



CD PROJEKT®

**MANAGEMENT BOARD REPORT**  
**ON THE ACTIVITIES OF THE CD PROJEKT**  
**GROUP IN THE PERIOD BETWEEN**  
**1 JANUARY AND 30 JUNE 2022**

### 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.

## Table of content

|           |  |
|-----------|--|
| <b>5</b>  | <b>Brief outline of the CD PROJEKT Group</b>   |
| 6         | Activity profile   |
| 10        | CD PROJEKT Group growth prospects  |
| 11        | CD PROJEKT S.A. on the securities market   |
| <b>14</b> | <b>CD PROJEKT Group activity profile</b>   |
| 15        | CD PROJEKT Group activity profile  |
| 17        | Disclosure of business segments, products and services, outlets, suppliers and clients   |
| 31        | Disclosure of external and internal factors affecting further growth of the CD PROJEKT Group   |
| 33        | Disclosure of factors which, in the issuer's opinion, may significantly affect its earnings throughout at least the coming quarter   |
| 33        | Disclosure of significant agreements   |
| 33        | Risk management at the Group   |
| <b>35</b> | <b>Results of operation of the CD PROJEKT Group</b>  |
| 36        | Discussion of the key economic and financial figures disclosed in the consolidated and separate financial statements   |
| <b>56</b> | <b>Corporate governance</b>  |
| 57        | Entity contracted to audit financial statements  |
| 57        | Shareholders controlling at least 5% of the vote at the General Meeting  |
| 58        | Agreements which may result in changes in the proportions of shares held by shareholders and bondholders   |
| 59        | Information regarding the control system of employee share programs  |
| 59        | Disclosure of the purchase of own shares   |
| 60        | Company shares held by members of the Management Board and the Supervisory Board   |
| 60        | Management structure   |
| 61        | Composition of the Management Board of CD PROJEKT S.A.   |
| 62        | Changes in the composition of the Management Board of CD PROJEKT S.A.  |
| 63        | Changes in the composition of the Supervisory Board of CD PROJEKT S.A.   |
| 63        | 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 |
| 63        | Agreements between the Issuer and members of its managing and supervisory bodies concerning compensation in the event of their resignation or dismissal  |
| 63        | Changes in basic management practices at the Company and its Group   |
| 64        | Corporate governance policies  |
| 64        | Disclosure of significant legal proceedings  |





## Key events in the first half of 2022

On 15 February CD PROJEKT RED released a dedicated next-gen console edition of *Cyberpunk 2077*, along with Patch 1.5 – a large update on all supported platforms

---

On 21 March the Company announced that it had entered into a strategic partnership with Epic Games, thanks to which CD PROJEKT RED will be able to use Unreal Engine in its future game development projects

---

On 21 March CD PROJEKT RED announced it was working on another game in The Witcher series

---

In early February two additional people were appointed to the Company's Management Board: Mr. Paweł Zawodny, Head of Production and CTO at CD PROJEKT RED, and Mr. Jeremiah Cohn, who will be responsible for coordinating marketing, communication and franchise development activities

---





01

BRIEF OUTLINE 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 RPG – *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.

## CD PROJEKT RED

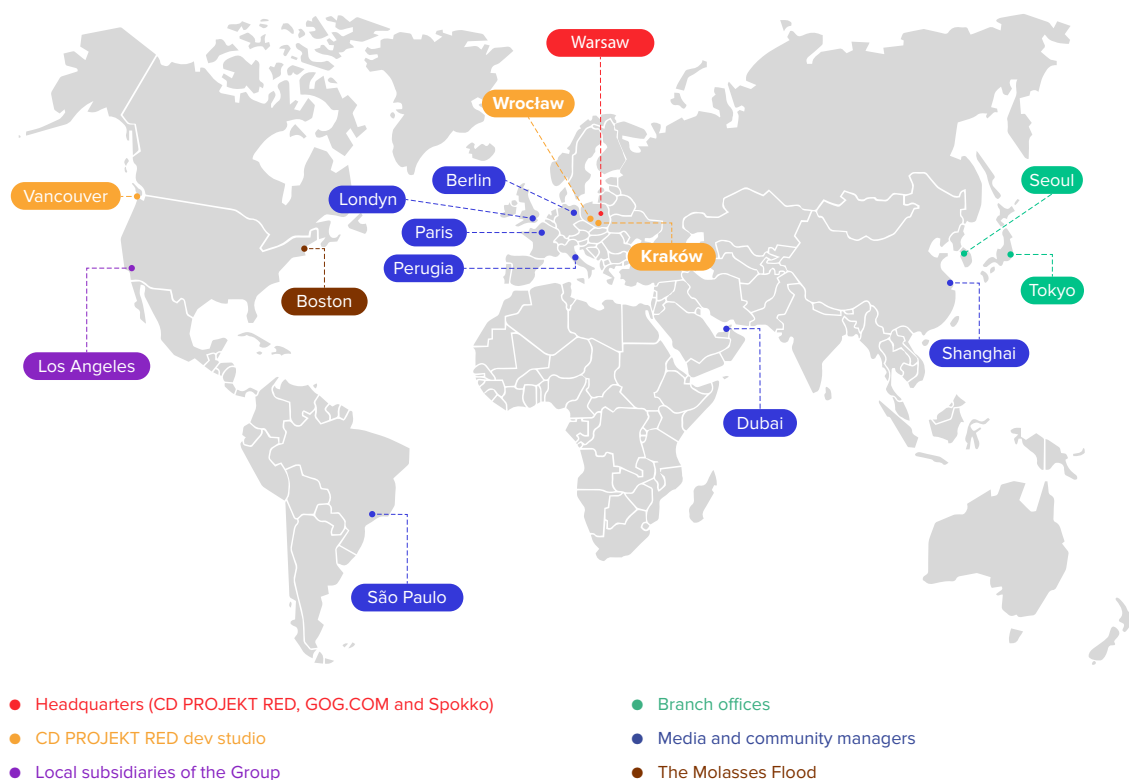
Developing and publishing videogames and tie-in products which exploit the commercial appeal of brands owned by the Company.

## GOG.COM

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

During the reporting periods 96.1% of the CD PROJEKT Group's sales revenues were generated by exports. Throughout the first half of 2022 North America and Europe accounted for 65.6% and 20.2% of the Group's sales respectively.

**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

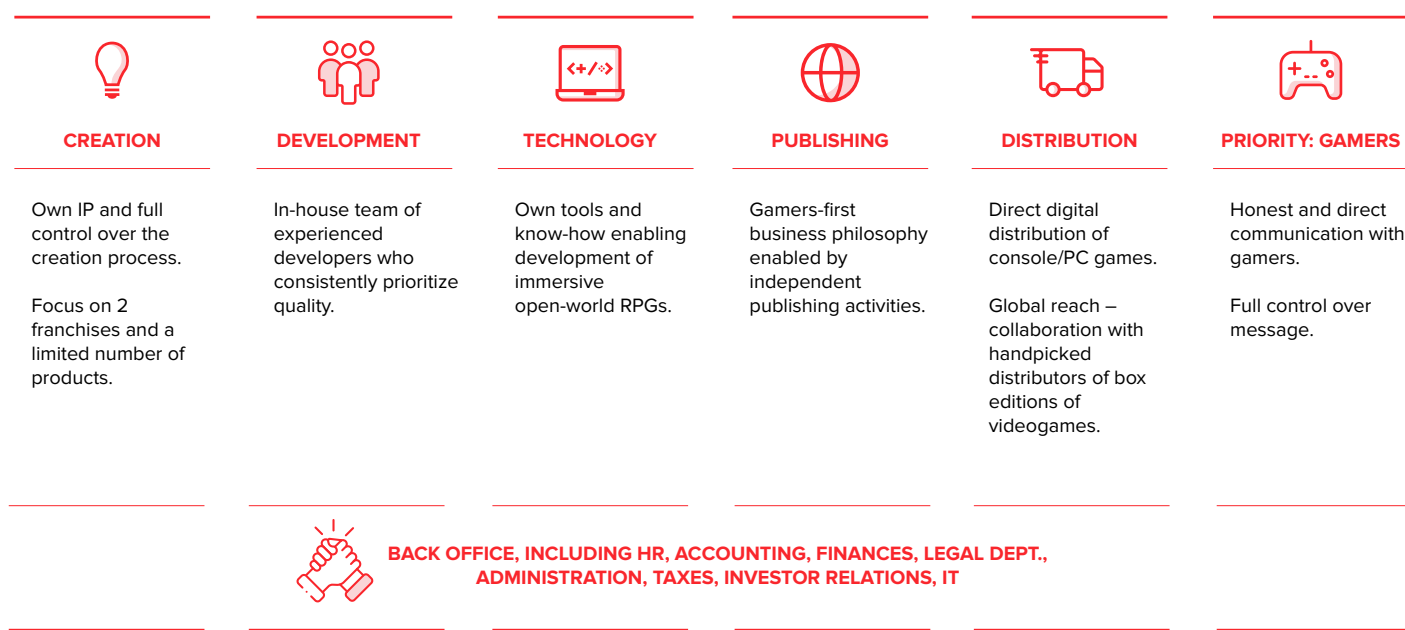
The document also charts three major areas where changes and growth are expected:

- RED 2.0 – the Studio's transformation 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





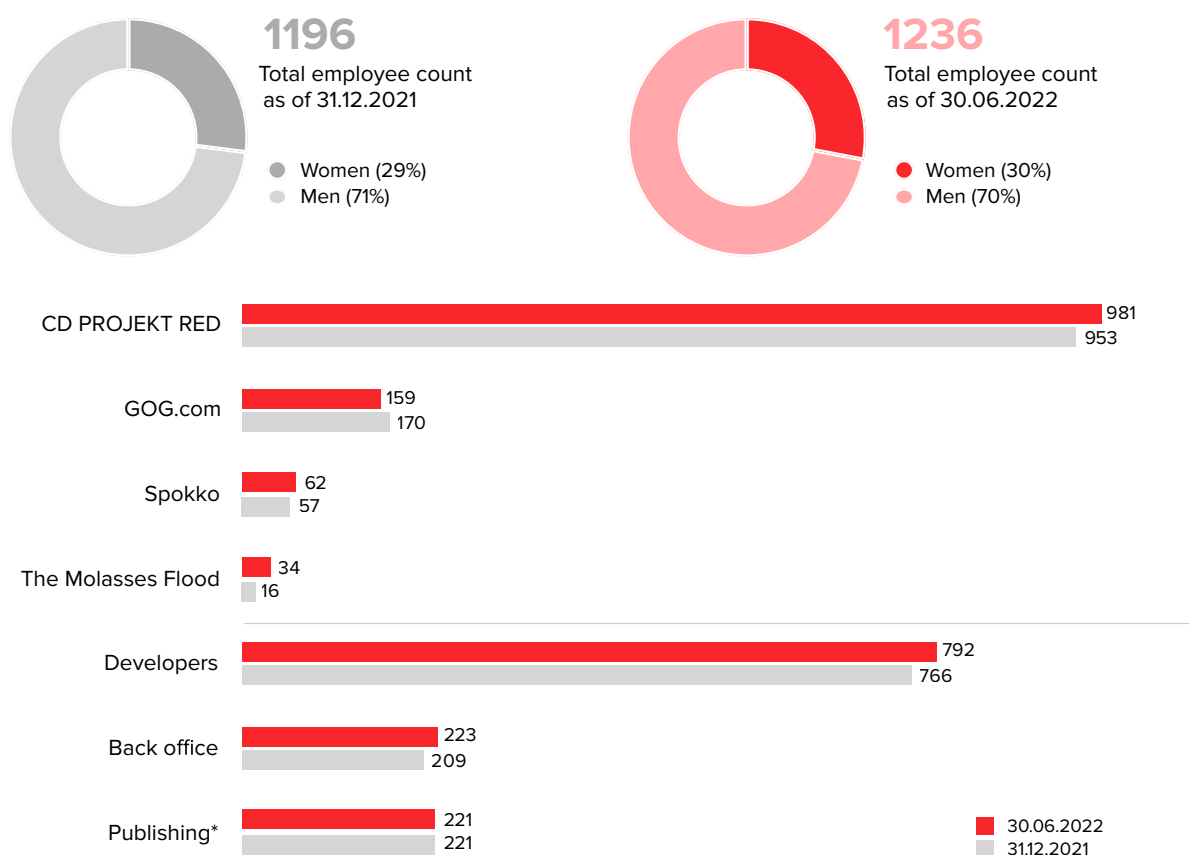
## EMPLOYMENT

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

CD PROJEKT embraces diversity and inclusion in the belief that a workplace based upon acceptance, openness and trust unlocks the creative potential of our teams, and promotes innovation and imaginative endeavors. This belief is enshrined in the [CD PROJEKT S.A. Diversity Policy](#) – an expression of basic values which apply to the Company and guide relations among its team members, key managers and members of the Management Board and Supervisory Board.

CD PROJEKT is also a signatory to the [Diversity Charter](#) – an international initiative organized under the auspices of the European Commission, which obligates us to institute non-discrimination policies at the workplace, take action to promote diversity and involve team members and business partners in these activities.

### Scheme 2 Employment structure at the CD PROJEKT Group at the end of 2021 and at the end of H1 2022



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

At the close of the first half of 2022 the CD PROJEKT Group employed 1 236 persons.

## CD PROJEKT Group growth prospects

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 2025 the global videogame market will have expanded to 225.7 billion USD<sup>1</sup>, which implies a cumulative annual growth rate (CAGR) of 4.7% for the 2020-2025 period. According to PwC's "Global Entertainment & Media Outlook 2021-2025"<sup>2</sup> report, the videogame and e-sports markets is expected to grow by 5.1% annually during this period.

The global gaming community continues to grow with each passing year – both with regard to headcount and involvement (time spent playing games). Newzoo estimates<sup>1</sup> that by 2022 the number of gamers worldwide will have reached 3.2 billion, and will further increase to over 3.5 billion by 2025. Considering that in 2020 there were fewer than 2.9 billion gamers, the CAGR rate for the 2020-2025 period is projected at 4.2%.

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.

---

1 The Games Market Will Show Strong Resilience in 2022, Growing by 2.1% to Reach \$196.8 Billion, Newzoo, 26 July 2022, accessed on 28 July 2022, [newzoo.com/insights/articles/the-games-market-will-show-strong-resilience-in-2022](https://newzoo.com/insights/articles/the-games-market-will-show-strong-resilience-in-2022)

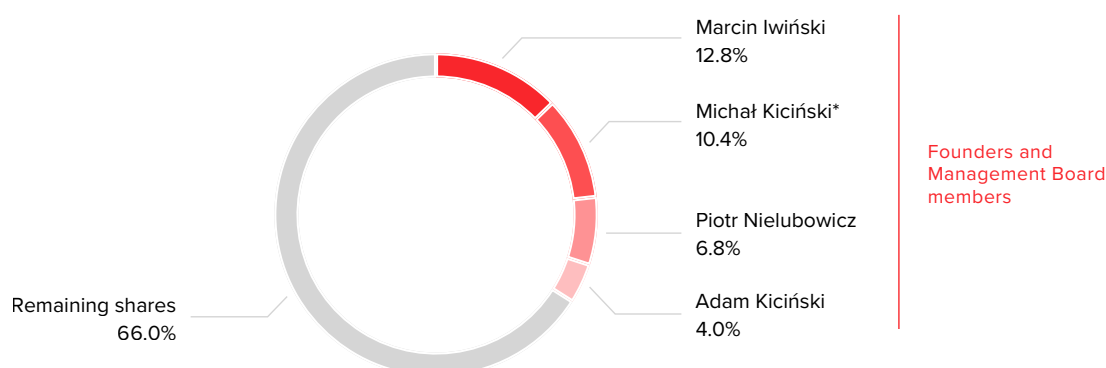
2 Perspectives from the Global Entertainment & Media Outlook 2021–2025, PwC, accessed on 28 July 2022, summary available at: [pwc.com/gx/en/entertainment-media/outlook-2021/perspectives-2021-2025.pdf](https://www.pwc.com/gx/en/entertainment-media/outlook-2021/perspectives-2021-2025.pdf)



## CD PROJEKT S.A. on the securities market

The CD PROJEKT brand has been present on the Warsaw stock exchange since 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.

