported increase (by 176.4%), was mostly due to surplus negative exchange rate differences and recognition of an estimated provision for interest on potential CIT arrears related to administrative proceedings at the customs office (as previously described in the section concerning Other operating expenses).

The reported increase in negative exchange rate differences is mainly due to estimation of liabilities due to suppliers as of the balance sheet date, and generally corresponds to estimation of exchange rate hedges aggregated with Financial revenues.

The segment's **Pre-tax loss** for 2021 was 33 249 thousand PLN, compared to 24 349 thousand PLN in gross profit for 2020.

The segment's **Net loss** for 2021 was 29 791 thousand PLN, compared to 20 655 thousand PLN in net profit for 2020.

Table 4 Net profit margin – alternative approach to measuring earnings

	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020
	CD PROJEKT Group		CD PROJEKT RED		GOG.COM	
Net profit margin (Net profit / sales revenues)	23.5%	53.8%	34.0%	59.6%	-14.9%	6.0%

The net profit margin provides additional information regarding the part of sales revenues which remains in possession of the enterprise (as net profit) following deduction of all applicable costs and tax burdens reported in the profit and loss account. An increase in this ratio indicates higher efficiency of business activities relative to sales revenues. The net profit margin is a standard and commonly used indicator in financial analyses. Its usefulness has been analyzed with regard to information on the effectiveness of CD PROJEKT Group and its individual activity segments, supplied to investors.

In 2021 the Group's net profit margin was 23.5%.

The reported decrease of this coefficient in the CD PROJEKT RED segment (34.0% in 2021 vs. 59.6% in 2020) is mainly due to its temporary spike in 2020 (release year), along with the previously described specific circumstances which affect the segment's 2021 earnings:

- maintenance expenditures related to *Cyberpunk 2077*;
- settlement, on the basis of current sales reports and agreements previously concluded with distributors, of provisions set aside in late 2020 for settlement of revenues and expenses related to *Cyberpunk 2077*, which had the following effect on net profitability during the reporting period:
 - provisions for returns – surplus of provisions dissolved over provisions created, at 58 301 thousand PLN, increasing 2021 revenues, i.e. increasing the denominator of the net profitability coefficient (offset by changes in provisions for expenses, as described below);
 - provisions for expenses – surplus of provisions created over provisions dissolved (parallel to the aforementioned dissolution of provisions for returns), at 77 118 thousand PLN, increasing the Company's reported expenses.
 - The cumulative effect of these changes is a reduction in the Company's gross profit by 18 817 thousand PLN, which also results in a reduction in its net profit, i.e. the numerator of the net profitability coefficient.
- recognition (in the reporting period) of costs related to early-phase work on new projects;
- recognition of costs related to abandonment of work on adding multiplayer features to REDEngine as a result of the Company's decision to switch to Unreal Engine.

GOG.COM's reported negative net profitability (-14.9% vs. 6.0% in 2020) is due to a deterioration of the segment's Gross profit from sales, which was encumbered by additional costs related to increased depreciation of technologies, and recognition of provisions for tax liabilities and interest associated therewith.

SELECTED DATA FROM THE PROFIT AND LOSS ACCOUNT OF CD PROJEKT S.A.

Table 5 Selected data from the profit and loss account of CD PROJEKT S.A. (PLN thousands)

	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020*
Sales revenues	692 196	1 883 645
Revenues from sales of products	678 566	1 786 270
Revenues from sales of services	5 502	1 840
Revenues from sales of goods and materials	8 128	95 535
Cost of products, services, goods and materials sold	111 002	338 760
Cost of products and services sold	102 946	249 476
Cost of goods and materials sold	8 056	89 284
Gross profit (loss) from sales	581 194	1 544 885
Selling costs	241 785	344 565
General and administrative costs	59 030	54 875
Other operating revenues	19 321	8 904
Other operating expenses	34 371	25 309
(Impairment)/reversal of impairment of financial instruments	-6	-97
Operating profit (loss)	265 323	1 128 943
Financial revenues	3 876	16 013
Financial expenses	14 965	6 120
Profit (loss) before tax	254 234	1 138 836
Income tax	14 121	10 780
Net profit (loss)	240 113	1 128 056

* adjusted

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

CD PROJEKT S.A. is the parent company of the CD PROJEKT Group and the largest entity within the Group as well as within the CD PROJEKT RED segment. Consequently, clarifications regarding the consolidated profit and loss account of the CD PROJEKT RED segment (excluding the effects of its far smaller subsidiaries – CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc.) – are generally applicable to the activities and results of CD PROJEKT S.A.

In 2021 CD PROJEKT S.A. reported 692 196 thousand PLN in **Sales revenues**, which is 63.3% less than in 2020. The Company's **Net profit** for 2021 was 240 113 thousand PLN, i.e. 78.7% less than in the preceding year.

Sales revenues and net profit obtained by CD PROJEKT S.A. represented 98.6% and 100.6% of the revenues and consolidated net profit of the CD PROJEKT RED segment respectively, as discussed in detail above.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT GROUP

Table 6 Selected data from the consolidated statement of financial position (PLN thousands)

	31.12.2021	31.12.2020*
FIXED ASSETS	905 846	759 999
Property, plant and equipment	115 234	105 349
Intangibles	58 393	59 790
Expenditures on development projects	350 195	406 798
Investment properties	48 988	48 841
Goodwill	56 438	56 438
Shares in subsidiaries excluded from consolidation	38 520	8 195
Deferrals	11 434	11 676
Other financial assets	178 540	51 588
Deferred income tax assets	47 418	11 003
Other receivables	686	321
WORKING ASSETS	1 252 889	2 130 300
Inventories	15 886	6 957
Trade receivables	125 293	1 205 603
Current income tax receivables	98	-
Other receivables	113 498	70 210
Deferrals	13 763	13 383
Other financial assets	307 765	106 444
Bank deposits (maturity beyond 3 months)	265 000	164 368
Cash and cash equivalents	411 586	563 335
TOTAL ASSETS	2 158 735	2 890 299

* adjusted

	31.12.2021	31.12.2020*
EQUITY	1 894 356	2 183 177
Parent entity shareholders' equity	1 894 356	2 183 177
Share capital	100 739	100 655
Supplementary capital	1 425 647	774 851
Supplementary capital from sale of shares above nominal value	115 909	113 844
Other reserve capital	47 994	45 547
Exchange rate differences	1 591	1 091
Retained earnings	-6 432	-2 959
Net profit (loss) for the reporting period	208 908	1 150 148
LONG-TERM LIABILITIES	36 112	166 153
Other financial liabilities	21 080	16 006
Other liabilities	2 860	3 173
Deferred revenues	6 424	963
Provisions for employee benefits and similar liabilities	380	398
Other provisions	5 368	145 613
SHORT-TERM LIABILITIES	228 267	540 969
Other financial liabilities	25 802	2 933
Trade liabilities	53 380	115 444
Current income tax liabilities	24 446	1 742
Other liabilities	10 042	33 134
Deferred revenues	31 548	47 758
Provisions for employee benefits and similar liabilities	7	4
Other provisions	83 042	339 954
TOTAL EQUITY AND LIABILITIES	2 158 735	2 890 299

* adjusted

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

Assets

At the end of 2021 the Group's **Fixed assets** were jointly valued at 905 846 thousand PLN, having gained 145 847 thousand PLN since the end of 2020 (19.2% increase).

Property, plant and equipment, at 115 234 thousand PLN, represents mainly:

- value of the property complex at Jagiellońska 74 and 76, purchased in October 2019, corresponding to parts of the complex which are used by CD PROJEKT S.A. for its own purposes;
- machinery and equipment, which comprises, among others, servers and other electronic devices used in the Group's activities;
- assets representing the usufruct of leased office space (with the corresponding recognition of liabilities arising from office space lease agreements, represented as Other financial liabilities).

The aggregate value of Property, plant and equipment increased by 9 885 thousand PLN in the reporting period (9.4% increase).

Regarding **Intangibles**, jointly valued at 58 393 thousand PLN at the end of 2021, the largest contribution to the reported figure comes from the CD PROJEKT brand name and *The Witcher* trademark, with a combined value of 33 199 thousand PLN, along with other intellectual property rights held by the Group (18 158 thousand PLN) and computer software (6 791 thousand PLN). The total value of the Group's Intangibles did not change significantly during 2021.

Expenditures on development projects, which cover work on new products and technologies at Group member companies, had a 2021 year-end balance of 350 195 thousand PLN, having decreased by 56 603 thousand PLN since 31 December 2020 (13.9% increase). Expenditures on development projects in progress were reported at 66 701 thousand PLN, while depreciation of past projects – primarily *Cyberpunk 2077*, which launched in December 2020 – offset this figure by 102 688 thousand PLN. Additionally, an impairment allowance in the amount of 20 616 thousand PLN was recognized in the CD PROJEKT RED segment due to abandonment of work on adding multiplayer features to REDEngine.

