



**MANAGEMENT BOARD REPORT ON  
CD PROJEKT GROUP ACTIVITIES  
IN THE PERIOD BETWEEN  
1 JANUARY AND 31 DECEMBER 2022**

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

#### **Disclaimer**

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

### Esteemed Shareholders,

It is my pleasure to hand over to you our annual report, which summarizes key business events and our earnings in 2022.

In the past year we focused on laying the foundation for the future of the Cyberpunk franchise. We continued with our intensive work on the game, releasing successive updates and the next-gen console edition of the game. Among the highlights of the period was the premiere of *Cyberpunk: Edgerunners* – the anime series was highly praised and attracted many newcomers to the game, while also convincing others to revisit Night City. It also proved that betting on transmedia synergy – that is, increasing involvement in our franchises and expanding their reach to new fields of digital entertainment – is the right direction for us. The Cyberpunk franchise will be further strengthened this year with the release of *Phantom Liberty*, a large-scale expansion for the game.



Speaking of directions – in October 2022 we unveiled our product vision for the coming years. This is the most ambitious strategy in the Group's history, and we believe it will take us to a new level. Given that we are a global market player and want to benefit from the knowledge and expertise of top talents in the industry, our strategy – in addition to a series of new releases – also envisions the creation of a new CD PROJEKT RED studio in North America.

In 2022 we also carried on with our internal transformation. We feel we're operating more efficiently, while entering into a strategic partnership with Epic Games and being able to use Unreal Engine in our future products will help us deliver on our future publishing plans.

By developing products set in two fantastic universes, and – in the future – adding a third, internally developed franchise – we believe that our Group faces a bright future. Of course, achieving these goals calls for engagement on the part of our employees as well as trust and support from gamers and shareholders – for which I'm very thankful. I promise we will continue with our efforts to increase the value of CD PROJEKT.

Respectfully,

Adam Kiciński



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## Key events in 2022

- On 15 February CD PROJEKT RED released the dedicated next-gen console edition of *Cyberpunk 2077*, along with Patch 1.5 – a large update for 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 13 September Netflix premiered *Cyberpunk: EDGERUNNERS* – a 10-episode anime series created by CD PROJEKT RED in collaboration with the Japanese Studio Trigger. The series was enthusiastically received by fans of the *Cyberpunk* universe worldwide
- On 28 September CD PROJEKT RED announced that over 20 million copies of *Cyberpunk 2077* had been sold
- On 4 October the Group published its Strategy Update which focuses on long-term development of key projects. In the coming years the Studio intends to publish a range of titles in the framework of *The Witcher* and *Cyberpunk* franchises, and carry out internal development work on its third proprietary IP codenamed Hadar
- In its Strategy Update the Management Board of the Company also announced the launch of a new studio – CD PROJEKT RED North America, which will consist of hubs located in Vancouver and Boston
- On 26 October the Studio revealed that one of the previously announced *Witcher*-themed projects would be *The Witcher Remake* – a retelling of the first part of Geralt's saga, developed in collaboration with Fool's Theory
- On 14 December CD PROJEKT RED released the next-gen console edition of *The Witcher 3: Wild Hunt*, along with a major update for the game's PC edition





01

BRIEF OUTLINE

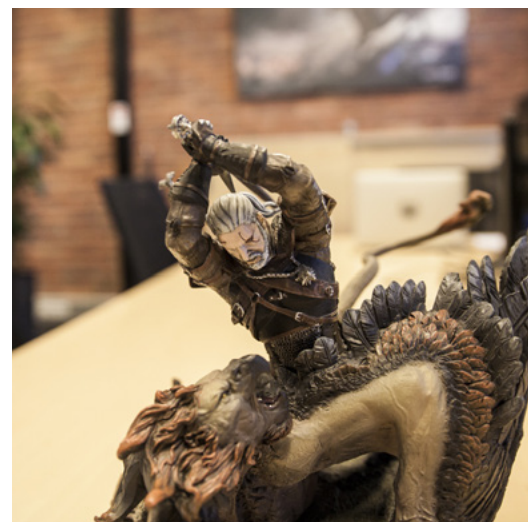
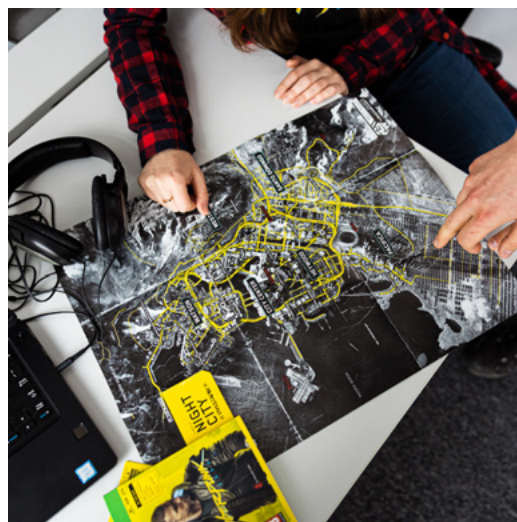
OF THE CD PROJEKT GROUP

## 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. Pivotal moments in the Group's history came in 2002 with the establishment of the CD PROJEKT RED studio, which initiated work on the Company's first major RPG<sup>1</sup> – *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.

<sup>1</sup> Role Playing Game – a storyline-driven game based on a consistent narrative.