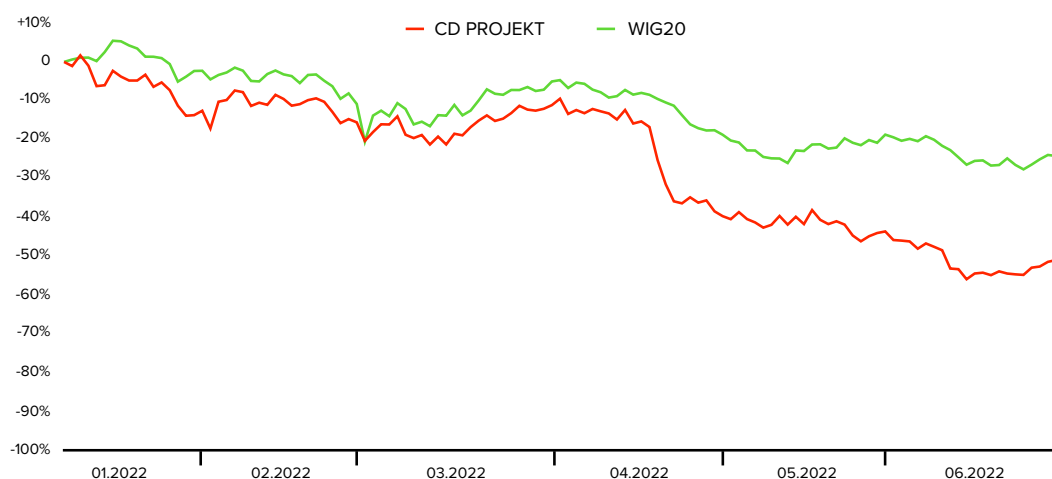
**Chart 1** Company shareholding structure as of the publication date of this report



\*according to a notice filed on 26 May 2021

Free float accounts for 66.0% of CD PROJEKT S.A. shares.

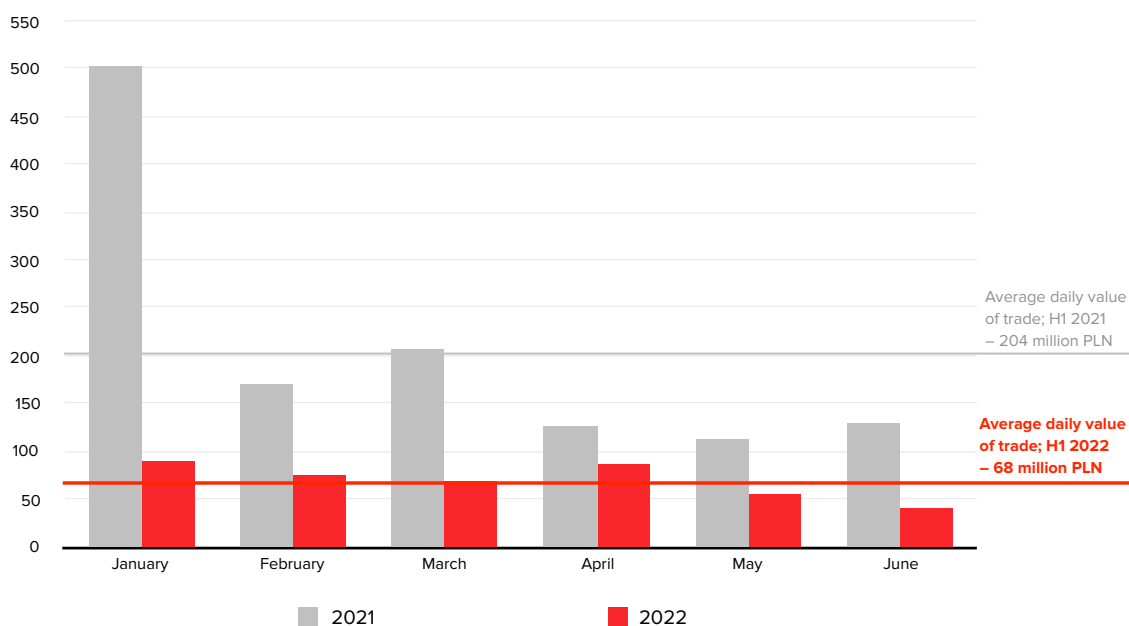
**Chart 2** CD PROJEKT S.A. stock price and the WIG20 index between 1 January and 30 June 2022



Between 1 January and 30 June 2022 the Company stock price fluctuated between 88.43 PLN (13 June 2022) and 204.00 PLN (5 January 2022). During this period the stock price decreased by 50.4%, to 95.68 PLN at the close of the trading day on 30 June 2022. Over the same period the WIG20 index lost 25.2% while the main WIG index lost 22.7%.

On 30 June 2022 the Company's market capitalization was 9.6 billion PLN.

**Chart 3** Average daily value of trade in CD PROJEKT S.A. shares (by month) between 1 January and 30 June 2022 (PLN millions)



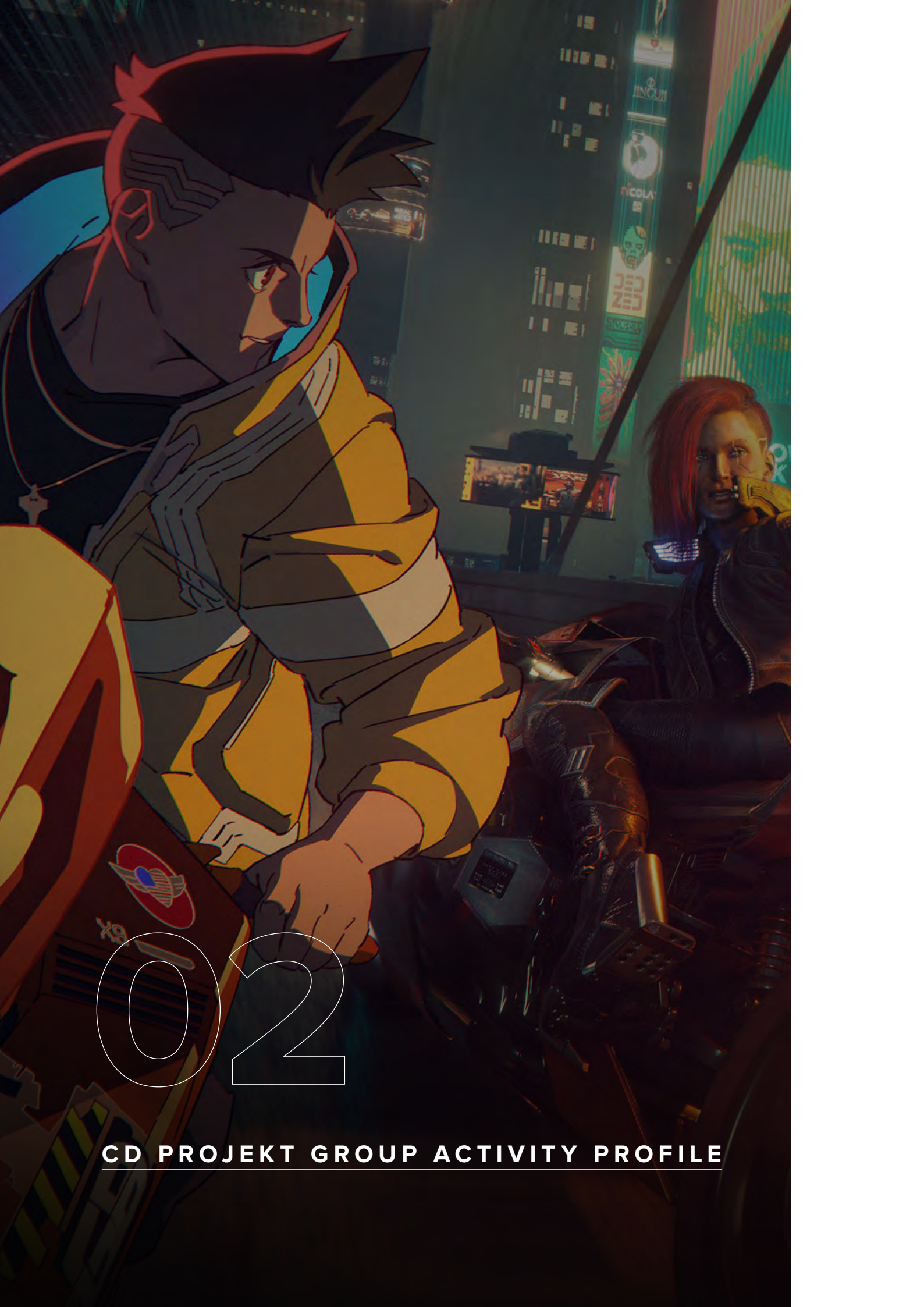


In the first half of 2022 the liquidity of CD PROJEKT S.A. stock, measured in terms of value of trade, was lower than the year before. The aggregate value of trade for the first half of 2022 was 8.5 billion PLN, which is 66% lower than during the corresponding period in 2021. The average daily value of trade during this period was 68.5 million PLN compared to 204.2 million PLN the year before. A decrease was also observed in the average number of transactions per trading day – from 15 628 to 7 005.

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

|   | H1 2022     | H1 2021     | Change |
|---|-------------|-------------|--------|
| Net earnings per share (PLN)                                  | 1.13        | 1.04        | +8.7%  |
| Quantity of shares in trading (in thousands) at end of period | 100 738 800 | 100 738 800 | 0.0%   |
| Highest closing price (PLN)                                   | 204.00      | 365.00      | -44.1% |
| Lowest closing price (PLN)                                    | 88.43       | 153.38      | -42.3% |
| Price at beginning of period (PLN)                            | 200.60      | 274.70      | -27.0% |
| Price at end of period (PLN)                                  | 95.68       | 185.02      | -48.3% |
| Average price during period (PLN)                             | 149.68      | 214.43      | -30.2% |
| Market capitalization at end of period (PLN thousands)        | 9 638 688   | 18 638 693  | -48.3% |
| Average number of transactions per trading day                | 7 005       | 15 628      | -55.2% |
| Average daily value of trade (PLN thousands)                  | 68 455      | 204 241     | -66.5% |
| Average daily trading volume (shares)                         | 463 100     | 883 302     | -47.6% |

As of the publication date of this report 25 brokerage houses, both foreign and domestic, issue recommendations concerning Company stock. The 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/pl/inwestorzy/analitcy>



02

CD PROJEKT GROUP ACTIVITY PROFILE

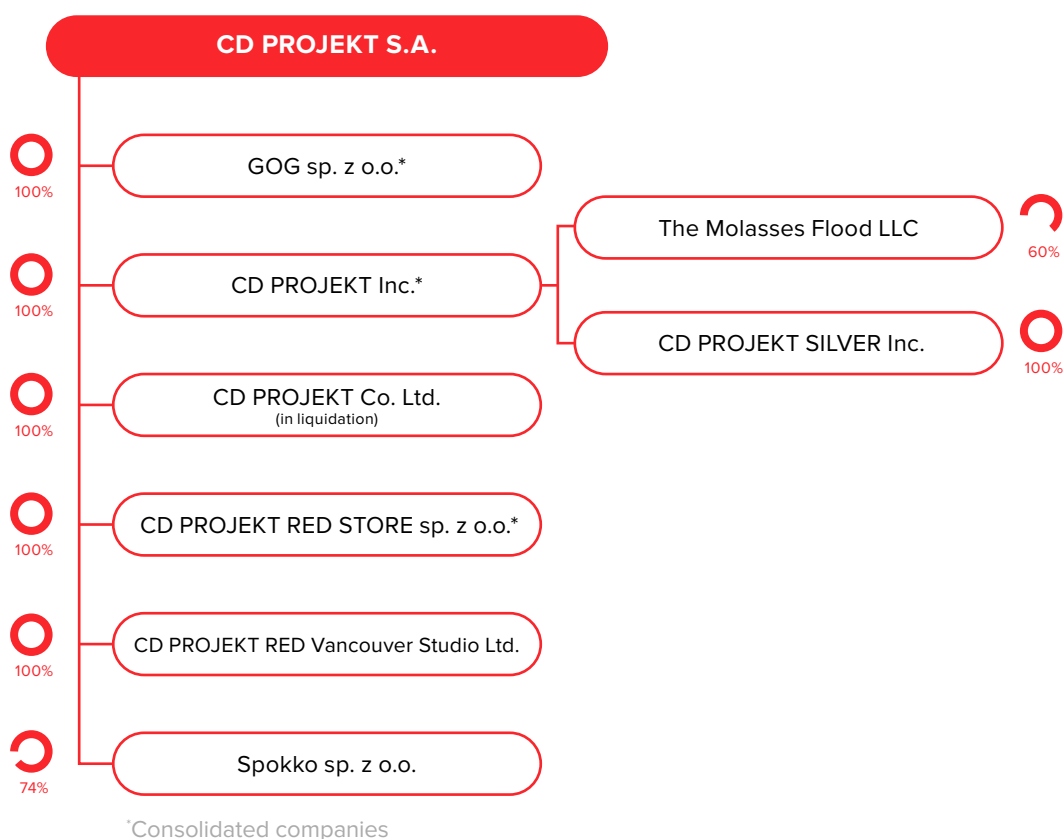


## CD PROJEKT Group activity profile

### ORGANIZATIONAL STRUCTURE OF THE CD PROJEKT GROUP

As of 30 June 2022 the CD PROJEKT Group consists of the parent entity – CD PROJEKT S.A. – and eight 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., The Molasses Flood LLC and CD PROJEKT SILVER Inc.

**Scheme 3** CD PROJEKT Group at the end of H1 2022 (capital and voting share)



**Table 2** Basic activity profile of each member company of the CD PROJEKT Group as of 30 June 2022

| 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. 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.<br>(w likwidacji)   | The principal scope of activity of this company involved representing the CD PROJEKT Group in China (coordinating publishing and marketing activities). As of the publication date of this report the company is not in operation.   |
| CD PROJEKT RED<br>Vancouver Studio Ltd. | This gamedev studio, based in Vancouver, develops videogames within the framework of CD PROJEKT RED.   |
| CD PROJEKT RED<br>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.   |
| CD PROJEKT SILVER Inc.                  | A company which participates in creating entertainment products related to CD PROJEKT brands.  |

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., The Molasses Flood LLC and CD PROJEKT SILVER Inc., were subject to full consolidation as of 30 June 2022. Detailed information can be found in the Consolidated Financial Statement of the CD PROJEKT Group for the first half of 2022.

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

In the first half of 2022 the Group conducted business activities in two segments:

- CD PROJEKT RED,
- GOG.COM.