The next important contribution to the CD PROJEKT Group's Fixed assets in the reporting period came from **Goodwill** (56 438 thousand PLN). Goodwill is defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. The 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 2021.

Investment properties, valued at 48 988 thousand PLN, comprise parts of the commercial property complex at Jagiellońska 74 and 76 which are subjected to subleasing. The reported increase – by 147 thousand PLN – results from the surplus of renovation expenditures over the aggregate value of depreciation, properties dismantled and reassignment to PP&E (as Buildings and structures – for properties which the Group uses for its own purposes).

Shares in subsidiaries excluded from consolidations had a 2021 year-end value of 38 520 thousand PLN. The reported increase is due to acquisition of the Canadian Digital Scapes studio (later rebranded as CD PROJEKT RED Vancouver), which occurred in July 2021, and subsequent acquisition of a 60% stake in the Boston-based The Molasses Flood gamedev studio, which occurred in October 2021.

Other financial assets are subdivided into short-term assets (307 765 thousand PLN) and long-term assets (178 540 thousand PLN) for an aggregate 2021 year-end balance of 486 305 thousand PLN (increase by 328 273 thousand PLN, i.e. 207.7%). This line item mainly represents the value of treasury bonds purchased by CD PROJEKT S.A. in the framework of diversifying allocation of surplus cash.

At the end of 2020 the CD PROJEKT Group held 1 252 889 thousand PLN in **Working assets**. The balance of working assets decreased by 877 411 thousand PLN compared to the end of 2020 (41.2% decrease).

The value of the Group's **Inventories** was reported at 15 886 thousand PLN, having increased by 8 929 thousand PLN (128.3%) since the end of 2020. The reported figure represents mainly box sets and components of box sets of the Studio's own videogames supplied to external distributors – mainly *Cyberpunk 2077* – as well as inventories held by the CD PROJEKT RED GEAR merch store which markets tie-in products associated with the Group's releases to customers based in Europe and North America.

Trade receivables represent an important contribution to the Group's aggregate Working assets. As of 31 December 2021 these receivables had an aggregate value of 125 293 thousand PLN (89.6% decrease). This figure mainly aggregates CD PROJEKT RED receivables arising in connection with Q4 2021 licensing reports, which are submitted to the Company after the balance sheet date. The 2020 year-end spike (at 1 205 603 thousand PLN) was due to trade receivables associated with sales of *Cyberpunk 2077* in its release window, most of which remained outstanding on the previous balance sheet date.

The Group's **Other receivables** had a 2021 year-end value of 113 498 thousand PLN, which represents an increase by 43 288 thousand PLN compared to the end of 2020. This figure primarily comprises withholding tax deducted at source by CD PROJEKT RED's foreign licensees and reportable in the Company's annual tax declaration, along with VAT settlements and prepayments for products and services in the CD PROJEKT RED sector.

Short- and long-term **Deferrals** (13 765 thousand PLN and 11 434 thousand PLN respectively) were mainly affected by the so-called minimum guarantees (not included in the profit and loss account as of the balance sheet date), i.e. prepayments made by GOG.COM to its suppliers in relation to future licensing royalties associated with distribution of games on the GOG.COM platform (15 230 thousand PLN). Deferrals also include prepayments related to marketing activities, as well as license fees which are settled by CD PROJEKT RED over time. Throughout 2021 the total value of deferrals did not undergo appreciable changes.

The aggregate value of **Cash and cash equivalents** and **Bank deposits (maturity beyond 3 months)** was 676 586 thousand PLN, having decreased by 51 117 thousand PLN since the end of 2020 (7.0% decrease). Factoring in the value of other liquid assets, i.e. treasury bonds, on 31 December 2021 the Group held 1 154 001 thousand PLN in financial reserves – 279 313 thousand PLN more than at the end of 2020.

The Group's total assets had a 2021 year-end value of 2 158 735 thousand PLN. 42.0% of this figure corresponded to fixed assets (compared to 26.3% at the end of 2020), with the remaining 58.0% representing working assets (73.7% at the end of 2020).

Equity and liabilities

As of 31 December 2021, the CD PROJEKT Group's **Equity** had a value of 1 894 356 thousand PLN – 288 821 thousand PLN less than at the end of 2020 (13.2% decrease). The main reasons for this change are the payment of a dividend (at 503 694 thousand PLN) to CD PROJEKT S.A. shareholders and the total comprehensive income for the reporting period (increasing equity by 208 908 thousand PLN).

The Group's 2021 year-end **Long-term liabilities** had a value of 36 112 thousand PLN, which represents a decrease by 130 041 thousand PLN (78.3%) since the end of 2020. The main reason for this decrease is the reclassification – from long- to short-term liabilities – of **Other provisions** in the CD PROJEKT RED segment, related to settlement of *Cyberpunk 2077* sales in the game's release window. These provisions were created at the end of 2020 in anticipation of settlement of certain distribution agreements, which would contractually occur after four full quarters have elapsed since the game's release quarter.

During the reporting period, following reclassification, these provisions (separately for each contract) were either consumed, increased or dissolved, depending on the outcomes of negotiations with distributors. Further information can be found in the commentary section describing Other short-term provisions (below) as well as in Note 30 of the *Consolidated Financial Statement of the CD PROJEKT Group for 2021*.

Other financial liabilities, which are further subdivided into short- and long-term liabilities (25 802 thousand PLN and 21 080 thousand PLN respectively) increased by 27 943 thousand PLN (147.5%). This line item mainly represents liabilities related to perpetual usufruct of land comprising the properties at Jagiellońska 74 and 76 in Warsaw (pursuant to IFRS 16). However, the reported increase was instead related to revaluation of exchange rate hedges associated with foreign-currency bonds held by the Group, as well as partial payment for shares in The Molasses Flood, which had a deferred payment date.

The aggregate value of **Short-term liabilities** was 23 092 thousand PLN at the end of 2021 and decreased by 312 702 thousand PLN in the reporting period (57.8%).

Trade liabilities, which had a year-end value of 53 380 thousand PLN, decreased by 62 064 thousand PLN (53.8%) compared to the end of 2020. Main contributions to this line item come from licensing royalties owed by GOG.COM – royalties arising in the fourth quarter of 2021 but payable in future reporting periods – as well as (to a lesser degree) current trade liabilities in the CD PROJEKT RED segment, which decreased following the release of *Cyberpunk 2077*, thus accounting for the decrease in the aggregate figure.

Other liabilities, at 10 042 thousand PLN, decreased by 22 869 thousand PLN compared to the end of 2020. The aggregate figure is mainly comprised of current tax liabilities (VAT, PIT, withholding tax) and social security liabilities.

The Group's **Deferred revenues** were reported at 37 972 thousand PLN and decreased by 10 749 thousand PLN in the reporting period. This line item comprises primarily the following:

- CD PROJEKT RED – future period sales – the so-called minimum guarantees, i.e. prepayments paid or payable by foreign publishers and distributors in relation to licensing royalties for sales carried out 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).

- GOG.COM – future period sales – value of preorders of games scheduled for release in future reporting periods.

Other short-term provisions had a reported year-end value of 83 042 thousand PLN and decreased by 256 912 thousand PLN (75.6%) compared to the end of 2020. The reported figure comprises:

- provisions for remuneration dependent on the Group's financial result, and other compensation (44 856 thousand PLN);
- provisions for other expenses, including mainly costs related to collaboration with distributors of physical editions of *Cyberpunk 2077* which have not been invoiced as of the balance sheet date (38 186 thousand PLN).

The reported change compared to 31 December 2020 is mainly due to the following:

- lower balance of provisions for remuneration dependent on the Group's financial result in 2021 (44 856 thousand PLN) compared to 2020 (256 130 thousand PLN),
- full settlement (by way of consumption or dissolution) of short-term provisions for returns in the amount of 48 924 thousand PLN created at the end of 2020 in association with the release of *Cyberpunk 2077* (along with provisions for returns reclassified from long-term to short-term provisions).
- increase in the balance of short-term provisions for other expenses (mainly settlements with distributors of physical editions of *Cyberpunk*) – by 3 286 thousand PLN (from 34 900 thousand PLN at the end of 2020 to 38 186 thousand PLN at the end of 2021).

With regard to short- and long-term provisions for returns and expenses other than remuneration dependent on the Group's financial result (i.e. mainly related to *Cyberpunk 2077* sales and the associated expenses), the following changes in consolidated figures occurred in 2021:

229 437 thousand PLN – total balance at the end of 2020,

-214 256 – balance of provisions consumed in 2021,

+28 373 thousand PLN – surplus of provisions created in 2021 over provisions dissolved in 2021,

=43 554 thousand PLN – total balance at the end of 2021 (including 38 186 thousand PLN in short-term provisions and 5 368 thousand PLN in long-term provisions).