## CD PROJEKT RED

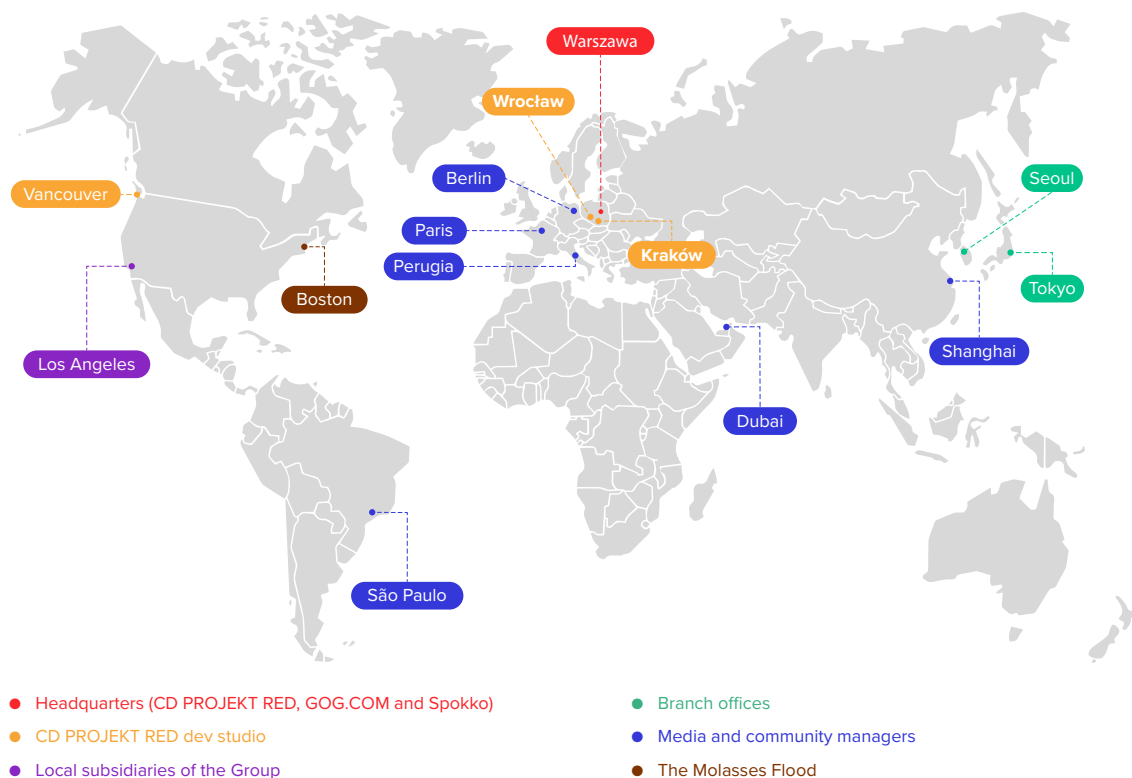
Developing and publishing videogames and tie-in products which exploit the commercial appeal of brands owned by the Company.

## GOG.COM

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

During the reporting periods 97.0% of the CD PROJEKT Group's sales revenues were generated by exports. Throughout 2022 North America and Europe accounted for 71.1% and 17.6% of the Group's sales respectively. 89.3% of the Group's sales were carried out via digital distribution channels, including GOG.COM as well as external platforms such as Steam, PlayStation Store, Xbox Games Store, Amazon, Humble Bundle, Epic Games Store and App Store.

**Map 1** The CD PROJEKT Group around the world





## GROWTH STRATEGY

Strategic directions related to talent acquisition, expansion and support for the team, as well as transformation of the game development process, are presented in the CD PROJEKT Group Strategy Update published in 2021 (including in the accompanying [video presentation](#)).

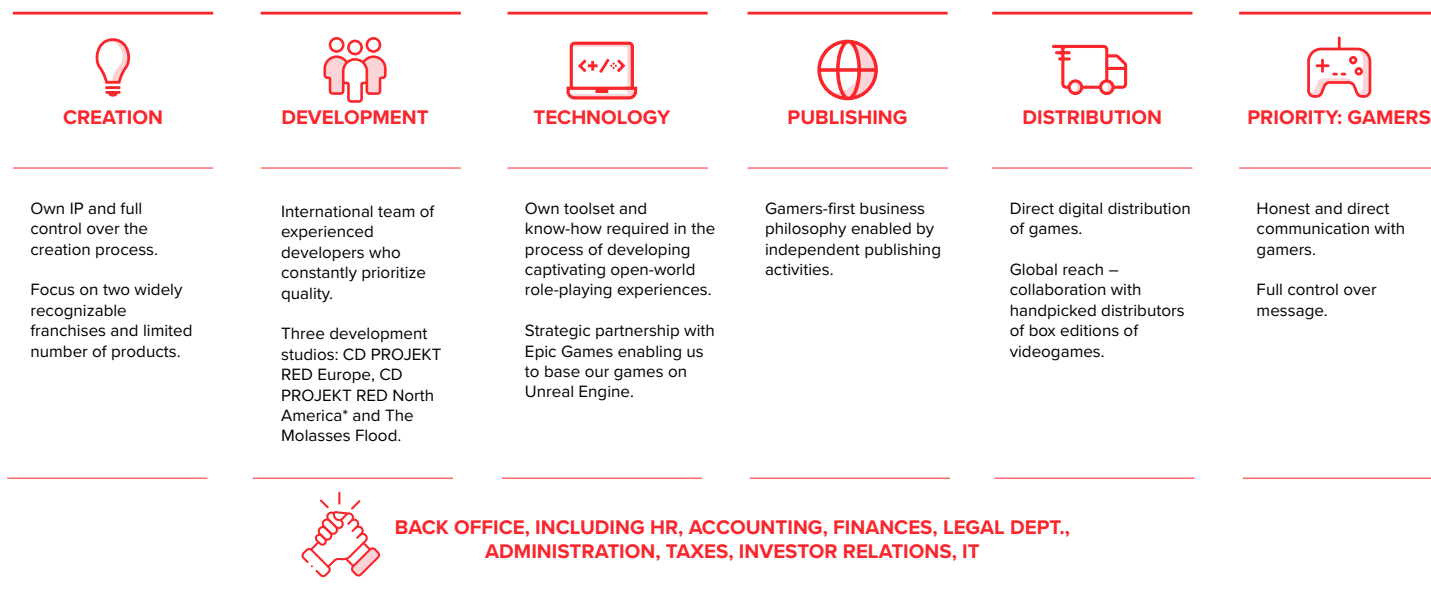
On 4 October 2022 the CD PROJEKT Group published another [Strategy Update](#), which builds upon the plans unveiled in 2021 and focuses on long-term development of key products.