### SEGMENT CD PROJEKT RED

#### Target and scope of business activities

Videogame development is the main area of activity of the CD PROJEKT RED studio. It is based on two brands owned by the Company: The Witcher and Cyberpunk.

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](https://gear.cdprojektred.com), which markets products to fans of CD PROJEKT RED brands.

### Key products

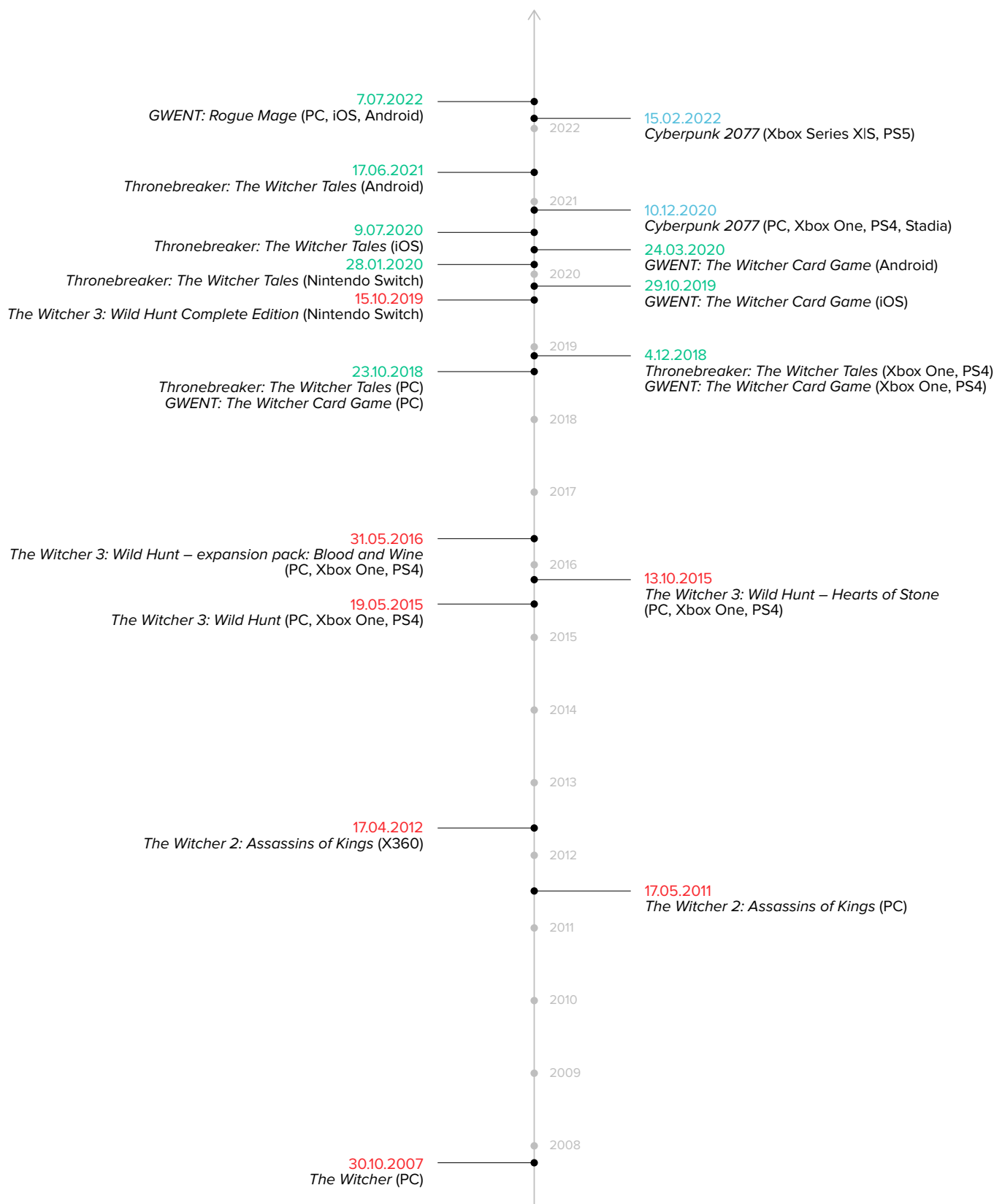
Videogame development commenced in 2002 and initially focused on the studio's RPG debut: *The Witcher*. This game, set in Andrzej Sapkowski's fantasy world, was released in 2007 to global acclaim, garnering over 100 awards and accolades.

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*, released on 10 December 2020.

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

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

On 7 July 2022 the Studio released *GWENT: Renegade Mage* – an expansion for the single-player edition of *GWENT: The Witcher Card Game* (PC, iOS, Android).

**Scheme 4** 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*.

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 the first half of 2022 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.

### Key business partners and suppliers

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 the first half of 2022 sales to three clients exceeded 10% of the Group's consolidated sales revenues and totaled 101 340 thousand PLN, 68 599 thousand PLN and 48 534 thousand PLN respectively (26.8%, 18.2% and 12.8% 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.

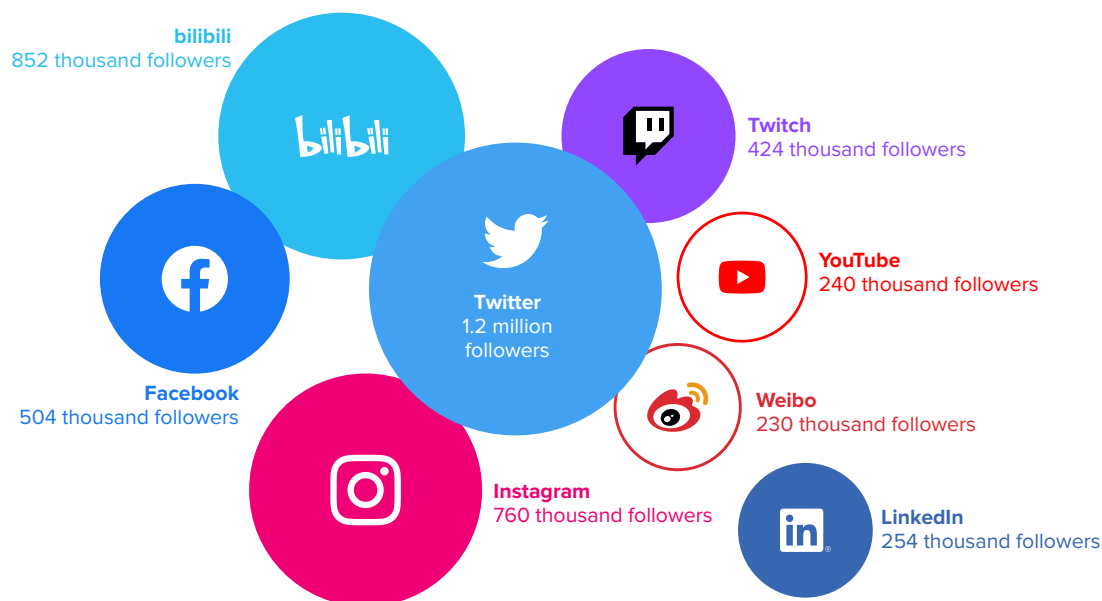
The videogame development process relies on certain bought-in tools and technical solutions; however, these do not result in significant concentration of supply. No CD PROJEKT RED supplier accounted for more than 10% of the consolidated revenues of the Group in the first half of 2022.



## 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 5** Followers and subscribers of CD PROJEKT RED social media profiles as of 1 August 2022



## Key product and marketing events

### **Cyberpunk 2077**

*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. It also received the prestigious Excellence Award at the 25th Japan Media Arts Festival.

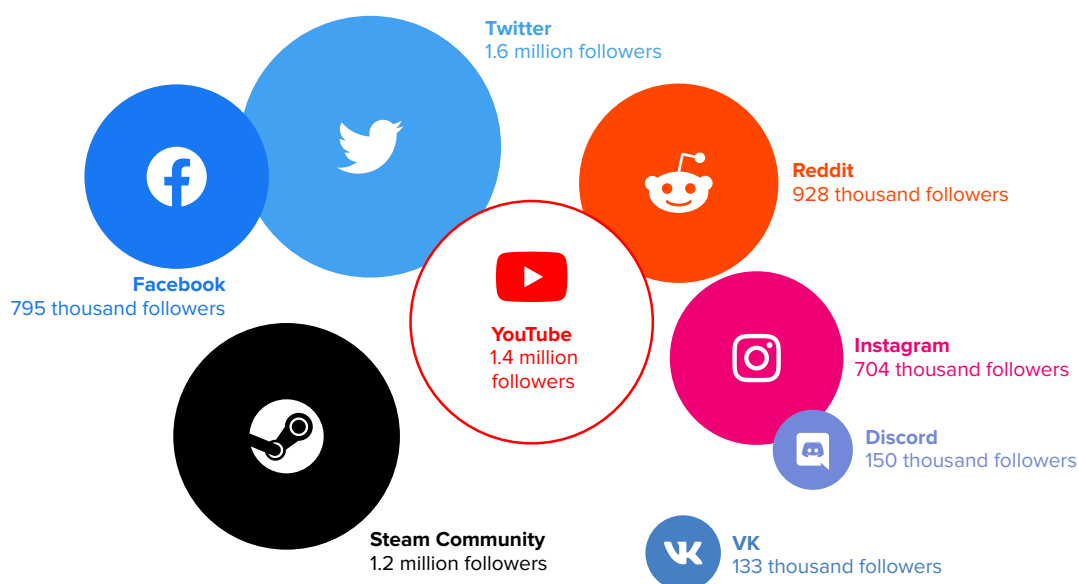
On 15 February 2022 CD PROJEKT RED’s official Twitch channel hosted a stream devoted to key new features and changes introduced by Patch 1.5 for *Cyberpunk 2077*. As the stream was drawing to a close, studio representatives surprised the audience by announcing that the patch had just been released on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

On 7 June 2022 CD PROJEKT RED, in collaboration with Netflix and the Japanese Studio Trigger presented new promotional content for the upcoming *CYBERPUNK: EDGERUNNERS* anime series, including a poster, a teaser and a behind-the-scenes look at the production process. The Studio also confirmed that the series would premiere in September of the current year.

On 4 September, at PAX West in Seattle (USA) CD PROJEKT RED held pre-release screenings of *CYBERPUNK: EDGERUNNER*. An audience of over 500 had the opportunity to watch the first two episodes of the series.

On 6 September CD PROJEKT RED held a special edition of its Night City Wire series. Following a segment devoted to *CYBERPUNK: EDGERUNNERS*, a representative of the Studio discussed plans concerning further development of the game and the franchise. A gameplay trailer of the upcoming expansion was presented, along with a statement by Keanu Reeves where the actor confirmed he would be returning to the *Cyberpunk 2077* universe. This was followed by a live stream session where Studio representatives showcased key updates awaiting gamers in Patch 1.6 for *Cyberpunk 2077*, which launched on the same day. Together with the patch, a free arcade game titled Roach Race – transplanted from *Cyberpunk 2077* directly to mobile devices – was released in mobile storefronts (Google Play and Apple Store).

**Scheme 6** Followers and subscribers of *Cyberpunk 2077* social media profiles as of 1 August 2022



#### Events related to The Witcher videogame series

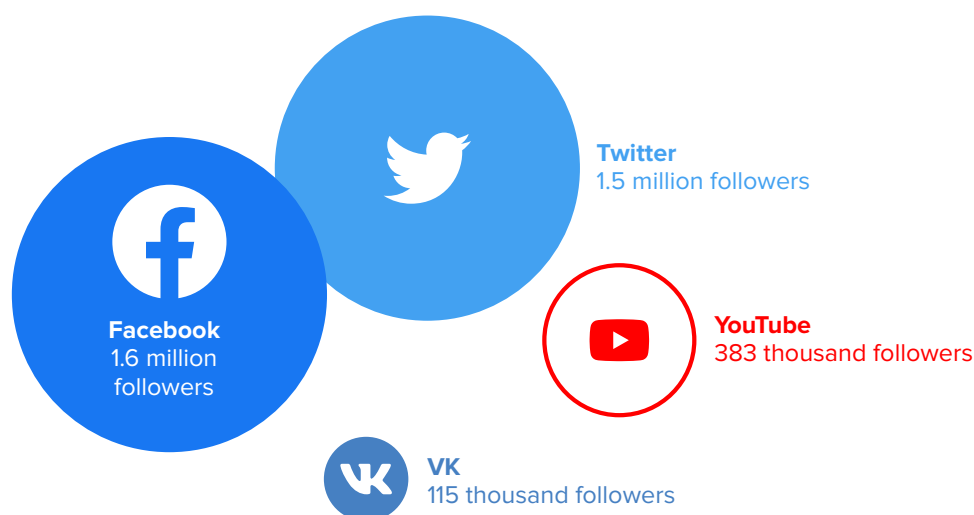
On 21 March 2022 CD PROJEKT RED announced that it was working on a new saga within The Witcher videogame series. The corresponding social media announcement teased a new medallion. The Studio also announced that the next big game set in The Witcher universe would be based on Unreal Engine 5.

On 13 April 2022 the Management Board of CD PROJEKT announced that, based on recommendations submitted by persons in charge of development, it had decided that further development of the next-gen version of *The Witcher 3: Wild Hunt* would be handled by an internal team. In conjunction with this change, the Management Board decided to postpone the game's release, previously scheduled for the second quarter of 2022. On 19 May the Company announced that the game was scheduled for release in Q4 2022.

On 17-19 June, at the Pyrkon 2022 event in Poznań, participants of the gaming and pop-culture festival had the opportunity to try their own hand at *The Witcher: Old World* a new board game funded on Kickstarter. The game is scheduled for release in the fourth quarter of 2022.

On 7 July 2022 a single-player expansion for GWENT – *Renegade Mage* – was released. This instalment combines elements of roguelikes, card games and strategy games, incorporating GWENT gameplay mechanics. The game is available as a standalone product for the PC (on GOG.COM and Steam) as well as on iOS and Android devices.

**Scheme 7** Number of followers and subscribers of The Witcher social media profiles as of 1 August 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. In 2022 the platform was offered in English, French, German, 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.

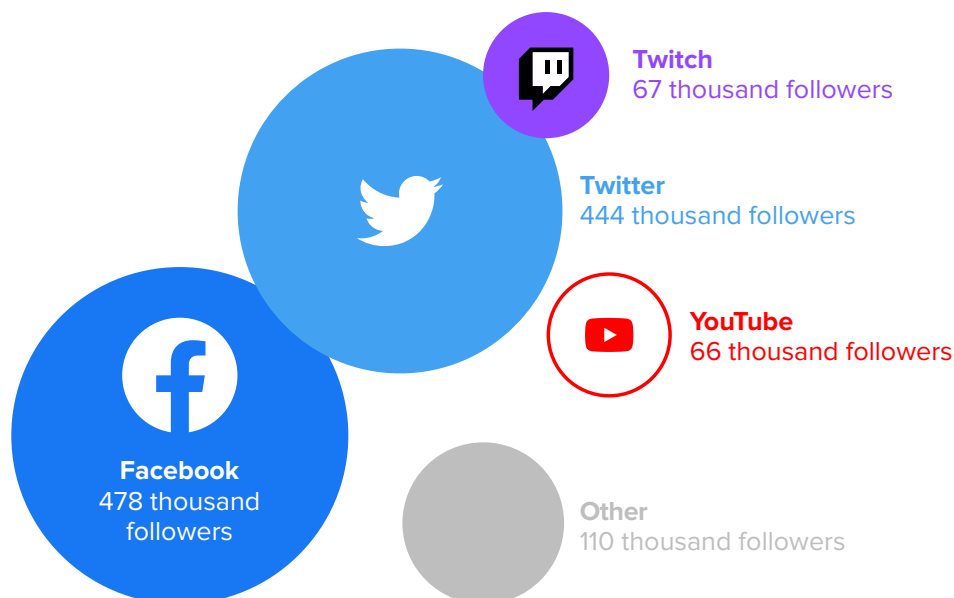
Activities carried out in the GOG.COM segment focus on digital distribution of videogames via the Company's proprietary GOG.COM distribution platform and the GOG GALAXY application. The platform enables customers to purchase games, remit payment and download game files to their personal devices, while 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 8** Number of followers and subscribers of GOG.COM social media profiles as of 1 August 2022



### Key products

As of the publication date of this report, the GOG.COM digital distribution platform offers over 6500 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 games set in the Witcher universe, as well as *Cyberpunk 2077*.