The aggregate value of other short- and long-term provisions decreased from 485 567 thousand PLN at the end of 2020 to 88 410 thousand PLN at the end of 2021, i.e. by 397 157 thousand PLN (81.8%).

As of 31 December 2021 equity accounted for 87.8% of the aggregate equity and liabilities of the CD PROJEKT Group, with the remaining 12.2% corresponding to short- and long-term liabilities.

The Group's segmented consolidated statement of financial position can be found in the Consolidated financial statement of the CD PROJEKT Group for 2021.

STRUCTURING OF CONSOLIDATED ASSETS AND LIABILITIES WITH REGARD TO LIQUIDITY

At the close of 2021 the CD PROJEKT Group held assets with a balance sheet value of 2 158 735 thousand PLN. Highly liquid financial reserves, held in bank account and treasury bonds (both domestic and foreign) were estimated at 1 154 001 thousand PLN (53.9% of the aggregate figure). Limited-liquidity assets (PP&E, Expenditures on development projects, Investment properties, Shares in subsidiaries excluded from consolidation and Inventories) had an aggregate value of 568 823 thousand PLN (26.3% of total).

Aggregate trade receivables and other short-term receivables had a 2021 year-end value of 238 791 thousand PLN, while short- and long-term liabilities amounted to 264 379 thousand PLN. At the end of 2021 the Group had no outstanding debt under any external credit or loan agreement.

The Group's financial reserves – cash, bank deposits and t-bonds – ensure high liquidity, provide funding for development of new videogames and technologies along with promotional activities carried out in support of anticipated releases, permit further investments and constitute a buffer which enables the Group to react to unforeseen circumstances or exploit emerging opportunities

SELECTED DATA FROM THE STATEMENT OF FINANCIAL POSITION OF CD PROJEKT S.A.

Table 7 Selected data from the statement of financial position of CD PROJEKT S.A. (PLN thousands)

	31.12.2021	31.12.2020*
FIXED ASSETS	887 663	738 694
Property, plant and equipment	99 632	101 050
Intangibles	59 086	60 125
Expenditures on development projects	347 822	384 625
Investment properties	61 436	48 841
Shares in subsidiaries excluded from consolidation	43 447	24 567
Deferrals	4 741	5 535
Other financial assets	178 540	53 465
Goodwill	49 168	49 168
Deferred income tax assets	43 418	11 286
Other receivables	373	32
WORKING ASSETS	1 173 501	2 006 389
Inventories	13 539	3 827
Trade receivables	123 821	1 255 867
Other receivables	113 163	48 922
Deferrals	4 015	3 366
Other financial assets	308 168	107 125
Bank deposits (maturity beyond 3 months)	265 000	164 368
Cash and cash equivalents	345 795	422 914
TOTAL ASSETS	2 061 164	2 745 083

* adjusted

	31.12.2021	31.12.2020*
EQUITY	1 869 049	2 127 165
Equity attributable to shareholders of the parent entity	1 869 049	2 127 165
Share capital	100 739	100 655
Supplementary capital	1 366 952	737 542
Supplementary capital from sale of shares above nominal value	115 909	113 844
Other reserve capital	49 515	47 068
Retained earnings	-4 179	-
Net profit (loss) for the reporting period	240 113	1 128 056
LONG-TERM LIABILITIES	29 756	164 990
Other financial liabilities	14 757	14 917
Other liabilities	2 860	3 173
Deferred revenues	6 403	910
Provisions for employee benefits and similar liabilities	368	377
Other provisions	5 368	145 613
SHORT-TERM LIABILITIES	162 359	452 928
Other financial liabilities	18 620	2 053
Trade liabilities	16 028	73 024
Current income tax liabilities	24 445	1 296
Other liabilities	4 059	4 933
Deferred revenues	23 042	42 286
Provisions for employee benefits and similar liabilities	5	3
Other provisions	76 160	329 333
TOTAL EQUITY AND LIABILITIES	2 061 164	2 745 083

* adjusted

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

CD PROJEKT S.A. is the parent company of the CD PROJEKT Group and the largest entity within the Group as well as within the CD PROJEKT RED segment. Consequently, clarifications regarding the consolidated statement of financial position of the Group (except for data referring directly to the GOG.COM segment and the effects of subsidiaries – CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc.) – are generally applicable to the activities and results of CD PROJEKT S.A.

The balance sheet total of CD PROJEKT S.A. at the end of 2021 was 2 061 164 thousand PLN and was lower than the balance sheet total of the CD PROJEKT Group by 97 571 thousand PLN, representing 95.5% of the Group's consolidated assets. At the end of 2020 the corresponding difference was 145 216 thousand PLN, with CD PROJEKT S.A. accounting for 95.0% of the Group's consolidated assets.

Key differences between the consolidated statement of financial position of the CD PROJEKT Group and the separate statement of financial position of CD PROJEKT S.A. are as follows:

- Shares in subsidiaries – as the holding company for other member companies of the Group, CD PROJEKT S.A. discloses in its separate financial statement the value of shares in subsidiaries which it holds. At the end of 2021 the corresponding figure was 43 447 thousand PLN. The value of these shares is either subject to consolidation eliminations or disaggregated as Shares in subsidiaries excluded from consolidations;
- Investment properties disclosed in the separate financial statement of CD PROJEKT S.A., at 61 436 thousand PLN, are discounted in the consolidated financial statement by the value of properties leased to affiliates;
- Other asset and liability categories – the separate financial statement is exclusive of values contributed by other member companies which belong to the Group, including in particular the contributions of GOG sp. z o.o. whose balance sheet total represents 4.5% of the CD PROJEKT Group's consolidated balance sheet total.

SELECTED DATA FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CD PROJEKT GROUP

Table 8 Selected data from the consolidated statement of cash flows (PLN thousands)

	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020
OPERATING ACTIVITIES		
Net profit (loss)	208 908	1 150 148
Total adjustments:	766 750	(460 131)
Depreciation of PP&E, intangibles, expenditures on development projects and investment properties	17 764	13 559
Depreciation of expenditures on development projects recognized as cost of products and services sold	86 965	254 105
Profit (loss) from exchange rate differences	(15 047)	2 220
Interest and profit sharing	(228)	(7 188)
Profit (loss) from investment activities	55 282	(5 440)
Change in provisions	(311 449)	366 499
Change in inventories	(8 929)	5 905
Change in receivables	1 036 886	(1 083 890)
Change in liabilities excluding credits and loans	(85 023)	77 319
Change in other assets and liabilities	(11 127)	(100 033)
Other adjustments	1 656	16 813
Cash flows from operating activities	975 658	690 017
Income tax on pre-tax profit (loss)	4 337	1 039
Withholding tax paid abroad	5 863	13 762
Income tax (paid)/reimbursed	(18 033)	6 890
Net cash flows from operating activities	967 825	711 708
INVESTMENT ACTIVITIES		
Inflows	257 135	823 545
Sales of intangibles and PP&E	241	22
Sales of shares in subsidiary	19	-
Closing bank deposits (maturity beyond 3 months)	164 368	754 581
Maturation of bonds	82 715	59 426
Interest on bonds	1 703	115
Inflows from settlement of forward contracts	7 887	1 801
Other inflows from investment activities	202	7 600

Outflows	870 930	929 931
Purchases of intangibles and PP&E	27 969	18 516
Expenditures on development projects	155 401	203 076
Purchase of investment properties and activation of future costs	2 085	8 336
Loans granted	4 340	4 500
Acquisition of subsidiary	19 306	-
Purchase of bonds and the associated purchase fees	396 829	209 441
Opening bank deposits (maturity beyond 3 months)	265 000	486 054
Other outflows from investment activities	-	8
Net cash flows from investment activities	(613 795)	(106 386)

FINANCIAL ACTIVITIES

Inflows	2 189	126 124
Net inflows from sale of own shares and issue of stock in the exercise of options granted under the incentive program	2 149	126 124
Collection of receivables arising from financial lease agreements	40	-
Outflows	507 968	217 517
Purchase of own shares in order to enable exercise of options granted under the incentive program	-	214 259
Dividends and other payments due to equity holders	503 694	-
Payment of liabilities arising from lease agreements	3 733	2 857
Interest payments	541	401
Net cash flows from financial activities	(505 779)	(91 393)
Total net cash flows	(151 749)	513 929
Balance of changes in cash and cash equivalents	(151 749)	513 929
Cash and cash equivalents at beginning of period	563 335	49 406
Cash and cash equivalents at end of period	411 586	563 335

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

In the scope of its **Operating activities** in 2021 the CD PROJEKT Group reported 967 635 thousand PLN in positive net cash flows, i.e. 255 927 thousand more than in the reference period (36.0% increase).