In the coming years the studio intends to release a number of games within *The Witcher* and *Cyberpunk 2077* franchises, as well as to carry out internal development work on its third proprietary IP codenamed Hadar.

The CD PROJEKT Group also announced the launch of a new hub in Boston (distinct from The Molasses Flood), which, together with the Vancouver team, will comprise a new studio – CD PROJEKT RED North America, enabling the Group to access the North American talent pool.

CD PROJEKT announced that it intends to add multiplayer elements to most of its future products, and to carry on with the franchise flywheel concept, expanding the ecosystem of mutually supporting products based on the commercial potential of the Group's franchises. The Group also declared openness to cooperation with external teams in the scope of creating new, exciting ways to experience the Group's brands while enabling its internal team to focus on developing groundbreaking role-playing games.

**Chart 1** Videogame development business model at CD PROJEKT RED



\* CD PROJEKT RED North America is expected to begin operating in 2023



In future years the Group perceives the following directions of strategic growth:

- further ramp-up of production capabilities in order to deliver more content to gamers without sacrificing quality;
- enriching experiences provided by CD PROJEKT RED games by adding multiplayer features;
- further development of franchises.

A thorough presentation of the assumptions underpinning the CD PROJEKT Group's Strategy can be found on the [Company website](#).

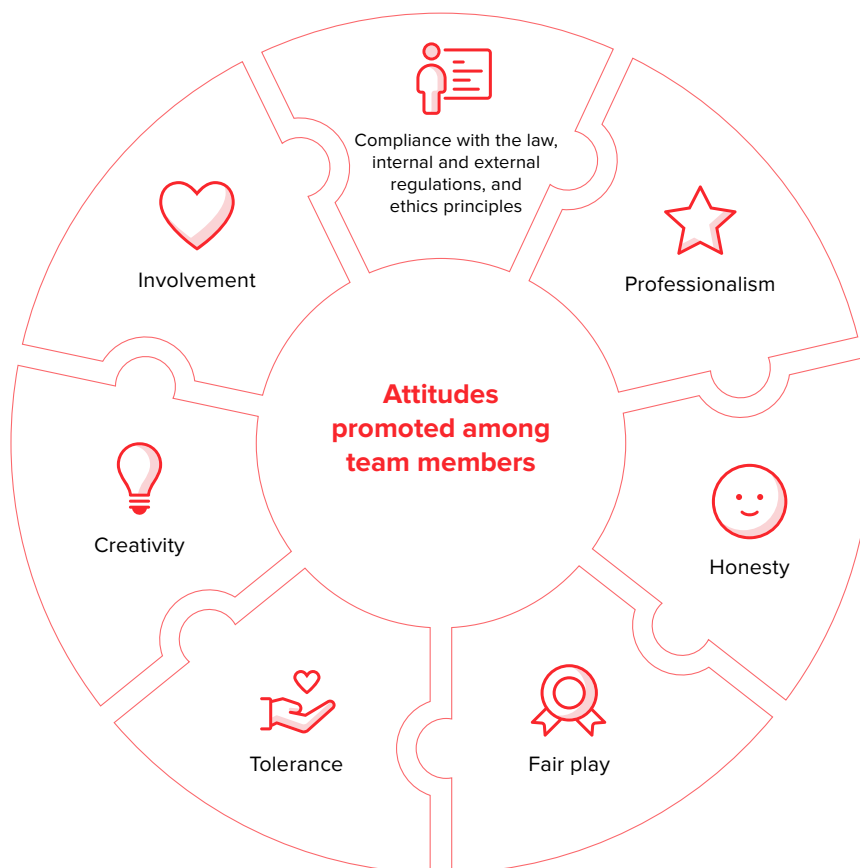
## Values and ethics

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

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

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

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

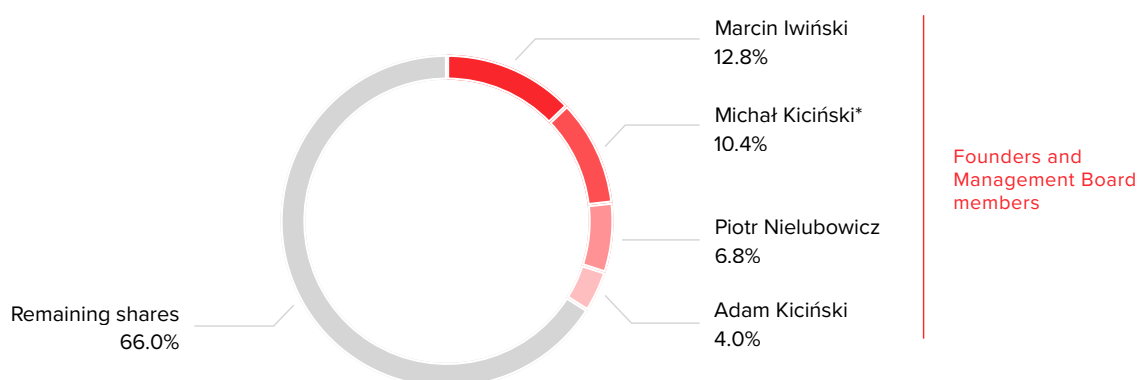


These values are an important aspect of our organizational culture. They support us in pursuing our goals, and they help make CD PROJEKT unique. Further information about the CD PROJEKT organizational culture can be found in the **CD PROJEKT Group Sustainability Report for 2022**.

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

The CD PROJEKT brand has been present on the Warsaw stock exchange since 2010. A total of 100 770 800 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 (incumbent Chairman of the Supervisory Board) 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 2** Company shareholding structure as of the publication date of this report\*\*