### 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.

GOG.COM's involvement in the GWENT consortium concluded at the end of 2021. Starting in 2022 GOG does 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 6500 items.

In the first half of 2022 the catalogue was expanded, among others, with XCOM: Chimera Squad, Cloudpunk, Partisans 1941, Martha is Dead, ELEX II, Shadow Warrior 3, Hero's Hour, Syberia: The World Before, The Wheel of Time, Dorfromantik, Songs of Conquest, Alien: Isolation and DOOM64.

#### Sales support

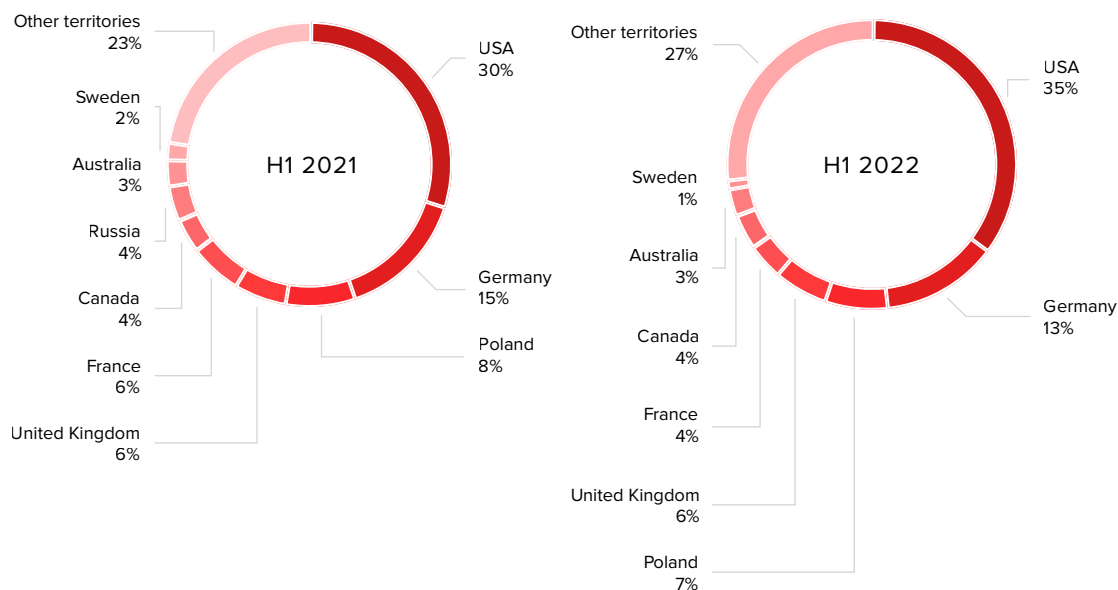
With regard to digital distribution sales support focuses primarily on securing distribution rights to new, appealing videogames, and on seasonal sales campaigns.

Key promotional campaigns supporting GOG.COM sales in the first half of the year included the Winter Sale, the New Year Sale and the Summer Sale. During the latter event, over 3.5 thousand games were offered at bargain prices. The GOG team also organized other promotional events, including an indie game sale, Good Old Games Week (which focused on classic games available on the platform) as well as the We Love Games Sale, celebrating Valentine's Day.

### Key suppliers and clients

GOG sp. z o.o. 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 4** Sales of products and goods by GOG.COM in H1 2022 and H1 2021, by territory



In the first half of 2022 the largest group of GOG.COM customers came from the United States (35%), followed by Germany (13%), Poland (7%), the United Kingdom (6%) and France (4%).

On 3 March 2022 the Management Board of the Company decided to suspend sales of CD PROJEKT Group products and games offered on the GOG.COM platform on the territories of Russia and Belarus.

The Company estimated that the aggregate share of Russia and Belarus in GOG.COM's total sales revenues during the 12-month period ending in February 2022 amounted to 3.7%.

As of 30 June 2022 no single supplier in the GOG.COM segment accounted for more than 10% of the Group's consolidated revenues.

## KEY CORPORATE EVENTS

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 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 9 May 2022 the Extraordinary General Meeting of CD PROJEKT RED STORE sp. z o.o. voted to increase the company's share capital by issuing 380 new shares, to be taken up by CD PROJEKT S.A. The newly issued shares were fully paid up in cash, in the amount of 1 900 PLN. This increase in share capital enabled the company to repay the loan previously granted to it by CD PROJEKT S.A.

On 9 May 2022, as a result of decisions undertaken by the Board of Directors of CD PROJEKT Inc. and the Management Board of CD PROJEKT S.A. – the company's sole shareholder – the share capital of CD PROJEKT Inc. was increased by 450 thousand USD. The increased value of existing shares was fully paid up in cash by CD PROJEKT S.A., for a total of 450 thousand USD. This increase in share capital enabled the company to repay the loan previously granted to it by CD PROJEKT S.A.

On 24 May 2022 the Extraordinary General Meeting of Spokko sp. z o.o. voted to increase the company's share capital by issuing 589 new shares. 584 of these newly issued shares were taken up by CD PROJEKT S.A. in exchange for a cash payment in the amount of 26 010 thousand PLN, while 5 newly issued shares were taken up by one of the company's existing shareholders – Mr. Maciej Weiss – in exchange for a cash payment in the amount of 223 thousand PLN. As a result of these transactions, CD PROJEKT S.A.'s share in voting rights and share capital of Spokko sp. z o.o. increased from 74.0% to 87.6%. This increase in share capital enabled the company to repay the loan previously granted to it by CD PROJEKT S.A.

On 25 May 2022 the Management Board of the Company recommended that 100 738 thousand PLN from 2021 net earnings be allocated towards a dividend at 1 PLN per Company share. On 30 May 2022 the Supervisory Board endorsed this recommendation. Subsequently, on 28 June 2022 the Ordinary General Meeting of the Company voted to set the dividend record date to 5 July 2022 and pay out the dividend on 12 July 2022.

## **EVENTS FOLLOWING THE BALANCE SHEET DATE**

On 20 July 2022 an increase in the share capital of Spokko Sp. z o.o. was officially registered in the National Court Registry (KRS). As a result of these transactions, CD PROJEKT S.A.'s share in voting rights and share capital of Spokko sp. z o.o. increased from 74.0% to 87.6%.

On 8 August 2022 the Extraordinary General Meeting of CD PROJEKT RED STORE sp. z o.o. voted to increase the company's share capital by issuing 100 new shares, to be taken up by CD PROJEKT S.A. in exchange for a cash payment in the amount of 500 thousand PLN.

On 19 August 2022 the Head of the Małopolska Customs and Tax Office in Kraków issued a decision with regard to tax liabilities incurred by GOG sp. z o.o. in 2016. The corresponding potential liabilities including interest



accrued by the end of 2021, at 2 503 thousand PLN, were recognized by GOG.COM in its calculation of financial result for 2021, as well as - where liabilities arising in 2022 are concerned - in the current calculation of financial result for 2022. The management board of GOG.COM does not agree with the assessment expressed by the tax authorities, and on 5 September 2022 an appeal was filed against the aforementioned decision.

In August 2022, after a four-year hiatus, the Company organized another edition of the Promised Land festival in Łódź. The festival is targeted at young artists who wish to develop their talents and exchange experiences with renowned gaming and motion picture industry specialists from around the world.

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

### **Effect on earnings**

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 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.

In the first half of 2022 Group member companies donated 1 126 thousand PLN to NGOs which provide humanitarian aid to victims of the war in Ukraine. In addition, Group employees were given opportunities to carry out volunteer work and provide assistance to war victims during paid working hours. Nearly 50 employees took advantage of this offer.

### **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 collaboration with Russian and Belarussian suppliers. At the present time the Company does not intend to initiate any further collaboration with Russian or Belarussian 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 further quarters of 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.

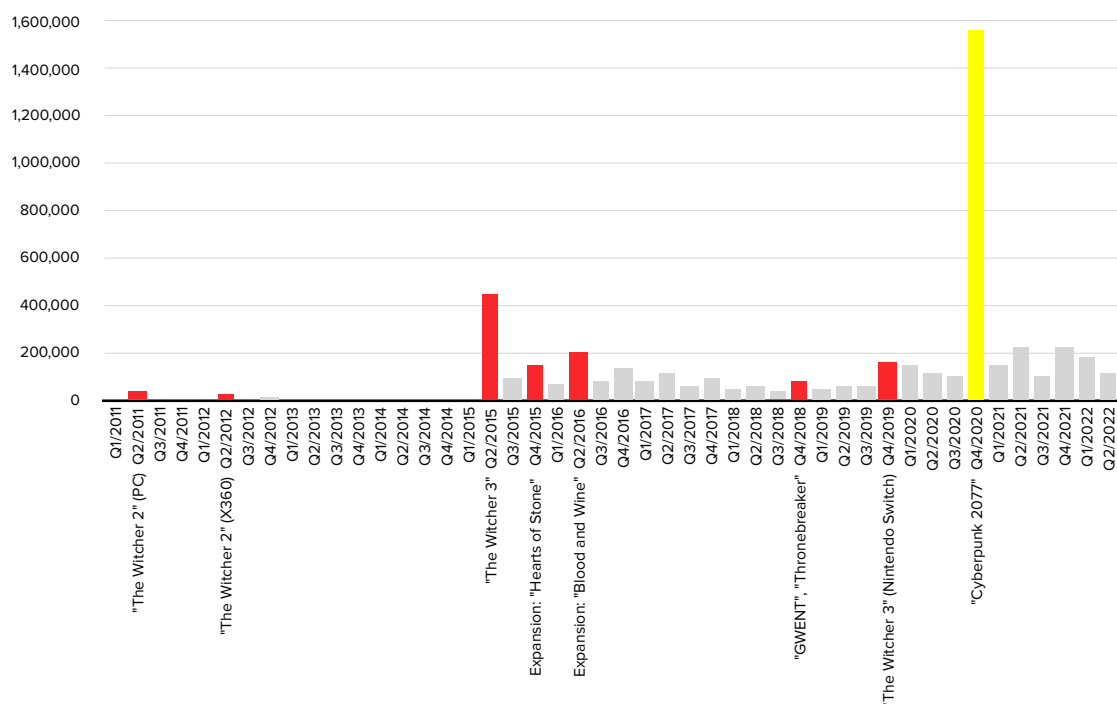
Insofar as possible, the above assessment reflects the Company's knowledge as of the publication date of this report.

## 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 video-game 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 5** Effect of new releases on the quarterly revenues from sales of products, goods and materials by CD PROJEKT RED in 2011-2022 (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.

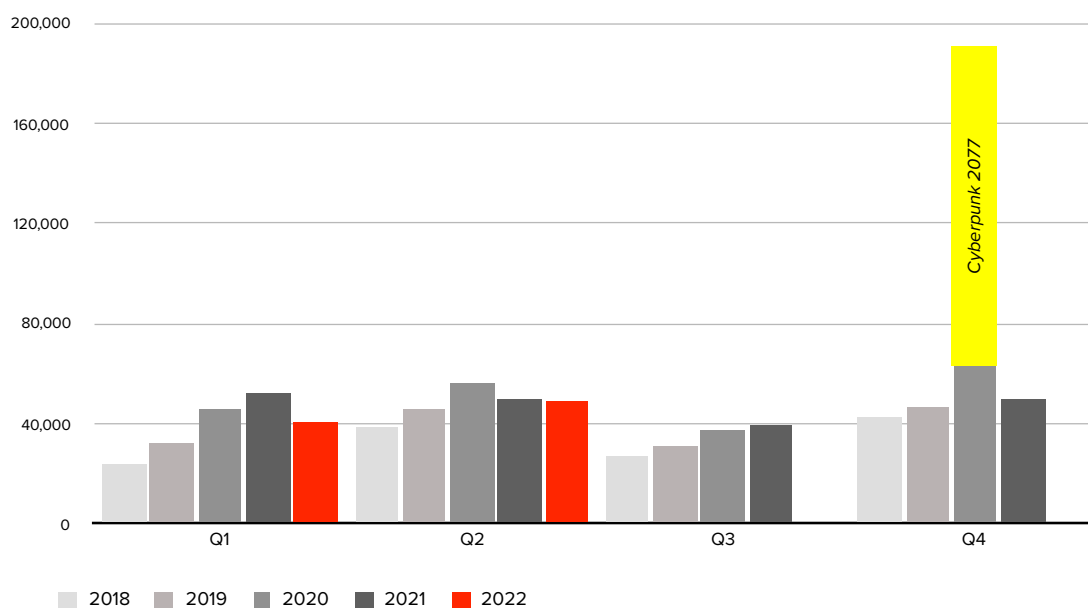
For *GWENT: The Witcher Card Game*, operated in the game-as-a-service model, the revenue stream depends on the overall popularity of the service and on the appeal of new in-game content released to gamers.

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.

**Chart 6** Sales of goods and materials in the GOG.COM segment in 2019-2022 (PLN thousands)



The spike in GOG.COM revenues observed in 2020 and 2021 was associated with the COVID-19 pandemic and the attendant increase in the popularity of videogames.

## 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 of the [Management Board Report on CD PROJEKT Group activities in 2021](#).

With regard to the second half of 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.

Notable events affecting CD PROJEKT RED in the coming quarters will include the launch of *CYBERPUNK: EDGERUNNERS* anime series, which enriches the Studio's franchise with a new format to improve its global recognition, as well as releasing the next-gen edition of *The Witcher 3: Wild Hunt* and releasing a large expansion for *Cyberpunk 2077*.

Another important process at CD PROJEKT RED, which is currently being implemented and whose implementation will continue in the coming quarters, involves integration of the Studio's development work 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 product quality. In project management terms, maintaining two separate major franchises (The Witcher and Cyberpunk), along with several independent development teams, has enabled the Company to conduct parallel work on several projects, starting in 2022. This migration towards a dual franchise model supported by several independent product lines also permits optimization of manufacturing and financial activities, increases the frequency of releases along with the associated revenues, 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, as well, as – in the 2020-2021 period – by the increased popularity of video games brought about by COVID-19-related restrictions.

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 continues to support *The Witcher: Monster Slayer* while carrying out conceptual work on new projects. 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 factors which, in the issuer's opinion, may significantly affect its earnings throughout at least the coming quarter

The current third quarter of the year, which coincides with the vacation season, traditionally marks a lull in marketing activities and product sales. By the end of this quarterly period the Company expects to have released the *CYBERPUNK: EDGERUNNERS* anime series of Netflix.