The Group's net earnings, at 208 908 thousand PLN, constitute the basis for calculation of operating cash flows, and are subsequently adjusted by the following:

- I. Non-cash items (total: -164 829 thousand PLN):
 - **Depreciation** (+17 764 thousand PLN);
 - **Depreciation of expenditures on development projects recognized as cost of products and services sold** (+86 965 thousand PLN) – mainly depreciation of development expenditures related to *Cyberpunk 2077*, *GWENT: The Witcher Card Game*, *The Witcher 3: Wild Hunt – Complete Edition* for Nintendo Switch and *Thronebreaker: The Witcher Tales*;
 - **Profit (loss) from exchange rate differences** (-15 047 thousand PLN);
 - **Profit (loss) from investment activities** (+55 282 thousand PLN) – recognition of impairment allowances on fixed assets and estimation of exchange rate hedges securing purchases of foreign treasury bonds;
 - **Changes in provisions** (-311 449 thousand PLN), resulting from the difference between remuneration dependent on 2020 earnings (*Cyberpunk 2077* release year) remitted in the current year, and provisions for remuneration dependent on 2021 earnings, as well as from settlement of CD PROJEKT RED provisions for returns and adjustments to licensing reports for *Cyberpunk 2077*, created at the end of 2020;
 - **Other adjustments** (+1 656 thousand PLN).
- II. Items related to changes in working assets and short-term liabilities (total: +931 807 thousand PLN):
 - **Changes in inventories** (-8 929 thousand PLN);
 - **Changes in receivables** (+1 036 886 thousand PLN), primarily representing a decrease in the balance of trade receivables since the end of December 2020 due to the high volume of sales realized towards the end of 2020 (mostly associated with the release of *Cyberpunk 2077* – the bulk of these royalties were collected in the first half of 2021);
 - **Changes in liabilities except credits and loans** (-85 023 thousand PLN), primarily affected by the reported decrease in trade and financial liabilities, along with current income tax adjustments;
 - **Changes in other assets and liabilities** (-11 127 thousand PLN) mainly related to allocation of a portion of retained earnings recognized before 2021.
- III. Item recognized elsewhere in the cash flow statement – **Interest and profit sharing** (-288 thousand PLN);
- IV. Difference between income tax due as reported in the profit and loss account for 2021 and income tax actually paid in the reporting period (-7 833 thousand PLN).

Throughout 2021 the Group generated 613 795 in negative net cash flows from **Investment activities**, compared to 106 386 in negative cash flows in the preceding year. This figure comes mainly from the following:

- allocation of surplus cash to t-bonds and bank deposits with maturity periods longer than 3 months, together with interest and inflows from exchange rate hedges (-405 156 thousand PLN);
- outflows related to investments in assets – **Expenditures on development projects** (development of games

- and technologies) at 155 401 thousand PLN, along with other Fixed assets at 30 054 thousand PLN;
- payments related to **Acquisition of subsidiaries** (19 306 thousand PLN) – primarily of two gamedev studios: The Molasses Flood (based in Boston) and Digital Scares (currently operating under the name CD PROJEKT RED Vancouver);
 - **Loans granted** to affiliates excluded from consolidation (4 340 thousand PLN)

In 2021 the Group generated 505 779 thousand PLN in negative cash flows from **Financial activities** (compared to 91 393 thousand PLN in negative cash flows during the reference period). In 2021 cash flows from financial activities were dominated by the payment of a dividend, at 503 694 thousand PLN, to shareholders of CD PROJEKT S.A.

Altogether, in 2021 the CD PROJEKT Group generated 151 749 thousand PLN in negative **Net cash flows**, compared to 513 929 thousand PLN in positive net cash flows during the reference period.

Despite the payment of a dividend with a total value of 503 694 thousand PLN, throughout 2021 the balance of the Group's financial reserves – i.e. cash on hand, bank deposits and other financial assets corresponding mainly to treasury bonds – increased by 279 313 thousand PLN, to 1 154 001 thousand PLN. During this period the Group incurred investment expenditures related to development of new videogames and technologies, engaged in intensive marketing campaigns promoting its products, and acquired two gamedev studios.

SELECTED DATA FROM THE STATEMENT OF CASH FLOWS OF CD PROJEKT S.A.

Table 9 Selected data from the statement of cash flows of CD PROJEKT S.A. (PLN thousands)

	01.01.2021 – 31.12.2021	01.01.2020 – 31.12.2020
OPERATING ACTIVITIES		
Net profit (loss)	240 113	1 128 056
Total adjustments:	802 191	(551 010)
Depreciation of PP&E, intangibles, expenditures on development projects and investment properties	12 658	5 647
Depreciation of expenditures on development projects recognized as cost of products and services sold	82 736	248 164
Profit (loss) from exchange rate differences	(15 118)	2 223
Interest and profit sharing	(343)	(7 246)
Profit (loss) from investment activities	41 323	(5 438)
Change in provisions	(307 704)	359 214
Change in inventories	(9 712)	4 658
Change in receivables	1 067 693	(1 110 415)
Change in liabilities excluding credits and loans	(57 773)	47 553
Change in other assets and liabilities	(13 846)	(111 936)
Other adjustments	2 277	16 566

Cash flows from operating activities	1 042 304	577 046
Income tax on pre-tax profit (loss)	8 263	(2 982)
Withholding tax paid abroad	5 858	13 762
Income tax (paid)/reimbursed	(17 143)	7 254
Net cash flows from operating activities	1 039 282	595 080

INVESTMENT ACTIVITIES

Inflows	263 407	824 849
Sales of intangibles and PP&E	1 015	17
Expenditures on development projects reassigned in the framework of a consortium agreement	152	312
Sales of shares in subsidiary	19	-
Repayment of loans granted	5 301	1 049
Closing bank deposits (maturity beyond 3 months)	164 368	754 581
Maturation of bonds	82 715	59 426
Interest on bonds	1 703	115
Inflows from settlement of forward contracts	7 887	1 801
Other inflows from investment activities	247	7 548
Outflows	875 004	920 760
Purchases of intangibles and PP&E	27 789	16 321
Expenditures on development projects	155 265	196 100
Purchase of investment properties and activation of future costs	2 085	8 336
Loans granted	7 339	4 500
Acquisition of subsidiary	7 679	-
Purchase of bonds and the associated purchase fees	396 829	209 441
Opening bank deposits (maturity beyond 3 months)	265 000	486 054
Capital contribution to subsidiary	13 018	-
Other outflows from investment activities	-	8
Net cash flows from investment activities	(611 597)	(95 911)

FINANCIAL ACTIVITIES

Inflows	2 189	126 124
Net inflows from sale of own shares and issue of stock in the exercise of options granted under the incentive program	2 149	126 124
Collection of receivables arising from financial lease agreements	40	-
Outflows	506 993	216 565
Purchase of own shares in order to enable exercise of options granted under the incentive program	-	214 259
Dividends and other payments due to equity holders	503 694	-
Payment of liabilities arising from lease agreements	2 834	2 015
Interest payments	465	291
Net cash flows from financial activities	(504 804)	(90 441)
Total net cash flows	(77 119)	408 728
Balance of changes in cash and cash equivalents	(77 119)	408 728
Cash and cash equivalents at beginning of period	422 914	14 186
Cash and cash equivalents at end of period	345 795	422 914

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 Group and the largest entity within the Group as well as within the CD PROJEKT RED segment, responsible for 77.9% of the Group's consolidated sales, controlling (as of 31 December 2021) 94.4% of the Group's cash assets, bank deposits and t-bond investments, and having a decisive influence on cash flows reported by the Group. Consequently, clarifications regarding the consolidated statement of cash flows of the Group (except for data referring directly to the GOG.COM segment and the effects of subsidiaries – CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc.) – are generally applicable to the activities and cash flows at CD PROJEKT S.A.

DISCLOSURE OF THE FEASIBILITY OF INVESTMENT PLANS

On 31 December 2021 the Group had no outstanding liabilities under any credit or loan agreements, and held 1 154 001 thousand PLN in its own cash assets, bank deposits and treasury bonds. The balance of the Group's trade receivables at the end of 2021 was 125 293 thousand PLN, while the balance of its short-term liabilities was 228 267 thousand PLN. Future investment plans are expected to be financed with the Group's own resources along with positive cash flows from operating activities. As of the publication date of this report the Group anticipates no difficulty in securing adequate financing for its near-term investment plans.

DIVIDEND PAYMENTS

CD PROJEKT S.A. does not have a formalized dividend policy. The Company aims to provide sufficient working assets to continue and further develop its business activities. Should the Company's stated objectives be met and a sufficient level of liquidity ensured, the Company's managing bodies may consider returning the achieved earnings, or parts thereof, to shareholders.