\* According to a notice filled on 26 May 2021.

\*\* As disclosed in Current Report no. [4/2023](#) of 15 February 2023, the aggregate percentage share of votes controlled by The Goldman Sachs Group, Inc. as a result of holding shares (1.70%) and other financial instruments (4.70%) was 6.39% as of 10 February 2023. According to the relevant notification obtained by the parent Company, The Goldman Sachs Group, Inc. controls 1 708 240 votes from shares, 2 122 503 votes which may be gained in the exercise or conversion of a financial instrument comprising securities on loan, and 2 613 546 votes from other types of financial instruments.

Since March 2018 CD PROJEKT has belonged to the WIG20 index which represents 20 of the largest and most liquid companies listed on the Warsaw Stock Market. As of 6 March 2023 the Company contributes 4.2% to the value of this index.

CD PROJEKT belongs to the WIG.GAMES5 sectoral index which covers five largest videogame developers listed on the Warsaw market. Due to its significantly larger market capitalization compared to other companies whose stock makes up the index, the contribution of CD PROJEKT S.A. to WIG.GAMES5 has been restricted – as of 6 March 2023 it stands at 36.8%.

A new index, WIG-Gry, was launched on 21 March 2022, representing videogame developers traded on the main market of the Warsaw Stock Exchange. As of 6 March 2023 the Company contributes 64.6% to this index.

CD PROJEKT is also part of the WIG-ESG index launched in September 2019. WIG-ESG aggregates companies regarded as socially responsible, i.e. those which adhere to social responsibility principles particularly with regard to environmental, social, economic and corporate governance issues. As of 6 March 2023, CD PROJEKT contributes 4.0% to the WIG-ESG index.

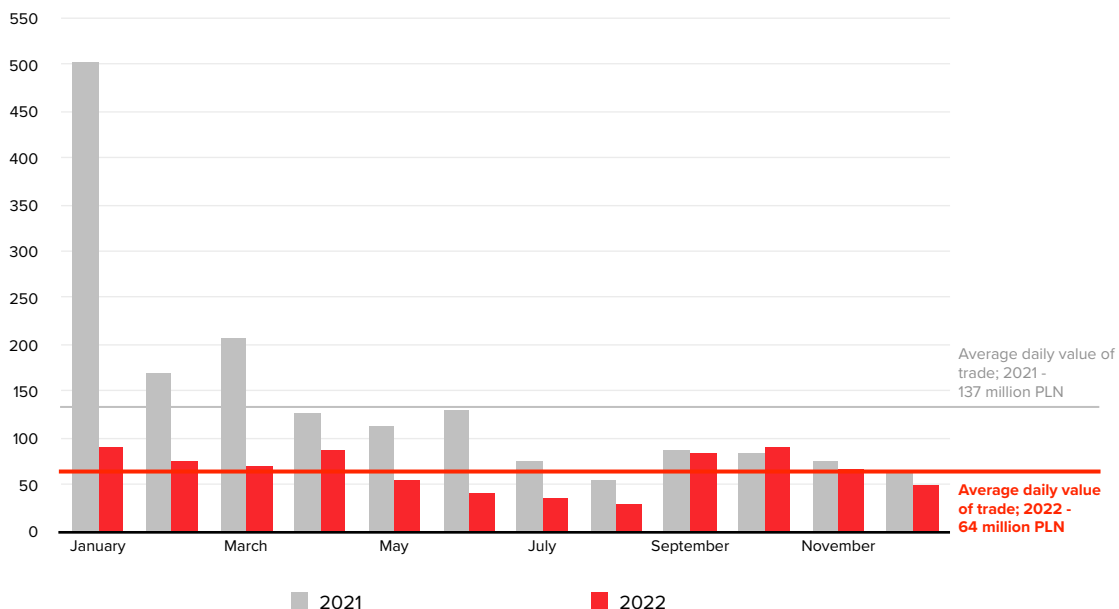
**Chart 3** CD PROJEKT S.A. stock price and the WIG20 index between 1 January and 31 December 2022



Between 1 January and 31 December 2022 the Company stock price fluctuated between 77.89 PLN (7 September 2022) and 204.00 PLN (5 January 2022). During this period the stock price decreased by 32.8%, to 129.64 PLN at the end of trading on 30 December 2022. Over the same period the WIG20 index lost 20.9% while the main WIG index lost 17.1%.