As regards the fourth quarter of the year, CD PROJEKT RED intends to publish the dedicated next-gen release of *The Witcher 3: Wild Hunt*, which should positively affect the Group's sales revenues and earnings during this period.

## Disclosure of significant agreements

During the period covered by this report CD PROJEKT concluded an agreement with Epic Games International S.à r.l. Further information concerning this agreement can be found in the section titled *Key corporate events* elsewhere in this report.

## Risk management at the Group

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 responsibilities 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 risk's 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.

### **DIVERSIFICATION OF CREDIT RISK RELATED TO FINANCIAL RESERVES IN THE FIRST HALF OF 2022**

In line with its adopted operating philosophy the CD PROJEKT Group maintains financial reserves in order to secure the autonomy and stability of ongoing activities, finance further dynamic growth of the Group, including future game development projects, enable development of new technologies, ensure promotional support for scheduled releases, facilitate future investment activities and enable the Group to react to unforeseen events or exploit emerging opportunities. In allocating cash assets, the Group's member companies acknowledge existing and anticipated financial requirements and work to diversify and minimize credit risk while maximizing revenues from interest. At the end of 2021 the Group held 1 154 001 thousand PLN in financial assets (comprising cash in bank accounts, deposits and T-bonds). During the first half of 2022 this figure increased by 24 189 thousand PLN, reaching 1 178 190 thousand PLN at the end of June.

CD PROJEKT S.A. holds the bulk of the Group's financial resources.

In order to mitigate credit risk, the Company collaborates with Polish and foreign financial institutions, working to diversify the allocation of its cash and bank deposits, with regard to institutional frameworks as well as and geographical distribution. Moreover, CD PROJEKT S.A. allocates a large portion of its financial reserves to debt instruments. In line with its current policy of diversifying surplus cash assets, the Company is permitted to purchase domestic treasury bonds, bonds guaranteed by the Polish State Treasury, foreign treasury bonds issued by countries with a credit rating not worse than Aa3 according to Moody's, as well as foreign bonds guaranteed by the governments of such countries.



03

RESULTS OF OPERATION OF  
THE CD PROJEKT GROUP



## Discussion of the key economic and financial figures disclosed in the consolidated and separate financial statements

### DESCRIPTION AND ASSESSMENT OF THE FACTORS AND UNUSUAL EVENTS AFFECTING THE RESULTS OF OPERATIONS OF THE CD PROJEKT GROUP IN THE FIRST HALF OF 2022

The following unusual events relating to the CD PROJEKT RED segment had a material impact on the results, assets, equity & liabilities and cash flows of the CD PROJEKT Group in the reported period (which was not observed in the comparative period):

- the fact that the Company increased the capital of some of its subsidiaries (in particular, the share capital of Spokko sp. z o.o. was increased to reduce the subsidiary's liabilities to CD PROJEKT in respect of loans) and provided financing for development of prototypes of new projects for mobile devices;
- recognition of a part of withholding tax collected in other jurisdictions on licence fees paid to the Company, which is not deductible due to the application of a preferential IP Box tax rate, in the income statement under corporate income tax.

Moreover, the launch of *Cyberpunk 2077* for new generation consoles, Xbox Series X|S and PlayStation 5, also affected the results of the CD PROJEKT Group for the first half of 2022.

## CONSOLIDATED INCOME STATEMENT

**Table 3** Selected data from the consolidated income statement of the CD PROJEKT Group by operating segment (in PLN thousand)

|  | CD PROJEKT RED          | GOG.COM       |                               | GRUPA CD PROJEKT             |                              |                |               |
|--|-------------------------|---------------|-------------------------------|------------------------------|------------------------------|----------------|---------------|
|  | 01.01.2022 – 30.06.2022 |               | Consolidation<br>eliminations | 01.01.2022 –<br>– 30.06.2022 | 01.01.2021 –<br>– 30.06.2021 | Change PLN     | Change %      |
| <b>Sales revenue</b>   | <b>295 488</b>          | <b>88 751</b> | <b>-6 323</b>                 | <b>377 916</b>               | <b>470 617</b>               | <b>-92 701</b> | <b>-19.7%</b> |
| Sales of products  | 283 471                 | 0             | 2 397                         | 285 868                      | 366 986                      | -81 118        | -22.1%        |
| Sales of services  | 1 927                   | 136           | -828                          | 1 235                        | 3 687                        | -2 452         | -66.5%        |
| Sales of goods for resale and materials                                    | 10 090                  | 88 615        | -7 892                        | 90 813                       | 99 944                       | -9 131         | -9.1%         |
| <b>Cost of sales of products, services, goods for resale and materials</b> | <b>43 791</b>           | <b>63 208</b> | <b>-5 665</b>                 | <b>101 334</b>               | <b>162 171</b>               | <b>-60 837</b> | <b>-37.5%</b> |
| Cost of products and services sold   | 37 141                  | 42            | -170                          | 37 013                       | 87 894                       | -50 881        | -57.9%        |
| Cost of goods for resale and materials sold                                | 6 650                   | 63 166        | -5 495                        | 64 321                       | 74 277                       | -9 956         | -13.4%        |
| <b>Gross profit/(loss) on sales</b>  | <b>251 697</b>          | <b>25 543</b> | <b>-658</b>                   | <b>276 582</b>               | <b>308 446</b>               | <b>-31 864</b> | <b>-10.3%</b> |
| Selling expenses   | 80 552                  | 20 874        | -119                          | 101 307                      | 131 183                      | -29 876        | -22.8%        |
| Administrative expenses  | 32 323                  | 3 164         | -227                          | 35 260                       | 54 187                       | -18 927        | -34.9%        |
| Other operating income   | 5 362                   | 2 183         | -2 159                        | 5 386                        | 3 853                        | 1 533          | 39.8%         |
| Other operating expenses   | 8 379                   | 1 872         | -2 342                        | 7 909                        | 4 314                        | 3 595          | 83.3%         |
| (Impairment)/reversal of impairment of financial instruments               | -8                      | 0             | 0                             | -8                           | -1                           | -7             | 700.0%        |
| <b>Operating profit/ (loss)</b>  | <b>135 797</b>          | <b>1 816</b>  | <b>-129</b>                   | <b>137 484</b>               | <b>122 614</b>               | <b>14 870</b>  | <b>12.1%</b>  |
| Finance income   | 34 910                  | 4 444         | 0                             | 39 354                       | 18 886                       | 20 468         | 108.4%        |
| Finance costs  | 17 578                  | 5 694         | -50                           | 23 222                       | 25 635                       | -2 413         | -9.4%         |
| <b>Profit / (loss) before tax</b>  | <b>153 129</b>          | <b>566</b>    | <b>-79</b>                    | <b>153 616</b>               | <b>115 865</b>               | <b>37 751</b>  | <b>32.6%</b>  |
| Income tax expense   | 39 654                  | 213           | 3                             | 39 870                       | 10 817                       | 29 053         | 268.6%        |
| <b>Net profit/(loss)</b>   | <b>113 475</b>          | <b>353</b>    | <b>-82</b>                    | <b>113 746</b>               | <b>105 048</b>               | <b>8 698</b>   | <b>8.3%</b>   |

## DISCUSSION OF THE CONSOLIDATED INCOME STATEMENT OF THE CD PROJEKT GROUP BY OPERATING SEGMENT

### CD PROJEKT RED segment

|  | 01.01.2022 –<br>30.06.2022 | 01.01.2021 –<br>30.06.2021 | Change PLN     | Change %      |
|--|----------------------------|----------------------------|----------------|---------------|
| <b>Sales revenue</b>   | <b>295 488</b>             | <b>371 911</b>             | <b>-76 423</b> | <b>-20.5%</b> |
| Sales of products  | 283 471                    | 359 938                    | -76 467        | -21.2%        |
| Sales of services  | 1 927                      | 4 957                      | -3 030         | -61.1%        |
| Sales of goods for resale and materials  | 10 090                     | 7 016                      | 3 074          | 43.8%         |
| <b>Cost of sales of products, services,<br/>goods for resale and materials</b> | <b>43 791</b>              | <b>92 051</b>              | <b>-48 260</b> | <b>-52.4%</b> |
| Cost of products and services sold   | 37 141                     | 85 589                     | -48 448        | -56.6%        |
| Cost of goods for resale and materials sold                                    | 6 650                      | 6 462                      | 188            | 2.9%          |
| <b>Gross profit/(loss) on sales</b>  | <b>251 697</b>             | <b>279 860</b>             | <b>-28 163</b> | <b>-10.1%</b> |
| Selling expenses   | 80 552                     | 101 647                    | -21 095        | -20.8%        |
| Administrative expenses  | 32 323                     | 50 202                     | -17 879        | -35.6%        |
| Other operating income   | 5 362                      | 5 059                      | 303            | 6.0%          |
| Other operating expenses   | 8 379                      | 5 628                      | 2 751          | 48.9%         |
| (Impairment)/reversal of impairment of<br>financial instruments                | -8                         | -1                         | -7             | 700.0%        |
| <b>Operating profit/ (loss)</b>  | <b>135 797</b>             | <b>127 441</b>             | <b>8 356</b>   | <b>6.6%</b>   |
| Finance income   | 34 910                     | 16 150                     | 18 760         | 116.2%        |
| Finance costs  | 17 578                     | 22 473                     | -4 895         | -21.8%        |
| <b>Profit / (loss) before tax</b>  | <b>153 129</b>             | <b>121 118</b>             | <b>32 011</b>  | <b>26.4%</b>  |
| Income tax expense   | 39 654                     | 11 523                     | 28 131         | 244.1%        |
| <b>Net profit/(loss)</b>   | <b>113 475</b>             | <b>109 595</b>             | <b>3 880</b>   | <b>3.5%</b>   |

The segment's **Sales of products** in the first half of 2022 consisted of:

- revenue related to *Cyberpunk 2077*;
- revenue related to *The Witcher 3: Wild Hunt* and to add-ons *Hearts of Stone* and *Blood and Wine*;
- revenue generated on the *GWENT: The Witcher Card Game*;
- licence revenue related to *The Witcher 2*, *The Witcher* and *Thronebreaker: The Witcher Tales*;
- licence revenue from franchises.

The higher reported value of **Sales of products** of the CD PROJEKT RED segment in the first half of 2021 compared with the current period was mostly due to an increase in revenue for the comparative period of PLN 39 521 thousand resulting from a decrease in the balance of the provisions for adjustments to premiere licence reports on *Cyberpunk 2077*, recognized at the end of 2020.

In the first half of 2022, **Sales of services** comprised mainly revenue related to services provided to the subsidiaries and shipping charges paid by the customers of the CD PROJEKT RED GEAR store. The drop in value of this item compared with the comparative period is due to an absence of material revenue from barter advertising agreements recorded in the comparative period.

The **Sales of goods for resale and materials** of the CD PROJEKT RED segment for the first six months of 2022 were higher than in the first half of 2021 mainly due to the higher sales of CD PROJEKT RED franchise products. The value of this amount also included revenue from the sale of ready-made physical sets and elements of physical sets of own titles (media, boxes, figurines, gadgets), mainly *The Witcher 3*, to distributors as well as the sales of the company mail order shop CD PROJEKT RED GEAR.

The most significant component of the **Cost of sales of products, services, goods for resale and materials** (which was responsible for a significant decrease therein compared with the first half of the previous year) was the **Cost of manufacture of finished goods and services sold**, where mainly the cost of amortization of expenditure on development projects – own games manufactured is presented.

According to the accounting policies adopted by the Group, expenditure on development work on projects for which the volume and value of the sales budget can be reliably estimated is amortized in line with the consumption of economic benefits, related to the anticipated number of copies sold. In other cases, the Group amortizes the value of projects carried out on a straight line basis. For projects for which the amortization of the cost of manufacture was recognized in the first half of 2022 and in the reference period, the following principles were adopted:

- the expenditure on *Cyberpunk 2077* was recognized in the 2020 costs (40% of the total in the quarter of its premiere, and the remaining 60% of the expenditure is to be recognized over 5 consecutive years of exploitation of the asset in the amount of 3% quarterly – by the balance sheet date 58% of the project expenditure was recognized in costs; the expenditure incurred on the edition of the game for consoles of a new generation, Xbox Series XIS and PlayStation 5, will be amortized on a straight line basis until the end of the amortization period of *Cyberpunk 2077*;
- the expenditure on *GWENT* was accounted for on a straight line basis, over a period of 3 years from the completion and premiere of the full version of the project (October 2018) – the amortization of the historically incurred expenditure ended at the end of September 2021;



- the expenditure on *Thronebreaker: The Witcher Tales* (premiered in October 2018) and *The Witcher 3: Wild Hunt* for Nintendo Switch (premiered in October 2019) is recognized in costs over a period of 3 years starting from the completion of the production and the premiere of each game, based on the expected distribution of future revenue, estimated on the basis of historical sales data on products.

The drop in value of the discussed item compared with the first half 2021 is mainly due to the lower costs related to the *Cyberpunk 2077* project, recognized in the said period, where, in the reference period, the CD PROJEKT RED segment re-estimated the economic result on the key contracts on the physical distribution of the game and showed a provision for the expected costs of accounting for them (mainly the costs of a global advertising campaign, but also the distributor's fees, the costs of production, storage and distribution of physical copies) of PLN 40 637 thousand.

In the discussed item, the CD PROJEKT RED segment also recognizes the cost of sales related to the **Sales of services earned**.

In the first half of 2022, the **Cost of sales of goods for resale and materials** contained the cost of manufacture of ready-made physical sets, their elements and franchise products sold to distributors.

The decrease in the value of the **Selling expenses** of the CD PROJEKT RED segment in the first half of 2022 was primarily the result of a reduction in the costs of maintenance and updating of *Cyberpunk 2077* in relation to the comparative period, i.e. the first 6 months after the game's premiere.

The costs of promotion of the products of the CD PROJEKT RED studio, which are the main part of Selling expenses, primarily related to support for the sales of *Cyberpunk 2077*, including the costs of a promotional campaign of the game's edition for new generations, remained at a level comparable with the reference period.

In the discussed item, the segment also recognizes the costs of fixed and performance-related remuneration of the in-house publishing teams and the costs of performance-related remuneration of the management boards of the companies.

The **Administrative expenses** of the CD PROJEKT RED segment comprise, in particular:

- the fixed and performance-related remuneration of the administrative teams and the external costs of third party services classified in this category which, in step with an increase in the employment levels and the scale of operations of the segment's companies, are growing gradually;
- the cost of the work on future games at the initial stage of its duration (the research phase) before moving on to the implementation of projects (the development phase) and starting to capitalize them as part of Expenditure on development projects which form part of Non-current assets (PLN 3 904 thousand in the first half of 2022 compared with PLN 11 850 thousand in the first half of 2021); the drop in expenditure is due to completion of the research phases of two projects and the projects moving on to the development phase;
- the fixed part of the remuneration of the management boards of the companies;
- the cost of valuation of the rights awarded under the incentive plan for the years 2020–2025; the said cost, as a result of a negative assessment of the possibility of achieving the performance targets set out in the plan over the full duration of the programme and the change of the estimates made by the Management Board as at the end of 2021, decreased in relation to the comparative period.

As regards **Other operating income and expenses**, the revenue generated by the CD PROJEKT RED segment from the lease of office space (and the accompanying maintenance costs) in the real estate complex located at ul. Jagiellońska 74 and 76 in Warsaw, as well as the costs of one-off events: recycling of inventories, scrapping of fixed assets and donations (including mainly support for the Polish Humanitarian Action for assistance related to the situation in Ukraine), responsible for the increase in the value of Other operating expenses, were recognized in the analysed period.