Given the cyclical nature of the Company's activities (which entails long-term investments in development of videogames, and strong impact of the degree to which game releases are successful upon the Company's earnings and cash flows), each year managing bodies of the Company perform a separate assessment of the existing circumstances, and decide whether to recommend to the General Meeting that part of the Company's net profit be returned to shareholders, e.g. in the form of a dividend.

In formulating its recommendation, the Management Board takes into account the Group's financial standing, its existing and projected operating revenues, financial requirements related to anticipated investments and potential acquisitions, the overall macroeconomic conditions, and any other factors which the Management Board deems relevant.

DISCLOSURE OF CREDITS AND LOANS IN 2021

Throughout 2021 the CD PROJEKT Group had no outstanding debt under any credit or loan agreement.

DISCLOSURE OF CREDITS AND LOANS GRANTED IN 2021

In 2021 no member company of the CD PROJEKT Group granted any credits or loans to external entities. CD PROJEKT Inc., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o.o. have access to financing under loan agreements concluded with CD PROJEKT S.A.

DISCLOSURE OF GUARANTEES AND SURETIES GRANTED IN 2021, 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 Group for 2021.

DISCLOSURE OF THE CURRENT ECONOMIC AND FINANCIAL STANDING OF THE GROUP

In recent years the Group has consistently remained profitable, posting positive cash flows from operating activities. Recent development activities, culminating in the release of *Cyberpunk 2077* – the largest such event in the Group's history – elevated the Company and the Group to a new level both in terms of business and financials, while also revealing certain areas which require improvements.

Throughout the reporting period the parent Company worked to implement the tenets of its adopted strategy, which aims to streamline internal structures and development processes in order to permit parallel work on two AAA projects. In addition to work on *Cyberpunk 2077* updates and development of the game's next-gen console edition (released on 15 February 2022) the Group also carried out R&D activities in the scope of future development projects. The Group holds significant cash reserves and its current economic and financial standing may be regarded as stable.

DISCLOSURE OF THE PROJECTED ECONOMIC AND FINANCIAL STANDING OF THE GROUP

In line with the CD PROJEKT Group Strategy Update, published on 30 March 2021, in the coming years the Group's activities will focus on existing and new projects in the framework of two franchises: *The Witcher* and *Cyberpunk*. As for 2022, the Company has announced the following new releases:

- *Cyberpunk 2077* – next-gen console edition (released on 15 February 2022);
- *The Witcher 3: Wild Hunt* – next-gen console edition;
- *CYBERPUNK: EDGERUNNERS* – a 10-episode anime series developed in collaboration with Studio Trigger – an acclaimed Japanese animation studio, and Netflix – one of the world's leading streaming platforms;
- *The Golden Nekker Project* – a single-player card game built upon GWENT gameplay mechanics.

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

DISCLOSURE OF TRANSACTIONS WITH AFFILIATES

In 2020 the CD PROJEKT Group engaged mainly in the following types of transactions with affiliates:

- sales of licenses between CD PROJEKT S.A., GOG sp. z o.o., Spokko sp. z o.o. and The Molasses Flood LLC, 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 by CD PROJEKT S.A. to GOG.COM sp. z o.o., Spokko sp. z o.o. and CD PROJEKT RED STORE sp. z o.o.;
- 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 services from CD PROJEKT Co., Ltd. (currently undergoing liquidation) by CD PROJEKT S.A. in the scope of coordinating promotional and publishing activities in China;
- loans granted to CD PROJEKT Inc., CD PROJEKT RED STORE sp. z o.o. and Spokko 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 on 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 Group. A detailed description of procedures which govern transactions between affiliates is included in the Consolidated Financial Statement of the CD PROJEKT Group for 2021.

In 2021 CD PROJEKT S.A. and GOG sp. z o.o. cooperated in the framework of development of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. This cooperation was regulated by a consortium agreement whereby each company would bear a portion of *GWENT* project expenses, and was entitled to the corresponding share of the associated revenues. The consortium agreement was formally dissolved on 31 December 2021.

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

At the end of 2021 important contributions to the Group's reported assets came from cash (411 586 thousand PLN), bank deposits with maturity periods exceeding 3 months (265 000 thousand PLN), domestic treasury bonds (248 754 thousand PLN) and foreign treasury bonds (228 661 thousand PLN). Surplus cash is deposited in Poland as well as abroad, 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 2021 the aggregate value of cash, cash equivalents, bank deposits and t-bonds was 1 154 001 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 2021 the cumulative balance of these expenditures was 350 195 thousand PLN, which corresponds to a y/y decrease of 56 603 thousand PLN. Further information regarding changes in expenditures on development projects throughout 2021 can be found in the commentary section accompanying the consolidated statement of financial position of the CD PROJEKT Group, elsewhere in this report. CD PROJEKT RED intends to continue building its production capabilities and increasing the quantity and scale of ongoing projects.

Following purchase of investment properties located in Warsaw at Jagiellońska 74 and 76 (in 2018 and 2019), the CD PROJEKT Group began redeveloping its campus, adapting it to its needs and specific profile of its activities. The Group intends to carry on with this process in the coming years.

Detailed information regarding individual components of the Group's property, plant and equipment can be found in the commentary section accompanying the consolidated statement of financial position, elsewhere in this report.

At the end of 2021 the CD PROJEKT Group controlled the following foreign subsidiaries, wholly owned by CD PROJEKT S.A.:

- CD PROJEKT Inc. (Los Angeles),
- CD PROJEKT Co., Ltd. (Shanghai; currently undergoing liquidation),
- CD PROJEKT RED Vancouver Studio Ltd. (acquired in 2021).

Additionally, in 2021, CD PROJEKT Inc. acquired 60% of shares in The Molasses Flood LLC (Boston).

The Company's domestic subsidiaries are as follows:

- GOG sp. z o.o. (wholly owned),
- Spokko sp. z o.o. (74% of shares),
- CD PROJEKT RED STORE sp. z o.o. (wholly owned).

As of 31 December 2021, the aggregate value of shares in domestic and foreign subsidiaries reported in the separate financial statement of CD PROJEKT S.A. (the Group's holding company) was 43 447 thousand PLN.

Throughout 2021 the CD PROJEKT Group financed its current activities and investments with its own funds.

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

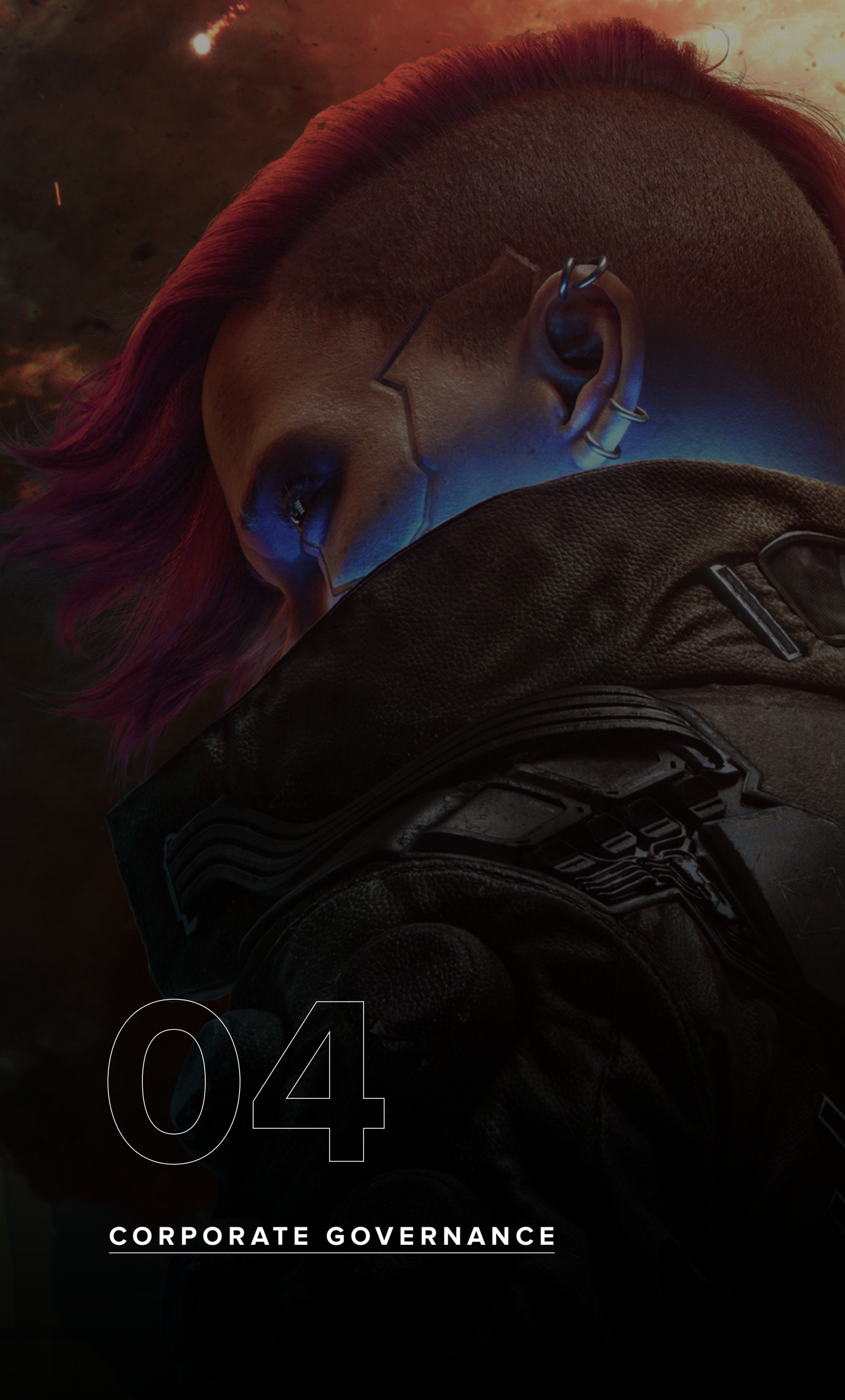
The CD PROJEKT Group never published any financial projections for 2021. Consequently, no description of the significant differences between the Group's actual results and earlier projections is provided.