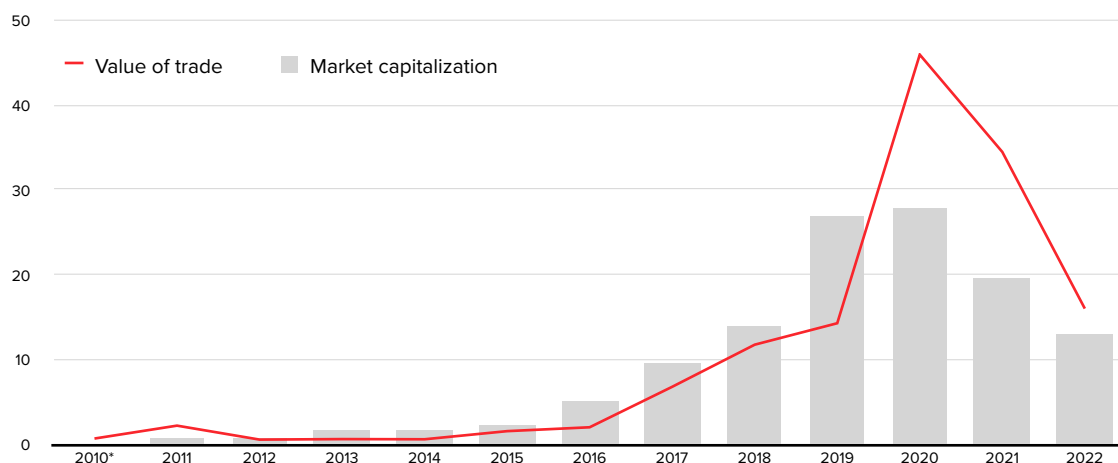
At the end of 2022 the Company's market capitalization was 13.1 billion PLN.

**Chart 4** Average daily value of trade in CD PROJEKT S.A. shares (by month) between 1 January and 31 December 2022 (PLN millions)



In 2022 the liquidity of CD PROJEKT S.A. stock, measured in terms of value of trade, decreased. The aggregate value of trade for 2022 was 16.0 billion PLN compared to 34.5 billion PLN the year before. The average daily value of trade was 64 million PLN, compared to 137 million PLN in 2021. A decrease was also observed in the average number of transactions per trading day – from 10 732 to 6 861.

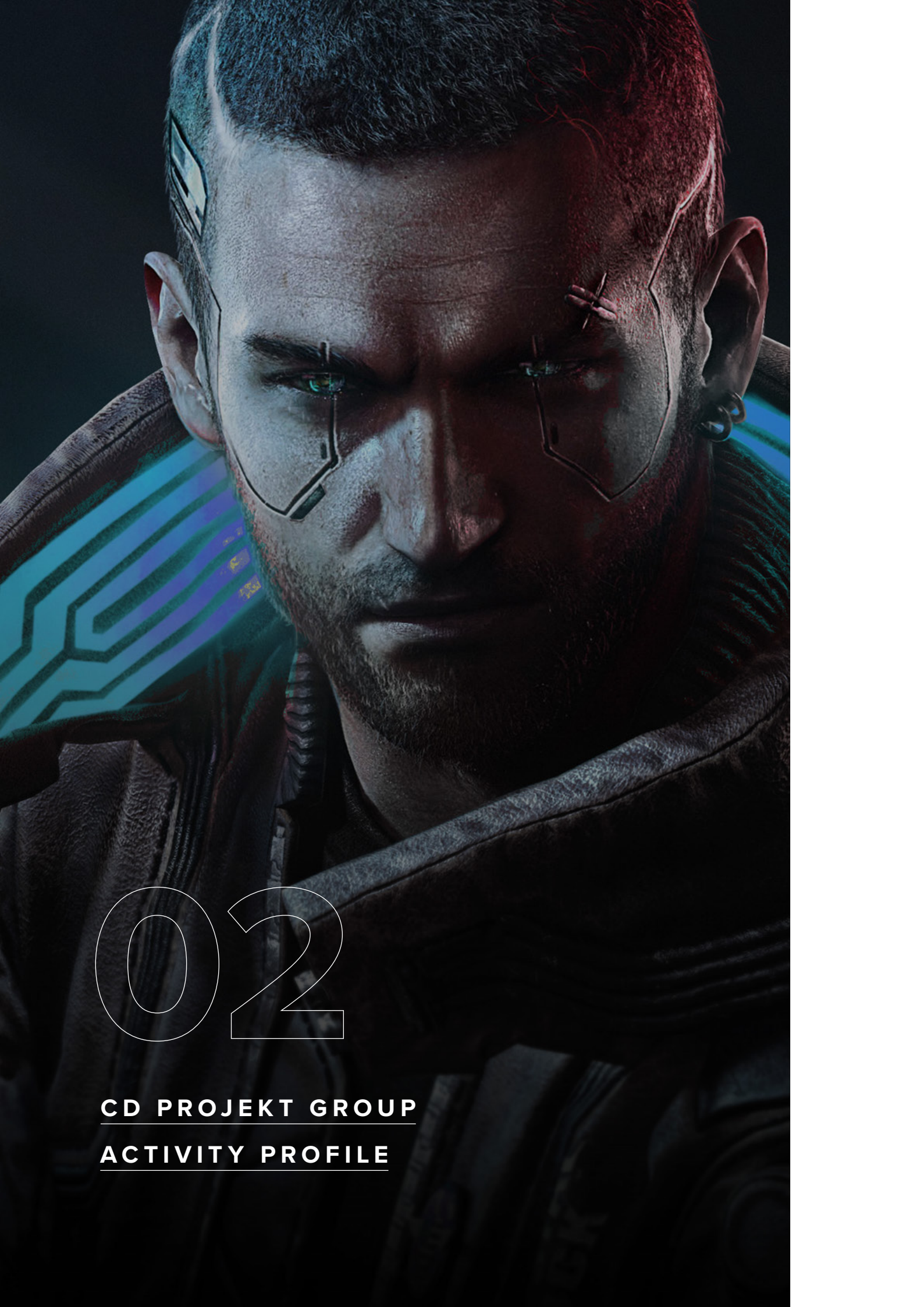
**Chart 5** Market capitalization of CD PROJEKT S.A. at the end of the year and aggregate value of trade in CD PROJEKT S.A. stock between 1 May 2010 and 31 December 2022 (PLN billions)