In the first half of 2022, the CD Projekt RED segment showed an excess of **Financial income** over **Financial costs**, compared with a loss in the comparative period. This is primarily the result of an increase in interest income on bank deposits and Treasury bonds, as well as foreign exchange gains generated (compared with foreign exchange losses in the reference period).

The **Corporate income tax** recognized in the income statement for the first half of the current year and the effective tax rate increased significantly compared with the first half of 2021. The reason for the increase is the recognition of a portion of the tax collected in other jurisdictions on the licence fees paid to the Company (withholding tax) in the corporate income tax amount.

Following the collection of the documents confirming the amounts and the fact of payment of withholding tax abroad, the Company deducted the foreign withholding tax from the domestic corporate income tax amount a significant portion of which was calculated using a preferential IP Box tax rate (5%) and charged the excess to the income statement.

The consolidated **Net profit** of the CD PROJEKT RED segment for the first half of 2022 amounted to PLN 113 475 thousand and was PLN 3 880 thousand (3.5%) higher than in the comparative period..

## GOG.COM segment

|  | 01.01.2022 –<br>30.06.2022 | 01.01.2021 –<br>30.06.2021 | Change PLN     | Change %      |
|--|----------------------------|----------------------------|----------------|---------------|
| <b>Sales revenue</b>   | <b>88 751</b>              | <b>106 333</b>             | <b>-17 582</b> | <b>-16.5%</b> |
| Sales of products  | 0                          | 4 346                      | -4 346         | -100.0%       |
| Sales of services  | 136                        | 139                        | -3             | -2.2%         |
| Sales of goods for resale and materials  | 88 615                     | 101 848                    | -13 233        | -13.0%        |
| <b>Cost of sales of products, services,<br/>goods for resale and materials</b> | <b>63 208</b>              | <b>76 860</b>              | <b>-13 652</b> | <b>-17.8%</b> |
| Cost of products and services sold   | 42                         | 2 827                      | -2 785         | -98.5%        |
| Cost of goods for resale and materials sold                                    | 63 166                     | 74 033                     | -10 867        | -14.7%        |
| <b>Gross profit/(loss) on sales</b>  | <b>25 543</b>              | <b>29 473</b>              | <b>-3 930</b>  | <b>-13.3%</b> |
| Selling expenses   | 20 874                     | 30 330                     | -9 456         | -31.2%        |
| Administrative expenses  | 3 164                      | 4 085                      | -921           | -22.5%        |
| Other operating income   | 2 183                      | 872                        | 1 311          | 150.3%        |
| Other operating expenses   | 1 872                      | 615                        | 1 257          | 204.4%        |
| <b>Operating profit/ (loss)</b>  | <b>1 816</b>               | <b>-4 685</b>              | <b>6 501</b>   | <b>-</b>      |
| Finance income   | 4 444                      | 2 736                      | 1 708          | 62.4%         |
| Finance costs  | 5 694                      | 3 207                      | 2 487          | 77.5%         |
| <b>Profit / (loss) before tax</b>  | <b>566</b>                 | <b>-5 156</b>              | <b>5 722</b>   | <b>-</b>      |
| Income tax expense   | 213                        | -697                       | 910            | -             |
| <b>Net profit/(loss)</b>   | <b>353</b>                 | <b>-4 459</b>              | <b>4 812</b>   | <b>-</b>      |

The total **Sales revenue** of the GOG.com segment comprises mainly **Sales of goods for resale and materials** related to the digital distribution of games from GOG.COM's external suppliers to final customers, carried out via the GOG.com platform and the GOG GALAXY application.

The absence of **Sales of products** in the first half of the current year is due to termination of GOG.COM's participation in the GWENT consortium as from the end of 2021. Starting from 2022 GOG does not receive the corresponding portion of the revenue and expenses generated by this project. The GWENT products: *The Witcher Card Game* and *Thronebreaker: The Witcher Tales* are still available to GOG.COM customers, however, the principles of cooperation and settlements by and between GOG.COM and CD PROJEKT S.A. are implemented similarly to standard cooperation and settlements as part of the digital distribution of games. Starting from the current year, GOG.COM presents the revenue earned from the sales of the discussed products under **Sales of goods for resale and materials**.

The value of **Sales of goods for resale and materials** earned in the first half of 2022 was lower than the value generated in the comparative period in 2021 in which sales as part of digital distribution were supported by the restrictions related to the COVID-19 pandemic which were still in force in many countries. In the reporting period, the Company introduced several editions of games eagerly awaited by users, such as *Songs of Conquest*, *Old World*, *Alien: Isolation Collection*, *Blade Runner - Enhanced Edition* or *DOOM 64*, to the sales mix of the GOG.COM platform. At the same time, a drop in revenue from the distribution of the PC version of *Cyberpunk 2077* which, in the comparative period, was in the first half-year period after its premiere, earning higher sales revenue on the GOG.COM platform than in the discussed period, was of key importance to the segment's total sales of goods for resale.

In addition, in response to the invasion of Ukraine by the Russian armed forces, as from the beginning of March 2022 the Company discontinued selling the games available on the platform in Russia and Belarus, which had a negative impact on the level of revenue earned. The Company estimates that in the period of 12 months from March 2021 to February 2022 the total share of Russia and Belarus in the **Sales of products** of the GOG.COM segment amounted to approx. 3.7%.

The **Cost of sales of products, services, goods for resale and materials** which accompany sales directly, dropped compared with the comparative period in correspondence with lower revenue.

In the discussed period, the **Selling expenses** of the GOG.COM segment decreased compared with the first half of 2021 by nearly one-third mainly due to the reorganization of the Company's costs and the discontinuation of recognition of the costs related to the GWENT consortium together with its dissolution as at the end of the previous year.

Among the Selling expenses shown in the GOG.COM segment, the following items have the most significant share in the segment's costs::

- the remuneration of the team responsible for operating, development and promotion of the GOG.COM platform, as well as maintenance and further development of the GOG GALAXY application;
- transaction costs related to the processing of payments on the GOG.COM platform;
- the costs of the ICT infrastructure related to making sales;
- the costs of the marketing activities concerning the GOG.COM website and the GOG GALAXY application – in the analysed period, they were primarily the costs of a promotion related to the digital distribution of games on the GOG.COM platform;
- the amortization/depreciation expense, including the amortization of completed development projects.

The main components of the **Administrative expenses** of the GOG.COM segment are the remuneration of the administrative teams, fixed remuneration of the Company's Management Board, as well as the costs of other external services classified in this category. The drop in the level of Administrative expenses in the discussed period in relation to the comparative period of nearly one-fourth was mainly due to a decrease in the current costs related to the functioning of the incentive plan for the years 2020–2025.

As regards **Other operating income and expenses**, the revenue generated by the GOG.COM segment from invoicing and other sales of services, including the provision of IT services within the Group, supporting *GWENT: The Witcher Card Game* (and the accompanying cost of manufacture), as well as the costs of one-time events responsible for the increase in the value of Other operating expenses: among other things, donations (including mainly support for the Polish Red Cross in connection with the war in Ukraine), were recognized in the analysed period.

In the first half of 2022, the GOG.COM segment showed an excess of **Financial costs** over **Financial income**. This is primarily an excess of foreign exchange losses over foreign exchange gains. The increase in foreign exchange losses in the GOG.COM segment is mainly the result of the translation of liabilities to suppliers as at the balance sheet date.

The value of **Corporate income tax** for the first half of the current year consisted mainly of: an adjustment to tax on capital gains, relating to 2021, and the change in deferred tax.

Thanks to the reorganization of and the reduction in the segment's costs, the **Net profit** of GOG.COM in the first half of 2022 amounted to PLN 356 thousand compared with a Net loss of PLN 4 459 thousand in the comparative period.

**Table 4** Net profitability ratio – Alternative Performance Measure

|  | 01.01.2022 –<br>30.06.2022 | 01.01.2021 –<br>30.06.2021 | 01.01.2022 –<br>30.06.2022 | 01.01.2021 –<br>30.06.2021 | 01.01.2022 –<br>30.06.2022 | 01.01.2021 –<br>30.06.2021 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|  | CD PROJEKT GROUP           |                            | CD PROJEKT RED             |                            | GOG.COM                    |                            |
| Net profit margin<br>(Net profit / sales revenues) | 30.1%                      | 22.3%                      | 38.4%                      | 29.5%                      | 0.4%                       | -4.2%                      |

The Net profitability ratio presents additional information, indicating what part of Sales revenue remains in the enterprise in the form of a Net profit after covering all the costs and tax charges shown in the Income statement. An increase in the value of this ratio means an increase in the effectiveness of the activities carried out, related to the level of the Sales revenue earned. The ratio used is a standard and commonly used measure in financial analysis, and its usefulness was analysed in terms of the information provided to investors on the effectiveness of the activities of the CD PROJEKT Group and its segments.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT GROUP

**Table 5** Selected data from the consolidated statement of financial position (in PLN thousand)

|   | 30.06.2022       | 31.12.2021*      | Change PLN     | Change %     |
|---|------------------|------------------|----------------|--------------|
| <b>NON-CURRENT ASSETS</b>               | <b>1 039 127</b> | <b>905 846</b>   | <b>133 281</b> | <b>14.7%</b> |
| Property, plant and equipment           | 129 155          | 119 588          | 9 567          | 8.0%         |
| Intangible assets                       | 69 764           | 58 393           | 11 371         | 19.5%        |
| Expenditure on development projects     | 434 055          | 350 195          | 83 860         | 23.9%        |
| Investment properties                   | 56 438           | 56 438           | 0              | 0.0%         |
| Goodwill                                | 43 655           | 44 634           | -979           | -2.2%        |
| Shares in non-consolidated subsidiaries | 67 055           | 38 520           | 28 535         | 74.1%        |
| Prepayments and deferred costs          | 173 589          | 178 540          | -4 951         | -2.8%        |
| Other financial assets                  | 24 247           | 11 434           | 12 813         | 112.1%       |
| Deferred tax assets                     | 40 435           | 47 418           | -6 983         | -14.7%       |
| Other receivables                       | 734              | 686              | 48             | 7.0%         |
| <b>CURRENT ASSETS</b>                   | <b>1 157 539</b> | <b>1 252 889</b> | <b>-95 350</b> | <b>-7.6%</b> |
| Inventories                             | 15 136           | 15 886           | -750           | -4.7%        |
| Trade receivables                       | 63 220           | 125 293          | -62 073        | -49.5%       |
| Current income tax receivable           | 2 454            | 98               | 2 356          | 2404.1%      |
| Other receivables                       | 51 411           | 113 498          | -62 087        | -54.7%       |
| Prepayments and deferred costs          | 319 572          | 307 765          | 11 807         | 3.8%         |
| Other financial assets                  | 20 717           | 13 763           | 6 954          | 50.5%        |
| Bank deposits over 3 months             | 0                | 265 000          | -265 000       | -100.0%      |
| Cash and cash equivalents               | 685 029          | 411 586          | 273 443        | 66.4%        |
| <b>TOTAL ASSETS</b>                     | <b>2 196 666</b> | <b>2 158 735</b> | <b>37 931</b>  | <b>1.8%</b>  |

\* dane przekształcone

|  | 30.06.2022       | 31.12.2021       | Change PLN    | Change %     |
|--|------------------|------------------|---------------|--------------|
| <b>EQUITY</b>                                    | <b>1 903 244</b> | <b>1 894 356</b> | <b>8 888</b>  | <b>0.5%</b>  |
| Equity of the shareholders of the parent entity  | 1 903 244        | 1 894 356        | 8 888         | 0.5%         |
| Share capital                                    | 100 739          | 100 739          | 0             | 0.0%         |
| Supplementary capital                            | 1 560 842        | 1 425 647        | 135 195       | 9.5%         |
| Share premium                                    | 115 909          | 115 909          | 0             | 0.0%         |
| Other reserves                                   | 42 323           | 47 994           | -5 671        | -11.8%       |
| Foreign exchange differences on translation      | 3 143            | 1 591            | 1 552         | 97.5%        |
| Retained earnings                                | -33 458          | -6 432           | -27 026       | 420.2%       |
| Net profit (loss) for the period                 | 113 746          | 208 908          | -95 162       | -45.6%       |
| Equity attributable to non-controlling interests | -                | -                | -             | -            |
| <b>NON-CURRENT LIABILITIES</b>                   | <b>32 729</b>    | <b>36 112</b>    | <b>-3 383</b> | <b>-9.4%</b> |
| Other financial liabilities                      | 23 614           | 21 080           | 2 534         | 12.0%        |
| Other liabilities                                | 2 740            | 2 860            | -120          | -4.2%        |
| Deferred income                                  | 5 504            | 6 424            | -920          | -14.3%       |
| Provision for retirement and similar benefits    | 380              | 380              | 0             | 0.0%         |
| Other provisions                                 | 491              | 5 368            | -4 877        | -90.9%       |
| <b>CURRENT LIABILITIES</b>                       | <b>260 693</b>   | <b>228 267</b>   | <b>32 426</b> | <b>14.2%</b> |
| Other financial liabilities                      | 29 724           | 25 802           | 3 922         | 15.2%        |
| Trade payables                                   | 64 042           | 53 380           | 10 662        | 20.0%        |
| Current income tax liabilities                   | 0                | 24 446           | -24 446       | -100.0%      |
| Other liabilities                                | 110 322          | 10 042           | 100 280       | 998.6%       |
| Deferred income                                  | 17 682           | 31 548           | -13 866       | -44.0%       |
| Provision for retirement and similar benefits    | 7                | 7                | 0             | 0.0%         |
| Other provisions                                 | 38 916           | 83 042           | -44 126       | -53.1%       |
| <b>TOTAL LIABILITIES AND EQUITY</b>              | <b>2 196 666</b> | <b>2 158 735</b> | <b>37 931</b> | <b>1.8%</b>  |

## DISCUSSION OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT GROUP

### Assets

The item **Expenditure on development projects**, in which the Group recognizes expenditure on the development of new products and technologies, incurred and deferred, had the largest share in the value of the Group's **Non-current assets** as at the end of the first half of 2022, as well as the greatest impact on the increase in the balance thereof. The increase in the value of the said item in the discussed period is the result of the expenditure incurred by the CD PROJEKT RED segment on the production of future games in an amount higher than the amortization of finished productions and the reclassification of the expenditure related to subsequent projects carried out by external partners from prepayments to Expenditure on development projects.

The balance of **Property, plant and equipment** primarily consists of:

- the value of the real estate complex at ul. Jagiellońska 74 and 76, the recognized part thereof being the part to be used by CD PROJEKT S.A. for its own purposes;
- plant and machinery, where the Group recognizes, among other things, computers, servers and other electronic devices used in its activities;
- assets in respect of the right of use of leased office space (with the adequate value of Other financial liabilities in respect of concluded contracts on the lease of space being recognized on the Equity and liabilities side at the same time).

The increase in the value of this item in the discussed period was primarily due to expenditure on the construction work at the CD PROJEKT campus in Warsaw (fixed assets under construction) and the extension of the contract on the lease of the Company's regional office.

The most significant items recognized in **Intangible assets** are mainly the value of the CD PROJEKT corporate brand and the The Witcher trademark, as well as the value of the economic rights and computer software of the Group's author. The increase in the value of the Group's Intangible assets in the discussed period is related to an investment in new game production technologies in the CD PROJEKT RED segment.