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

As a result of exercise of entitlements assigned under the incentive program in force between 2016 and 2019, the Company:

1. throughout 2020 carried out:
 - buy-back of its own shares, expending 214 259 thousand PLN;
 - sale of the aforementioned shares and issue of new shares, obtaining a total of 126 124 thousand PLN in the associated revenues;
2. in 2021 issued new shares, obtaining a total of 2 149 thousand PLN in the associated revenues.

Revenues obtained by the Company from issuing new stock in the framework of the aforementioned incentive program partly offset the expenses related to the buy-back of stock, which was carried out to facilitate execution of entitlements assigned under the program.



04

CORPORATE GOVERNANCE

Entity contracted to audit financial statements

On 14 May 2020 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 Group for 2020 and 2021. Grant Thornton Polska sp. z o.o. sp. k. has also been contracted to audit the financial statement of GOG sp. z o.o., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o.o.

Based on a statement issued by the Supervisory Board, the Management Board of the Company declares the following:

- Grant Thornton Polska sp. z o.o. sp. k. with a registered office in Poznań, along with members of the audit team, fulfill the necessary criteria to ensure preparation of an unbiased and independent audit of the annual separate financial statement of CD PROJEKT S.A. and the consolidated financial statement of the CD PROJEKT Group for the fiscal year ending on 31 December 2021, as defined under the relevant legislation, standards of professional conduct and professional ethics guidelines;
- The CD PROJEKT Group observes existing regulations governing rotation of auditing companies and head auditors, as well as mandatory grace periods associated therewith;
- CD PROJEKT S.A. has instituted a policy regulating selection of auditing companies and procurement by CD PROJEKT S.A. from auditing companies, their affiliates or members of their business networks, of additional services not directly related to financial audits, including services which auditing companies are conditionally authorized to perform.

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

The Company's share capital amounts to 100 738 800 PLN, divided into 100 738 800 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 10 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	12 873 520	12.78%	12 873 520	12.78%
Michał Kiciński*	10 433 719	10.36%	10 433 719	10.36%
Piotr Nielubowicz	6 858 717	6.81%	6 858 717	6.81%
other shareholders	70 572 844	70.06%	70 572 844	70.06%

*As disclosed in Current Report no. 33/2021 of 26 May 2021

According to Current Report no. 9/2022 of 1 April 2022 the aggregate percentage share of votes controlled by The Goldman Sachs Group Inc. as a result of holding shares (0.41%) and other financial instruments (4.68%) was 5.09% as of 29 March 2022.

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

INCENTIVE PROGRAM COVERING THE YEARS 2016–2019

As of the publication date of this report, there remain 32 000 unexercised Series B subscription warrants issued to participants of the Company's incentive program covering the years 2016-2019 (entitling holders to take up the equivalent number of shares). These warrants will expire on 31 October 2022.

INCENTIVE PROGRAM COVERING THE YEARS 2020–2025

Pursuant to General Meeting adopted on 28 July 2020 and 22 September 2020, a third edition of the Company incentive program, covering the years 2020-2025, was formally instituted. In line with the adopted stipulations, a total of 4 000 000 entitlements may be granted under the program. The program may also vest by issuing and assigning to entitled parties a certain quantity of subscription warrants which incorporate the right to acquire parent Company shares issued in the framework of a conditional increase in the Company share capital, or, alternatively, by extending an offer to entitled parties to purchase Company shares which will have previously been bought back by the Company on the open market. Acquisition and exercise of subscription warrants or the purchase of the parent Company's own shares by the entitled parties, as appropriate, is predicated upon attaining certain goals and criteria defined under the program. These include earnings goals (80% of entitlements), market goals (20% of entitlements), individual goals (in selected cases) as well as – in all circumstances – fulfillment of a loyalty criterion up until the day the attainment of the program's goals and criteria is declared.

Result goal - 80% of entitlements

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

Achieving consolidated net earnings from continuing activity for the Group as a whole, increased by costs related to estimation of the granted entitlements as entered in the Group's accounts for each verification period, of at least:

- a) for the financial years 2020-2023 – 6 billion PLN and at least 59.02 PLN per Company share outstanding on the final date of the corresponding verification period, or
- b) for the financial years 2020-2024 – 7 billion PLN and at least 68.86 PLN per Company share outstanding on the final date of the corresponding verification period, or
- c) for the financial years 2020-2025 – 8.3 billion PLN and at least 81.65 PLN per Company share outstanding on the final date of the corresponding verification period.

Alternative variant whereby any of the above stated goals are achieved one year in advance, entitling participants to exercise their entitlements at a discount:

Achieving consolidated net earnings from continuing activity for the Group as a whole, increased by costs

related to estimation of the granted entitlements as entered in the Group's accounts for each verification period, of at least:

- a) for the financial years 2020-2022 – 6 billion PLN, or
- b) for the financial years 2020-2023 – 7 billion PLN, or
- c) for the financial years 2020-2024 – 8.3 billion PLN, or
- d) for the financial years 2020-2025 – 10 billion PLN and at least 98.37 PLN per Company share outstanding on the final date of the corresponding verification period.

Market goal – 20% of entitlements

Entitlements exercised at base price:

A goal predicated upon the change in the price of CD PROJEKT S.A. stock on the Warsaw Stock Exchange in such a way that the percentage difference between the closing price of CD PROJEKT S.A. stock on the verification date and the corresponding closing price on 22 September 2020 is more than 100% greater than the corresponding change in the value of the WIG index over the same period.

With regard to entitlements assigned thus far, the base exercise price is 390.59, while the discounted price is 317.06 PLN.

As of the publication date of this report there are 2 275 000 entitlements outstanding under the 2020-2025 incentive program.

According to the terms and conditions of the 2020-2025 incentive program, first verification of the attainment of its result goal may not occur before the Company's earnings for 2022 are officially approved.

Based on the Group's 2020 and 2021 earnings, as well as assumptions concerning further years covered by the incentive program, the Management Board has performed an analysis of the feasibility of attaining the result goal as defined for the entire duration of the program, and has consequently revised its projections, declaring that the most likely outcome is that the result goal for the duration of the program cannot be attained.

Information regarding the control system of employee share programs

An incentive program under which Company shares may be awarded, covering the activities of the Company and its Group in the 2020-2025 period, was approved by the General Meetings of Shareholders on 28 July 2020 and 22 September 2020. A detailed set of terms and conditions was endorsed by the Supervisory Board and subsequently approved by the Management Board on 30 October 2020.

Implementation of the aforementioned program is directly supervised by the Supervisory Board and Management Board of CD PROJEKT S.A.

Disclosure of the purchase of own shares

No purchases of own shares took place during the reporting period.

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

Table 11 Shares held by members of the Management Board and Supervisory Board of the Company*

Name	Position	as of 14.04.2022	as of 31.12.2021	as of 01.01.2021
Adam Kiciński	President of the Board	4 046 001	4 046 001	4 046 001
Marcin Iwiński	Vice President of the Board	12 873 520	12 873 520	12 873 520
Piotr Nielubowicz	Vice President of the Board	6 858 717	6 858 717	6 858 717
Adam Badowski	Board Member	692 640	692 640	692 640
Michał Nowakowski	Board Member	580 290	580 290	580 290
Piotr Karwowski	Board Member	108 728	108 728	108 728
Paweł Zawodny	Board Member	18 508	n/a	n/a
Katarzyna Szwarz	Chairwoman of the Supervisory Board	10	10	10
Maciej Nielubowicz	Supervisory Board Member	51	51	51

* based on declarations filed with the Company

Persons discharging managerial and executive responsibilities at CD PROJEKT S.A. do not directly hold any shares of entities affiliated with CD PROJEKT S.A.