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

	2022	2021	Change
Net earnings per share (PLN)	3.44	2.07	66.1%
Quantity of shares in trading (in thousands) at end of period	100 738 800	100 738 800	0.0%
Highest closing price during fiscal year (PLN)	204.00	365.00	-44.1%
Lowest closing price during fiscal year (PLN)	77.89	153.38	-49.2%
Price at beginning of period (PLN)	200.60	276.40	-27.4%
Price at end of period (PLN)	129.64	192.90	-32.8%
Average price during period (PLN)	129.29	198.98	-35.0%
P/E ratio at end of period	37.6	93.0	-59.6%
Market capitalization at end of period (PLN thousands)	13 059 778	19 432 515	-32.8%
Average number of transactions per trading day	6 861	10 732	-36.1%
Average daily value of trade (PLN thousands)	63 669	137 257	-53.6%
Average daily trading volume (shares)	504 714	633 562	-20.3%

As of the publication date of this report 23 brokerage houses, both foreign and domestic, issue recommendations concerning Company stock. A full list of analysts and brokerage houses which issue recommendations concerning Company stock can be found on the CD PROJEKT website at <https://www.cdprojekt.com/en/investors/analysts/>.



# 02

**CD PROJEKT GROUP**  
**ACTIVITY PROFILE**

## CD PROJEKT Group activity profile

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### MARKET ENVIRONMENT AND GROWTH PROSPECTS OF THE CD PROJEKT GROUP

The CD PROJEKT Group conducts its business in the global videogame market which – despite having lost volume in 2022 – remains one of the most dynamic branches of the global economy. Newzoo – respected analysts of the videogame and e-sports markets – estimate that by 2025 the volume of the global videogame market will reach 211.2 billion USD<sup>2</sup>, which implies a cumulative annual growth rate (CAGR) of 4.6% for the 2022–2025 period. According to PwC’s “Global Entertainment & Media Outlook 2022–2026”<sup>3</sup> report, the videogame and e-sports market is expected to grow by 8.0% annually during this period.

The growth outlook of the Group is affected not only by the increasing popularity of this form of entertainment as an approachable and attractive mass market offering, but also by the increasing sophistication and realism of products offered, increasing availability and affordability of gaming hardware, further development of digital means of reaching potential gamers and new game distribution channels.

### GLOBAL VIDEOGAME INDUSTRY

Newzoo<sup>2</sup> estimates the volume of the global videogame market at 184.4 billion USD at the end of 2022, which corresponds to a 4.3% decrease compared to the 2021 year-end value, and a 3.0% increase compared to the end of 2020. This first-ever decrease in global market volume reported by Newzoo is linked, among others, to the elevated baseline values from the past two years, which were driven by the COVID-19 pandemic. Newzoo also points to unfavorable global economic conditions, which resulted in a decrease in disposable household income, and therefore in videogame-related spending.

In the past year only the PC gaming segment was reported as having grown – by 1.8% y/y, reaching 38.2 billion USD at the end of 2022. In contrast, both the mobile and console gaming segments shrank. According to estimates the former lost 6.4% y/y, with a year-end figure of 92.2 billion USD, while the latter lost 4.2% y/y, shrinking to 51.8 billion USD.