Another material component of the **Non-current assets** of the CD PROJEKT Group is Goodwill which is composed of amounts resulting from accounting for the merger of the parent company with the CDP Investment Group on 30 April 2010 and accounting for the acquisition of a development studio located in Wrocław by CD PROJEKT S.A. from Strange New Things sp. z o.o. sp. k. on 18 May 2018. The **Goodwill** reported did not change over the discussed period.

The balance of **Investment properties** consists of the values of the properties at ul. Jagiellońska 74 and ul. Jagiellońska 76, the parts thereof classified as earmarked for being leased (both to related entities and external lessees). The decrease in the value of the item is the result of depreciation.

The value of **Shares in non-consolidated subsidiaries** consists mainly of the capital of Spokko Sp. z o.o., the increase in which in the discussed period contributed to an increase in the value of the discussed item (for more information please see the Key corporate events section of this report), The Molasses Flood LLC in Boston and CD PROJEKT RED Vancouver Studio Ltd.

In **Other financial assets**, the Group presents primarily the value of domestic Treasury bonds purchased as part of the diversification of credit risk, measured at amortized cost, with a maturity date of more than 12 months.

The value of **Inventories** as at the end of the first half of 2022 consists mainly of ready-made physical sets and elements of physical sets of the editions of games of own production intended for external distributors and goods for resale in the warehouses of the CD PROJEKT RED GEAR online company store which sells products related to the CD PROJEKT RED brands to retail customers in Europe and North America.

The consolidated balance of **Trade receivables** decreased due to the inflow of licence fees in the CD PROJEKT RED segment, primarily by way of royalties earned in the fourth quarter of 2021, in the current period.

The decrease in the value of the Group's **Other receivables** as at the end of June 2022 is primarily the result of a decrease in receivables in respect of the withholding tax deducted by the foreign recipients of the licences granted by the CD PROJEKT RED segment (the recognition of the excess of the withholding tax paid abroad in the income statement) and the recognition of advances for development projects in work in progress. Moreover, as at the end of June 2022 the Group companies recognize settlements in respect of VAT and advances to suppliers and security deposits in the discussed item.

The consolidated value of the short-term and long-term **Prepayments and deferred costs** recognized as at the end of the analysed period was mainly affected by the amount of the so-called minimum guarantees, i.e. advances and prepayments made by GOG.COM to its suppliers towards fees for the distribution of games offered on the GOG.COM platform, not recognized in the income statement by the balance sheet date. The increase in the discussed item is mainly due to the conclusion of new contracts by GOG.COM for subsequent products which will join the catalogue of the games available on GOG.COM. Moreover, the item contains, among other things, prepayments related to marketing activities and deferred fees for software, licences and rights.

**Other financial assets** (short-term) contain mainly the value of foreign Treasury bonds purchased by CD PROJEKT S.A. as part of the diversification of credit risk and measured at fair value through other comprehensive income.

The total value of financial reserves in the form of **Cash and cash equivalents, Bank deposits over 3 months** and liquid financial assets in the form of purchased Treasury bonds (recognized in total in short-term and long-term Other financial assets) held by the Group as at 30/06/2022 amounted to PLN 1 178 189 thousand, i.e. PLN 24 188 thousand more than the balance as at the end of 2021.

### Equity and liabilities

As at 30 June 2022, the value of the **Equity** of the CD PROJEKT Group was comparable with the balance as at the end of 2021. In the discussed period, the impact of the positive financial result for the first half of 2022 slightly exceeded the balance of the decrease in the equity due to the decision of the General Meeting of CD PROJEKT S.A. regarding the payment of a dividend for 2021.

During the first half of 2022, the value of **Long-term liabilities** decreased. The principal reason for the decrease was the reclassification of provisions concerning mainly the costs related to cooperation with distributors of the physical editions of *Cyberpunk 2077*, recognized in **Other provisions**, from long-term to short-term, performed in the CD PROJEKT RED segment in the current year.

In **Other financial liabilities**, long-term and short-term, the Group recognizes liabilities in respect of the perpetual usufruct of land at the Jagiellońska 74 and Jagiellońska 76 complexes in Warsaw and liabilities resulting from the valuation of instruments hedging the foreign exchange risk related to holding foreign Treasury bonds denominated in foreign currencies as well as liabilities in respect of payment of a part of the purchase price of the shares in The Molasses Flood with a deferred payment term.

During the first half of 2022, the value of the Group's **Short-term liabilities** increased mainly due to an increase in the balance of Other liabilities. The total of **Other liabilities** consisted of, for the most part, current liabilities in respect of CD PROJEKT S.A.'s dividend (which are responsible for the increase in the balance compared with the end of 2021), as well as the Group's liabilities in respect of taxes (VAT, PIT, withholding tax) and social insurance.

The increase in the Group's **Trade payables** as at the end of June 2022 is mainly due to the trade payables of the GOG.COM segment in respect of the so-called minimum guarantees concerning the new titles of the GOG.COM platform, contracted in the reporting period.

In **Deferred income** (short-term and long-term) as at the end of June 2022, the Group's segments recognized mainly:

- CD PROJEKT RED – the so-called minimum guarantees, i.e. advances towards royalties related to sales in future periods, received or receivable from publishers and distribution partners;
- CD PROJEKT RED and GOG.COM – deferred income concerning subsidies;
- GOG.COM – deferred income settlements with the Company's customers (including the Store credit and Wallet granted);
- GOG.COM – the value of pre-orders for games with a release date in future periods, placed by customers.

The decrease in the balance compared with the end of 2021 is mainly due to a drop in the balance of minimum guarantees in the CD PROJEKT RED segment in connection with accounting for the sales made in the period.

The decrease in the balance of **Other provisions** of the CD PROJEKT Group concerned mainly the CD PROJEKT RED segment, where:

- the balance of provisions for performance fees decreased in step with the payment of bonuses for 2021 in the current period;
- there was an excess of provisions for other costs (including mainly costs related to cooperation with the distributors of the physical editions of *Cyberpunk 2077*, uninvoiced as at the end of 2021) utilized and released over the balance of new provisions for other costs, recognized during the period.

In the Equity and liabilities of the CD PROJEKT Group as at 30 June 2021, Equity represented 86.6%, whereas Short-term and Long-term liabilities represented 13.4%.

The consolidated statement of financial position by business segment of the Group is contained in the *Interim condensed consolidated financial statements of the CD PROJEKT Group for the period from 1 January to 30 June 2022*.



## DESCRIPTION OF THE STRUCTURE OF ASSETS AND EQUITY & LIABILITIES OF THE CONSOLIDATED BALANCE SHEET, INCLUDING FROM THE PERSPECTIVE OF LIQUIDITY

As at the end of the first half of 2022, the CD PROJEKT Group had assets with a carrying value of PLN 2 196 666 thousand. Within these assets, liquid financial reserves maintained in bank accounts, in the form of bank deposits and government Treasury bonds (foreign and domestic) amounted to PLN 1 178 189 thousand and represented 53.6% of total assets. Assets with limited liquidity (Property, plant and equipment, Expenditure on development projects, Investment properties and Shares in non-consolidated subsidiaries) totalling PLN 673 920 thousand represented 30.7% of total assets. As at 30 June 2022, the total of Trade receivables, Other short-term receivables and Inventories amounted to PLN 129 767 thousand, whereas the total value of short-term and long-term liabilities amounted to PLN 293 422 thousand. As at the end of the first half of 2022, the Group did not have any external liabilities in respect of loans or borrowings.

The accumulated cash and cash equivalents, deposits and Treasury bonds ensure the Group's high liquidity and may be used to secure the financing of the Group's further development, including the financing of the development of future products and technologies, promotional support for scheduled premieres, securing future investment opportunities and ensuring provisions for possible unplanned situations or emerging opportunities.

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

**Table 6** Selected data from the consolidated statement of cash flows (in PLN thousand)

|  | 01.01.2022 -<br>30.06.2022 | 01.01.2021 -<br>30.06.2021* | Change PLN      | Change %      |
|--|----------------------------|-----------------------------|-----------------|---------------|
| <b>OPERATING ACTIVITIES</b>  |                            |                             |                 |               |
| <b>Net profit/(loss)</b>   | <b>113 746</b>             | <b>105 048</b>              | <b>8 698</b>    | <b>8.3%</b>   |
| <b>Total adjustments:</b>  | <b>23 992</b>              | <b>765 828</b>              | <b>-741 836</b> | <b>-96.9%</b> |
| Depreciation and amortization of property, plant and equipment, intangible assets, expenditure on development projects and investment properties | 7 346                      | 8 889                       | -1 543          | -17.4%        |
| Amortization of development projects recognized as cost of goods sold  | 36 215                     | 46 507                      | -10 292         | -22.1%        |
| Foreign exchange gains/(losses)  | -4 855                     | -2 015                      | -2 840          | 140.9%        |
| Interest and participation in profits  | -17 553                    | 350                         | -17 903         | -             |
| (Gains)/Losses on investing activities   | 1 486                      | 4 651                       | -3 165          | -68.0%        |
| Increase/(Decrease) in provisions  | -50 187                    | -236 364                    | 186 177         | -78.8%        |
| (Increase)/Decrease in inventories   | 750                        | -9 946                      | 10 696          | -             |

|  | 01.01.2022 -<br>30.06.2022 | 01.01.2021 -<br>30.06.2021* | Change PLN      | Change %      |
|--|----------------------------|-----------------------------|-----------------|---------------|
| (Increase)/Decrease in receivables                                     | 72 643                     | 1 029 641                   | -956 998        | -92.9%        |
| Increase/(Decrease) in liabilities, excluding loans and borrowings     | 7 523                      | -89 563                     | 97 086          | -             |
| Change in other assets and liabilities                                 | -34 673                    | -5 179                      | -29 494         | 569.5%        |
| Other adjustments  | 5 297                      | 18 857                      | -13 560         | -71.9%        |
| <b>Cash from operating activities</b>                                  | <b>137 738</b>             | <b>870 876</b>              | <b>-733 138</b> | <b>-84.2%</b> |
| Income tax expense   | 15 236                     | 10 815                      | 4 421           | 40.9%         |
| Withholding tax paid abroad  | 24 634                     | 3                           | 24 631          | 821 033.3%    |
| Income tax (paid)/refunded   | -34 952                    | -1 231                      | -33 721         | 2 739.3%      |
| <b>Net cash from operating activities</b>                              | <b>142 656</b>             | <b>880 463</b>              | <b>-737 807</b> | <b>-83.8%</b> |
| <b>INVESTING ACTIVITIES</b>  |                            |                             |                 |               |
| <b>Cash inflows</b>  | <b>461 761</b>             | <b>239 333</b>              | <b>222 428</b>  | <b>92.9%</b>  |
| Sale of intangible assets and property, plant and equipment            | 14                         | 7                           | 7               | 100.0%        |
| Repayment of loans granted   | 11 910                     | 0                           | 11 910          | -             |
| Expiry of bank deposits over 3 months                                  | 265 000                    | 164 368                     | 100 632         | 61.2%         |
| Redemption of bonds  | 173 090                    | 66 628                      | 106 462         | 159.8%        |
| Interest on bonds  | 2 102                      | 281                         | 1 821           | 648.0%        |
| Interest received on deposits  | 9 018                      | 41                          | 8 977           | 21 895.1%     |
| Inflows from execution of forward contracts                            | 0                          | 7 962                       | -7 962          | -100.0%       |
| Other inflows from investing activities                                | 627                        | 46                          | 581             | 1 263.0%      |
| <b>Cash outflows</b>   | <b>328 833</b>             | <b>510 441</b>              | <b>-181 608</b> | <b>-35.6%</b> |
| Acquisition of intangible assets and property, plant and equipment     | 25 621                     | 18 119                      | 7 502           | 41.4%         |
| Expenditure on development projects                                    | 89 710                     | 109 027                     | -19 317         | -17.7%        |
| Acquisition of investment properties and capitalization of expenditure | 145                        | 1 405                       | -1 260          | -89.7%        |

|   | 01.01.2022 -<br>30.06.2022 | 01.01.2021 -<br>30.06.2021* | Change PLN      | Change %       |
|---|----------------------------|-----------------------------|-----------------|----------------|
| Loans granted   | 3 400                      | 3 740                       | -340            | -9.1%          |
| Placement of bank deposits over 3 months  | 0                          | 50 073                      | -50 073         | -100.0%        |
| Purchase of bonds and cost of their purchase  | 168 120                    | 328 077                     | -159 957        | -48.8%         |
| Outflows on execution of forward contracts  | 15 763                     | 0                           | 15 763          | -              |
| Increasing the capital of a subsidiary  | 26 010                     | 0                           | 26 010          | -              |
| Other outflows on investing activities  | 64                         | 0                           | 64              | -              |
| <b>Net cash used in investing activities</b>  | <b>132 928</b>             | <b>-271 108</b>             | <b>404 036</b>  | <b>-149.0%</b> |
| <b>FINANCING ACTIVITIES</b>   |                            |                             |                 |                |
| <b>Cash inflows</b>   | <b>20</b>                  | <b>2 169</b>                | <b>-2 149</b>   | <b>-99.1%</b>  |
| Net proceeds from the sale of shares and issue of shares in the execution of the incentive plan | 0                          | 2 149                       | -2 149          | -100.0%        |
| Payment of finance lease liabilities  | 20                         | 20                          | 0               | 0.0%           |
| <b>Cash outflows</b>  | <b>2 161</b>               | <b>505 759</b>              | <b>-503 598</b> | <b>-99.6%</b>  |
| Dividends and other distributions to shareholders   | 0                          | 503 694                     | -503 694        | -100.0%        |
| Payment of lease liabilities  | 1 894                      | 1 724                       | 170             | 9.9%           |
| Interest paid   | 267                        | 341                         | -74             | -21.7%         |
| <b>Net cash used in financing activities</b>  | <b>-2 141</b>              | <b>-503 590</b>             | <b>501 449</b>  | <b>-99.6%</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                     | <b>273 443</b>             | <b>105 765</b>              | <b>167 678</b>  | <b>158.5%</b>  |
| <b>Change in cash and cash equivalents in the balance sheet</b>                                 | <b>273 443</b>             | <b>105 765</b>              | <b>167 678</b>  | <b>158.5%</b>  |
| <b>Cash and cash equivalents as at the beginning of the period</b>                              | <b>411 586</b>             | <b>563 335</b>              | <b>-151 749</b> | <b>-26.9%</b>  |
| <b>Cash and cash equivalents as at the end of the period</b>                                    | <b>685 029</b>             | <b>669 100</b>              | <b>15 929</b>   | <b>2.4%</b>    |

\* dane przekształcone

## DISCUSSION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CD PROJEKT GROUP

Under **Operating activities** in the first half of 2022, the CD PROJEKT Group showed net cash inflows of PLN 142 656 thousand, i.e. PLN 737 807 thousand less than in the comparative period. However, it should be noted that the reference period was unusual due to the inflow of record receivables as a result of the premiere of *Cyberpunk 2077* in December 2020 at CD PROJEKT S.A.