Management structure

Pursuant to domestic regulations expressed in the Commercial Companies Code, in addition to the General Meeting of Shareholders, the Company's official bodies include the Management Board and the Supervisory Board.

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



Adam Kiciński – President of the Board

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



Marcin Iwiński – Vice President of the Board for International Affairs

Coordinates the Company's international activities and the corresponding policies. Takes part in supervising and managing the Company's foreign subsidiaries. Co-develops and coordinates global publishing plans. Coordinates and participates in shaping relations with the gaming community.



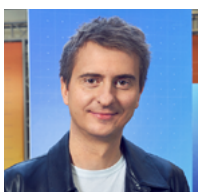
Piotr Nielubowicz – Vice President of the Board; Chief Financial Officer

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. Co-develops the conceptual framework and artistic vision of projects carried out at CD PROJEKT RED.



Michał Nowakowski – Board Member

Co-develops and coordinates the Company's global publishing activities. Oversees formulation and implementation of the Company's sales policies.



Piotr Karwowski – Board Member

Supervises the Group's activities related to online games and services, as well as cybersecurity. Also responsible for the activities and development of the GOG.COM segment, and of GWENT.



Paweł Zawodny – Board Member

Serves as Chief Technology Officer (CTO) and head of production at CD PROJEKT RED. Oversees the technological and organizational transformation of CD PROJEKT RED.

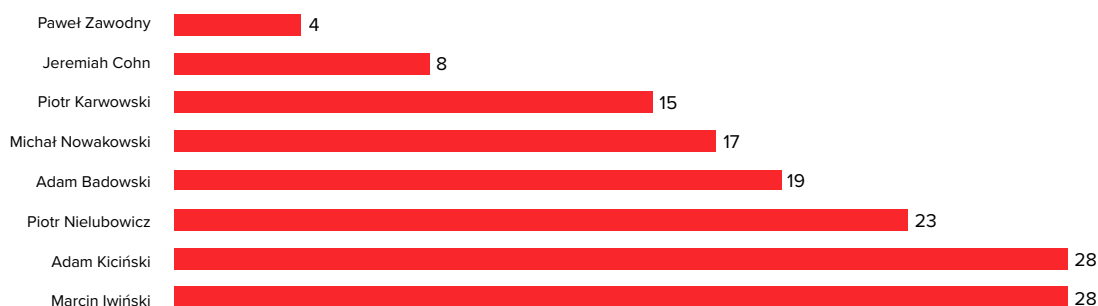


Jeremiah Cohn – Board Member

Responsible for overseeing the marketing and communication departments as Chief Marketing Officer (CMO). Also manages the newly established franchise development team.

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.

Chart 18 Tenure of incumbent members of the Management Board as employees at the Group's member companies (in years)



Changes in the composition of the Management Board of CD PROJEKT S.A.

No changes in the composition of the Company Management Board occurred in 2021.

On 25 May 2021 the Supervisory Board of the Company adopted resolutions appointing all incumbent members of the Management Board (listed below) to a new term of office:

Adam Kiciński – President of the Board

Marcin Iwiński – Vice President of the Board for International Affairs

Piotr Nielubowicz – Vice President of the Board; Chief Financial Officer

Adam Badowski – Board Member

Michał Nowakowski – Board Member

Piotr Karwowski – Board Member

Following the balance sheet date, on 26 January 2022, two additional persons were appointed to the Management Board of CD PROJEKT S.A. as Board Members: Paweł Zawodny and Jeremiah Cohn – effective on 1 February 2022 in both cases.

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

The incumbent members of the Supervisory Board of CD PROJEKT S.A. are as follows:

Katarzyna Szwarc	Chairwoman of the Supervisory Board; Audit Committee Member
Piotr Pągowski	Deputy Chairman of the Supervisory Board; Audit Committee Member meeting independence criteria
Maciej Nielubowicz	Secretary of the Supervisory Board; Audit Committee Member
Michał Bień	Supervisory Board Member; Chairman of the Audit Committee
Jan Łukasz Wejchert	Supervisory Board Member; Audit Committee Member meeting independence criteria

Changes in the composition of the Supervisory Board of CD PROJEKT S.A.

On 17 May 2021 Mr. Krzysztof Kilian tendered his resignation from the Supervisory Board of the Company, effective on the day of the General Meeting convened on 25 May 2021.

On 25 May 2021 the Ordinary General Meeting appointed Mr. Jan Łukasz Wejchert to the Supervisory Board. In addition, all other incumbent members of the Supervisory Board, i.e.:

- Ms. Katarzyna Szwarc
- Mr. Michał Bień
- Mr. Piotr Pągowski
- Mr. Maciej Nielubowicz

were appointed by the General Meeting to a new term of office.

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

On 27 August 2020, acting under authorization expressed in Resolution 19 of the Ordinary General Meeting of 28 July 2020, the Supervisory Board of the Company adopted Resolution 1, instituting a remuneration policy at CD PROJEKT S.A.

The policy specifies, among others, the make-up of variable remuneration, criteria and deferment periods for disbursement of variable remuneration, as well as non-monetary benefits which may be assigned to members of the Management Board as part of their fixed remuneration.

ADAM KICIŃSKI, PRESIDENT OF THE BOARD

Mr. Kiciński's base remuneration paid by CD PROJEKT S.A. in 2020 was 420 thousand PLN, all of which represented his base salary. In 2021 this base salary remained unchanged at 420 thousand PLN. In 2021 Mr. Kiciński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2020, was 24 241 thousand PLN, while the portion associated with the net earnings of the Group in 2021 was 4 387 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 2020 was 336 thousand PLN, all of which represented his base salary. In 2021 this base salary remained unchanged at 336 thousand PLN. In 2021 Mr. Iwiński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2020, was 24 241 thousand PLN, while the portion associated with the net earnings of the Group in 2021 was 2 194 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 base remuneration paid by CD PROJEKT S.A. in 2020 was 348 thousand PLN, all of which represented his base salary. In 2021 this base salary remained unchanged at 348 thousand PLN. In 2021 Mr. Nielubowicz also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2020, was 24 241 thousand PLN, while the portion associated with the net earnings of the Group in 2021 was 4 387 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

ADAM BADOWSKI, BOARD MEMBER

Mr. Badowski's base remuneration paid by CD PROJEKT S.A. in 2020 was 397 thousand PLN, all of which represented his base salary. In 2021 this base salary amounted to 398 thousand PLN. In 2021 Mr. Badowski also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2020, was 16 738 thousand PLN, while the portion associated with the net earnings of the Group in 2021 was 3 029 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

MICHAŁ NOWAKOWSKI, BOARD MEMBER

Mr. Nowakowski's base remuneration paid by CD PROJEKT S.A. in 2020 was 360 thousand PLN, all of which represented his base salary. In 2021 this base salary remained unchanged at 360 thousand PLN. In 2021 Mr. Nowakowski also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2020, was 16 738 thousand PLN, while the portion associated with the net earnings of the Group in 2021 was 3 029 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

PIOTR KARWOWSKI, BOARD MEMBER

Mr. Karwowski's base remuneration paid by CD PROJEKT S.A. in 2020 was 102 thousand PLN, all of which represented his base salary. In 2021 this base salary was increased to 185 thousand PLN. Prior to the end of 2020 Mr. Karwowski participated in the incentive program in force at GOG sp. z o.o. as a board member thereof. His compensation, disbursed in 2021 by GOG sp. z o.o. in association with the aforementioned function, is disclosed in the table below. Since 2021 Mr. Karwowski also participates in the incentive program in force at CD PROJEKT S.A. His variable remuneration assigned under this program and associated with the net earnings of the Group in 2021 was 3 029 thousand PLN, and had not been disbursed as of the balance sheet date.

Table 12 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)

	01.01.2021–31.12.2021	01.01.2020–31.12.2020
Marcin Iwiński	24	24
Piotr Karwowski	4 791	946

Compensation paid out in the framework of share-based incentive schemes

The share-based incentive program for 2016-2019 was instituted by the Extraordinary General Meeting of 24 May 2016 for the benefit of key employees of the Company and other Group member companies, as well as other persons regarded as having crucial influence on their earnings. The program's conditions were specified in resolutions adopted by the General Meeting of 24 May 2016, the related Terms and Conditions document as well as further resolutions issued by the Company's Supervisory Board and Management Board. The program vested as a result of the Group's earnings in the 2016-2019 period, and, consequently, in 2020 entitled parties belonging to the Management Board of CD PROJEKT S.A. (specifically, Mr. Adam Kiciński, Mr. Marcin Iwiński, Mr. Piotr Nielubowicz, Mr. Adam Badowski, Mr. Michał Nowakowski and Mr. Piotr Karwowski) exercised their assigned subscription warrants and acquired Company stock. The value of potential benefits and quantity of entitlements assigned to members of the Management Board in conjunction with their enrollment in the 2016-2019 incentive program are listed in the following table.