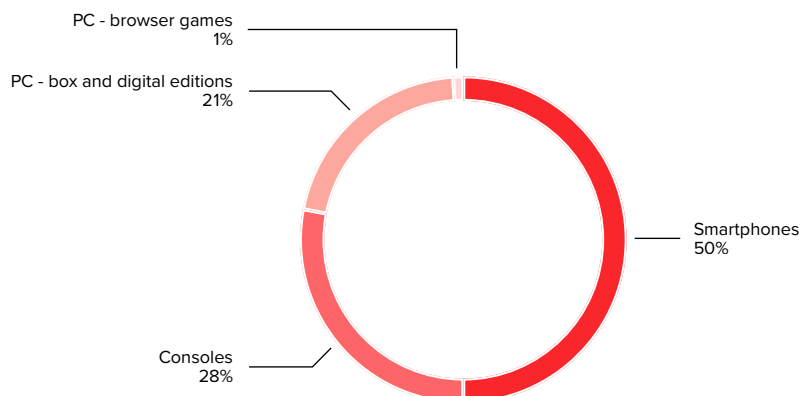
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2 Newzoo’s Games Market Estimates and Forecasts, Newzoo, 20 January 2023, accessed on 26 January 2023; [newzoo.com/insights/articles/the-latest-games-market-size-estimates-and-forecasts](https://www.newzoo.com/insights/articles/the-latest-games-market-size-estimates-and-forecasts)

3 Perspectives from the Global Entertainment & Media Outlook 2022–2026, PwC, accessed on 26 January 2023; summary available at [pwc.com/gx/en/industries/tmt/media/outlook/outlook-perspectives.html](https://www.pwc.com/gx/en/industries/tmt/media/outlook/outlook-perspectives.html)



**Chart 6** Global videogame market in 2021 by device type (%)<sup>4</sup>



Estimates published by ESA (Entertainment Software Association)<sup>5</sup> concerning the US market, which is the most important region from the point of view of the Group's activities, confirm the domination of smartphones in this area, followed by consoles and PCs. 70% of American gamers include smartphones among their most frequently used gaming devices, with consoles and PCs coming in at 52% and 43% respectively.

## GAMERS

The global gaming community continues to grow each year, both quantitatively and in terms of involvement (time spent playing). Newzoo<sup>6</sup> estimates that at the end of 2022 there were 3.2 billion gamers worldwide. 2.7 billion of them accessed mobile games, while the PC and console gaming communities numbered 1.0 billion and 0.6 billion people respectively. In 2025 the total figure is expected to top 3.5 billion. Given that in 2020 there were fewer than 2.9 billion gamers, the cumulative annual growth rate for 2020–2025 may reach 4.2%.

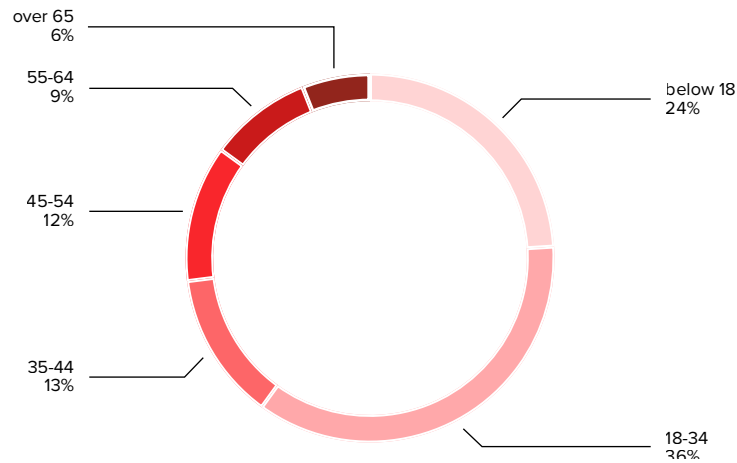
55% of gamers – over 1.7 billion – reside in the Asia-Pacific region. This is followed by Middle East and Africa (488 million gamers) and Europe (430 million gamers). Middle East and Africa reported the strongest growth in 2022, having increased by 8.2% compared to 2021. Latin America and North America accounted for 315 million and 219 million gamers respectively in 2022.

<sup>4</sup> Newzoo's Games Market Estimates and Forecasts, Newzoo, 20 January 2023, accessed on 26 January 2023; [newzoo.com/insights/articles/the-latest-games-market-size-estimates-and-forecasts](https://newzoo.com/insights/articles/the-latest-games-market-size-estimates-and-forecasts)

<sup>5</sup> 2022 Essential Facts About the Video Game Industry, accessed on 26 January 2023; [theesa.com/resource/2022-essential-facts-about-the-video-game-industry/](https://theesa.com/resource/2022-essential-facts-about-the-video-game-industry/)

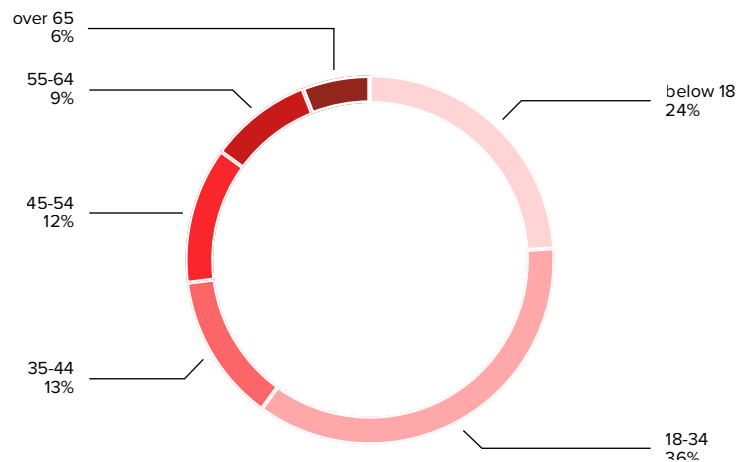
<sup>6</sup> The Games Market Will Show Strong Resilience in 2022, Growing by 2.1% to Reach \$196.8 Billion, Newzoo, 26 July 2022; accessed on 26 January 2023; [newzoo.com/insights/articles/the-games-market-will-show-strong-resilience-in-2022](https://newzoo.com/insights/articles/the-games-market-will-show-strong-resilience-in-2022)