The consolidated net result was adjusted for:

I. Non-cash items (a decrease in total):

- **Depreciation/Amortization** – mainly of Property, plant and equipment and Intangible assets;
- **Amortization of development projects, recognized as the cost of sales**, corresponding primarily to the amortization of expenditure on development projects related to *Cyberpunk 2077* together with the edition for new generation consoles, Xbox Series X|S and PlayStation 5, launched in the reporting period;
- **Foreign exchange gains (losses)**, a decrease resulting from the translation of foreign Treasury bonds;
- **Gains (losses) on investing activities**, an increase resulting from transactions in bonds derivative financial instruments;
- **Increase/(decrease) in provisions**, a decrease resulting mainly from the payment of performance fees for 2021 in the reporting period and a decrease in the value of other provisions;
- **Other adjustments**, an increase resulting mainly from the elimination of accounting for the costs of the incentive plan and adjustments to the amortization/depreciation recognized in the cost of sales and operating expenses.

II. Items related to changes in current assets and short-term liabilities (an increase in total):

- **(Increase)/decrease in inventories**, an increase in the balance of cash flows as a result of a drop in inventories;
- **(Increase)/decrease in receivables**, an increase in the balance of cash flows resulting primarily from a decrease in the balance of receivables as at the end of the first half of 2022 in the CD PROJEKT RED segment, related to the inflow of royalties reported for the fourth quarter of 2021;
- **Increase/(decrease) in liabilities, excluding loans and borrowings**, an increase in the balance of cash flows in consequence of an increase in the balance of the Group's liabilities;
- **Increase/(decrease) in other assets and liabilities**, a decrease in the balance of cash flows resulting mainly from accounting for the minimum guarantees for royalties from sales previously received by CD PROJEKT RED and an increase in the balance of the so-called minimum guarantees contracted during the reporting period by GOG.COM with its suppliers;

III. Item recognized in other sections of the statement of cash flows – **Interest and shares in profits**, resulting in a decrease in the cash flows shown under operating activities;

IV. Difference between the corporate income tax recognized in the income statement (an increase) and the tax actually paid during the first half of 2022, taking into account settlements related to withholding tax

The positive balance of **Net cash flows from investing activities** during the first half of 2022 was mostly affected by the net cash inflows related to a decrease in the balance of deposits of over 3 months, which exceeded the investments in assets:

- **Expenditure on development projects**, related primarily to the implementation of the CD PROJEKT RED segment's projects;
- **Purchase of intangible assets and property, plant and equipment**;
- **Recapitalization of the subsidiary** Spokko sp. z o.o. for the implementation of the projects carried out as part of its activities and a decrease in the balance of loans previously raised by the company with CD PROJEKT S.A.

In the discussed first quarter of 2022, the CD PROJEKT Group did not generate any material **Net cash flows from financing activities**.

In total, in the first half of 2022, the CD PROJEKT Group generated **Net cash inflows** of PLN 273 443 thousand.

#### **INFORMATION ON LOANS AND BORROWINGS IN THE FIRST HALF OF 2022**

In the reporting period, the CD PROJEKT Group did not have any external liabilities in respect of loans or borrowings.

#### **INFORMATION ON LOANS GRANTED IN THE FIRST HALF OF 2022**

In the reporting period, none of the CD PROJEKT Group companies granted any loans to non-Group entities. CD PROJEKT Inc., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o.o. paid off all open liabilities in respect of loans granted to the companies by CD PROJEKT S.A. As at 30 June 2022, none of the CD PROJEKT Group companies used financing by means of loans.

#### **INFORMATION ON SURETIES AND GUARANTEES GRANTED IN THE FIRST HALF OF 2022 AND OTHER MATERIAL OFF-BALANCE-SHEET ITEMS**

Information on sureties and guarantees and other material off-balance-sheet items is presented in the Interim condensed consolidated financial statements of the CD PROJEKT Group for the period from 1 January to 30 June 2022.



## **TRANSACTIONS WITH RELATED ENTITIES**

Within the activities of the CD PROJEKT Group in the first half of 2022, there were mainly the following types of transactions between related entities:

- sale of licences between CD PROJEKT S.A. and GOG sp. z o.o., Spokko sp. z o.o., The Molasses Flood LLC, as part of the activities carried out by the individual entities;
- provision of services such as: accounting, human resources and payroll management, legal, financial, administrative and management services rendered mainly by CD PROJEKT S.A. to related entities;
- lease 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.;
- sale of CD PROJEKT Inc.'s services to CD PROJEKT S.A. and GOG sp. z o.o., related to the coordination of publishing and promotional activities in North America;
- 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.;
- cooperation in activities related to the online store, licensing and development of products for the store's sales mix between CD PROJEKT S.A. (the game developer and the holder of IP rights) and CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc. (the operators of the stores in the individual territories);
- taking up of shares in the increased share capital of the subsidiaries, i.e. Spokko sp. z o.o., CD PROJEKT Inc., CD PROJEKT STORE sp. z o.o. by CD PROJEKT in order to recapitalize the subsidiaries;
- other immaterial ones, arising from current operating activities, e.g. re invoicing jointly incurred costs.

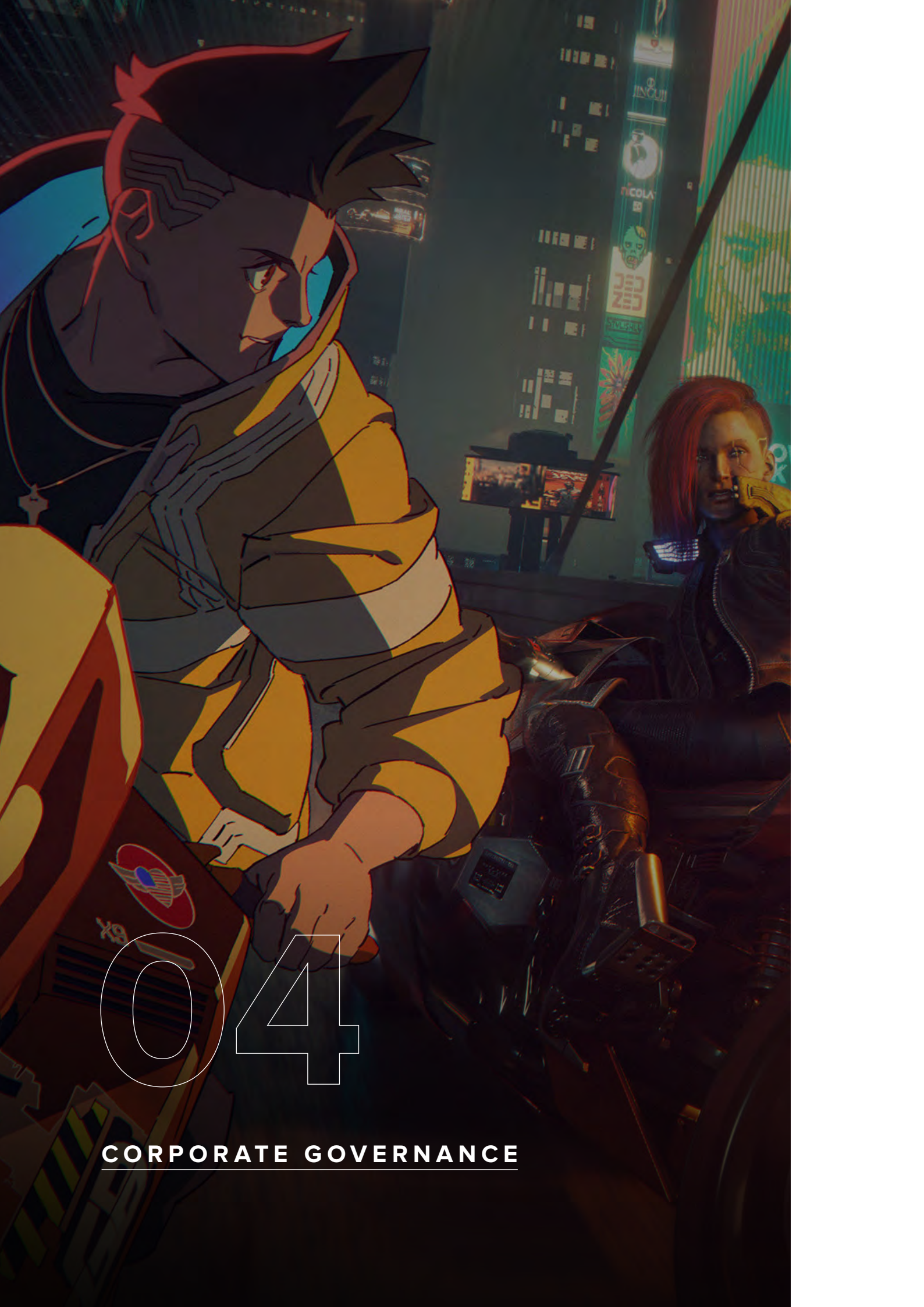
Transactions between related entities are concluded on an arm's length basis as part of the normal business activities carried out by the CD PROJEKT Group entities. Detailed information about the terms and conditions of transactions between related entities is contained in the Interim condensed consolidated financial statements of the CD PROJEKT Group for the period from 1 January to 30 June 2022.

## **EXPLANATION OF THE DIFFERENCES BETWEEN THE FINANCIAL RESULTS SHOWN IN THE SEMI-ANNUAL REPORT AND THE PREVIOUSLY PUBLISHED FORECASTS FOR A GIVEN YEAR**

The CD PROJEKT Group has not published any financial forecasts for 2022, therefore, no explanations are given for the differences between the financial results shown in the report.

## **DESCRIPTION OF THE UTILIZATION OF ISSUE PROCEEDS BY THE COMPANY BY THE DATE OF PUBLICATION OF THE REPORT**

In the period from 1 January to 30 June 2022, the Company did not issue any new shares.



04

CORPORATE GOVERNANCE

## Entity contracted to audit financial statements

On 9 March 2022 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 separate and consolidated financial statements of the Company for 2022 and 2023. 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.

## 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 7** 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*                | 10 451 969       | 10.37%             | 10 433 719                | 10.37%                               |
| Piotr Nielubowicz               | 6 858 717        | 6.81%              | 6 858 717                 | 6.81%                                |
| The Goldman Sachs Group, Inc.** | 1 029 806        | 1.02%              | 6 117 682                 | 6.07%                                |
| Other shareholders              | 70 554 494       | 70.04%             | 70 572 844                | 70.04%                               |

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

\*\*As disclosed in Current Report no. 29/2022 of 6 July 2022, the aggregate percentage share of votes controlled by The Goldman Group from shares (1.02%) and other financial instruments (5.05%) held by that entity, was 6.07% as of 1 July 2022. According to the corresponding notification received by the parent Company, The Goldman Sachs Group, Inc. indirectly controls 1 029 806 votes from shares, 2 002 127 votes which may be gained in the exercise or conversion of financial instruments comprising securities on loan, and 3 085 749 votes from other types of financial instruments.

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 2020–2025

Pursuant to General Meeting adopted on 28 July 2020<sup>1</sup> and 22 September 2020<sup>2</sup>, 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 conditioned 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.

Further information regarding the incentive program can be found in the [Management Board Report on CD PROJEKT Group activities in 2021](#).

With regard to entitlements assigned thus far, the base exercise price is 390.59, while the discounted price is 371.06 PLN.

As of the publication date of this report there are 2 217 000 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.

---

1 The corresponding resolution is described in Current Report no. [10/2020](#)

2 The corresponding resolution is described in Current Report no. [41/2020](#)

## Information regarding the control system of employee share programs

---

A share-based incentive program, 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. The 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 8** Shares held by members of the Management Board and Supervisory Board of the Company\*

| Name               | Position                            | as of 7.09.2022 | as of 30.06.2022 | as of 31.12.2022 |
|--------------------|-------------------------------------|-----------------|------------------|------------------|
| 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          | 18 508           | 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.



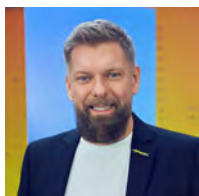
### **Adam Kiciński – President of the Board**

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.



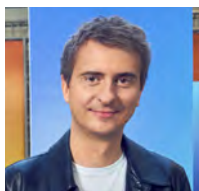
### **Piotr Nielubowicz – Vice President of the Board; Chief Financial Officer**

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.

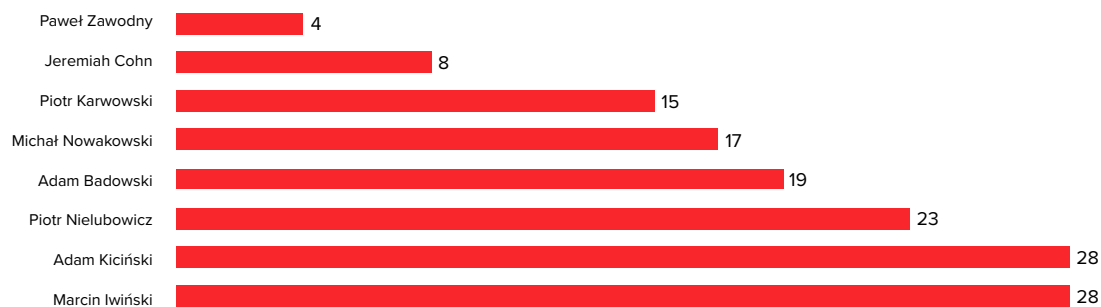


### **Jeremiah Cohn – Board Member**

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 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.

**Chart 7** 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.

The composition of the Management Board changed during the reporting period.

On 26 January 2022 the Supervisory Board adopted a resolution appointing two new Members of the Management Board: **Paweł Zawodny** and **Jeremiah Cohn**, effective on 1 February 2022.

## 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 Szwarz** – 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; Member and Chairman of the Audit Committee meeting independence criteria

**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.

---

No changes in the composition of the Supervisory Board of CD PROJEKT S.A. occurred in the reporting period.

## 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 30 June 2022 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 30 June 2022 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.

## 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 the first half of 2022.

## 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. 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):

### 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. An appeal against the full judgement was also filed by the defendants' attorneys. 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 was not materially different from earlier lawsuits filed in this matter, and likewise, did 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.

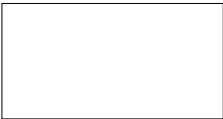
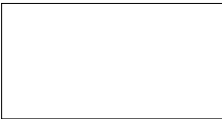
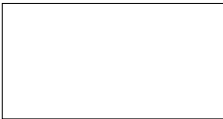
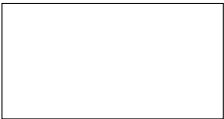




On 7 December 2021 the Company entered into settlement negotiations with the plaintiffs, as a result of which on 16 December 2021 a Settlement Term Sheet was signed whereupon the Company agreed to pay a settlement in the amount of 1 850 000 USD in exchange for which the plaintiffs would relinquish any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

On 27 January 2022 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 rules out 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.



|   |   |  |   |
|---|---|--|---|
|  |  |  |  |
| <b>Adam Kiciński</b><br>President of the Board                                      | <b>Marcin Iwiński</b><br>Vice President<br>of the Board                             | <b>Piotr Nielubowicz</b><br>Vice President<br>of the Board                           | <b>Adam Badowski</b><br>Board Member  |
|  |  |  |  |
| <b>Michał Nowakowski</b><br>Board Member  | <b>Piotr Karwowski</b><br>Board Member  | <b>Paweł Zawodny</b><br>Board Member   | <b>Jeremiah Cohn</b><br>Board Member  |



CONTACT FOR INVESTORS: [IR@CDPROJEKT.COM](mailto:IR@CDPROJEKT.COM)  
[WWW.CDPROJEKT.COM](http://WWW.CDPROJEKT.COM)