Table 13 Number of entitlements and potential value of monetary benefits (in PLN thousands) assigned to members of the Management Board under the 2016-2019 incentive program.

Name	Position	Entitlements granted	value of potential benefits	
			01.01.2020– 31.12.2020	01.01.2021– 31.12.2021
Adam Kiciński	President of the Board	800 thousand	853	-
Marcin Iwiński	Vice President of the Board	800 thousand	853	-
Piotr Nielubowicz	Vice President of the Board	800 thousand	853	-
Adam Badowski	Board Member	600 thousand	640	-
Michał Nowakowski	Board Member	600 thousand	640	-
Piotr Karwowski	Board Member	120 thousand	110	-

Pursuant to resolutions of the General Meetings of 28 July 2020 and 22 September 2020 a third edition of the Company's incentive program was instituted, covering the years 2020-2025. The program involves key employees and collaborators of the Company and other companies constituting its Group, as well as other persons regarded as having influence on the financial results of the Company and its Group, as specified in resolutions adopted on 28 July 2020 and 22 September 2020 by the General Meeting of CD PROJEKT S.A., the Terms and Conditions of the Incentive Program and the corresponding resolutions of the Supervisory Board and Management Board. The value of potential benefits assignable to members of the Management Board under the incentive program for 2020-2025 is listed in the table below.

Table 14 Entitlements assigned and potential value of monetary benefits (in PLN thousands) obtainable by members of the Management Board in light of their involvement in the 2020-2025 incentive program

Name	Position	Entitlements granted	value of potential benefits	
			01.01.2020-31.12.2020	01.01.2021-31.12.2021
Adam Kiciński	President of the Board	200 thousand	536	-9
Marcin Iwiński	Vice President of the Board	200 thousand	536	-9
Piotr Nielubowicz	Vice President of the Board	200 thousand	536	-9
Adam Badowski	Board Member	200 thousand	536	-9
Michał Nowakowski	Board Member	200 thousand	536	-9
Piotr Karwowski	Board Member	200 thousand	536	-9
Paweł Zawodny	Board Member	40 thousand	n/a	n/a
Jeremiah Cohn	Board Member	40 thousand	n/a	n/a

The value of potential benefits listed in the above tables, payable to participants of successive editions of long-term share-based incentive programs for Management Board members is based on the fair value of assigned entitlements on the grant date, as calculated by a licensed actuary. These values have been duly recognized as Group expenditures in the years 2020 and 2021 respectively. The 2021 figure incorporates the change in Management Board's projections regarding the attainability of the goals set for 2020-2025 under the current incentive program.

The difference between the market value of CD PROJEKT shares and their respective take-up or purchase prices, calculated for the given exercise date under the terms of successive incentive programs may differ significantly from the estimation prepared by the actuary on the grant date and recognized on the Group's balance sheet. Future benefits obtainable by participants of the program will depend on the share price at the moment of purchase or take-up of shares by entitled parties. With regard to entitlements assigned thus far, the base take-up or purchase price payable by entitled parties (following attainment of the program's goals and other criteria) is 390.59 PLN, while the corresponding discount price is 371.06 PLN.

Assignment of benefits to Management Board members

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.

Remuneration of Supervisory Board members

Table 15 Gross remuneration paid out to members of the Supervisory Board of CD PROJEKT S.A. in 2020 and 2021 (PLN thousands)

Name	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Katarzyna Szwarc – Chairwoman of the Supervisory Board	135	120
Piotr Pągowski – Deputy Chairman of the Supervisory Board	87	72
Maciej Nielubowicz – Secretary of the Supervisory Board	87	72
Michał Bień – Supervisory Board Member; Chairman of the Audit Committee	87	72
Krzysztof Kilian – Supervisory Board Member	29	72
Jan Łukasz Wejchert – Supervisory Board Member	58	n/a

DISCLOSURE OF RETIREMENT BENEFITS AND SIMILAR COMPENSATION PAYABLE TO FORMER MEMBERS OF THE ISSUER'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 2021 the Company had no such liabilities.

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

As of 31 December 2021 and as of the preparation date of this report all members of the Company's managing bodies discharged their duties on the basis of appointment resolutions adopted by the Supervisory Board, and there were no provisions in force regulating compensation in the event of their resignation or dismissal.

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

In 2021 there were no significant transactions with members of the managing and supervisory bodies of CD PROJEKT S.A. not disclosed elsewhere in this report.

The following transactions are not regarded as significant: medical coverage fees, use of company cars, reimbursements and incidental purchases of Group products by members of the Management Board or Supervisory Board on the same terms as those offered to the rest of the team.

Changes in basic management practices at the Company and its Group

No significant changes in basic management policies affecting the Company and its Group occurred in 2021.

Corporate governance policies

CD PROJEKT S.A. follows the corporate governance policies listed in the "Best Practice for WSE Listed Companies 2021" document, published as an attachment to Resolution no. 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange on 29 March 2021. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2021 can be found on the Company website at <https://www.cdprojekt.com/en/investors/corporate-governance/>.

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 overruled the judgment of the court of first instance by dismissing the Company's lawsuit in its entirety.

On 19 April 2019 the Company 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.

On 24 November 2021 the Supreme Court dismissed the Company's cassation appeal.

CRIMINAL PROCEEDINGS IN WHICH CD PROJEKT S.A. IS RECOGNIZED AS THE VICTIM

Case against natural persons (including former members of the Management Board of Optimus S.A.) charged with acting against the Company's interests

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 L., Mr. Piotr L. and Mr. Michał D. 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.

LITIGATION IN WHICH CD PROJEKT S.A. IS NAMED AS THE DEFENDANT

Class action lawsuit filed against CD PROJEKT S.A. concerning US securities

On 25 December 2020 and subsequently on 15 January 2021 the Management Board of the Company received information concerning the filing of civil class action lawsuits in the US District Court for the Central District of California, by law firms acting on behalf of groups of holders of securities traded in the USA under the ticker symbols "OTGLY" and "OTGLF" and based on Company shares, whereby the plaintiffs call for the court to adjudicate whether the actions undertaken by the Company and members of its Management Board in connection with the release of *Cyberpunk 2077* constituted a violation of federal laws, i.a. by misleading investors and, consequently, causing them to incur damages. In subsequent months the Company was notified of two further lawsuits filed in the aforementioned court, both of which were materially consistent with the lawsuit described above, and also named CD PROJEKT as the defendant. None of these complaints specified the quantity of damages sought.

On 18 May 2021 the Company was notified that the court had consolidated the aforementioned lawsuit and named a lead plaintiff. Following consolidation, all four lawsuits were merged into a single case.

On 29 June 2021 the Company announced that it had received a transcript of a lawsuit filed against the Company and members of its Management Board by a law firm representing the lead plaintiff and other eligible holders of US securities traded under the ticker symbols "OTGLY" and "OTGLF". The lawsuit is not materially different from earlier lawsuits filed in this matter, and likewise, does not specify the amount of damages sought.

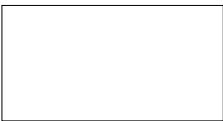
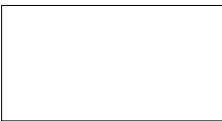
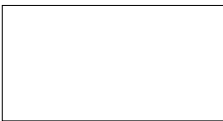
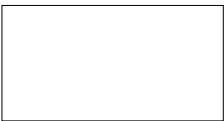




On 12 August 2021 the Company filed a responsive pleading, asking that the complaint be dismissed by the court. Subsequently, on 5 October 2021 the Company was notified that the plaintiffs had responded with their own pleading which objected against the complaint being dismissed, to which the Company responded on 17 November 2021, again asking for the complaint to be dismissed.

On 7 December 2021 the Company entered into settlement negotiations with the plaintiffs, as a result of which on 16 December 2021 a Settlement Term Sheet was signed whereupon the Company agreed to pay a settlement in the amount of 1 850 000 USD in exchange for which the plaintiffs would relinquish any claims against the Company. This settlement was then endorsed by the Company's insurer, i.e. Colonnade Insurance S.A. (Polish division).

On 27 January 2022, after the balance sheet date, the Company concluded a formal Stipulation Agreement which confirmed the provisions of the Settlement Term Sheet.

Similarly to the Term Sheet, the Stipulation Agreement expressly rejects any admission of wrongdoing on the part of the Company or other defendants named in the case.

The Company expects the settlement procedure to conclude within several months of the publication date of this report.

			
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	Paweł Zawodny Board Member	Jeremiah Cohn Board Member



CONTACT FOR INVESTORS: IR@CDPROJEKT.COM
WWW.CDPROJEKT.COM