**Chart 7** Global gaming community in 2022 by region (%)<sup>7</sup>



According to ESA<sup>8</sup>, 65% of US residents past age 18 and 71% of under-18s play videogames. 48% of gaming community members identify as female. The most populous age group is the 18–34 bracket, accounting for 36% of the nearly 216 million-strong US gaming community.

**Chart 8** US gamers by age bracket (%)<sup>8</sup>



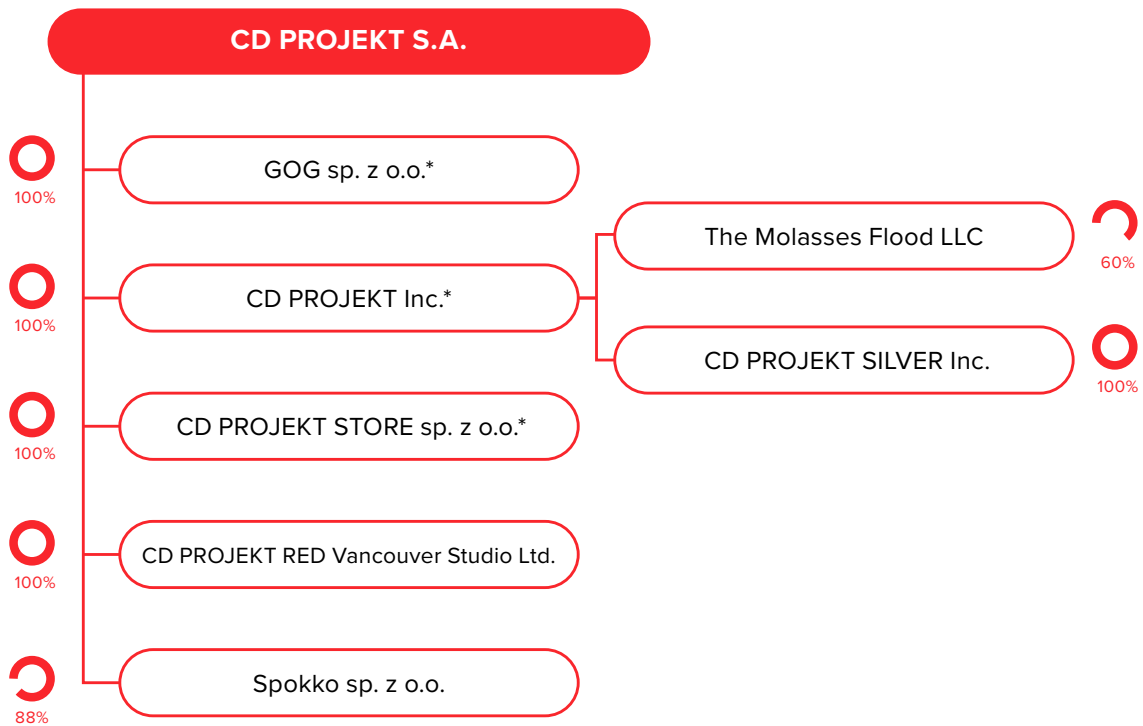
<sup>7</sup> The Games Market Will Show Strong Resilience in 2022, Growing by 2.1% to Reach \$196.8 Billion, Newzoo, 26 July 2022; accessed on 26 January 2023; [newzoo.com/insights/articles/the-games-market-will-show-strong-resilience-in-2022](https://www.newzoo.com/insights/articles/the-games-market-will-show-strong-resilience-in-2022)

<sup>8</sup> 2022 Essential Facts About the Video Game Industry, accessed on 26 January 2023; [theesa.com/resource/2022-essential-facts-about-the-video-game-industry/](https://www.theesa.com/resource/2022-essential-facts-about-the-video-game-industry/)

## Organizational structure of the CD PROJEKT Group

As of 31 December 2022 the CD PROJEKT Group consists of the parent entity – CD PROJEKT S.A. – and seven subsidiaries: GOG sp. z o.o., CD PROJEKT Inc., 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 1** CD PROJEKT Group at the end of 2022 (capital and voting share)



\*Consolidated companies



**Table 2** Basic activity profile of each member company of the CD PROJEKT Group as of 31 December 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 RED Vancouver Studio Ltd.	This gamedev studio, based in Vancouver, develops videogames within the framework of CD PROJEKT RED.
CD PROJEKT RED STORE sp. z o.o.	This entity managed the CD PROJEKT RED GEAR merch store and marketed tie-in products associated with CD PROJEKT RED videogames to customers throughout the EU. On 28 February 2023 a merger by acquisition, carried out between CD PROJEKT S.A. (as the acquirer) and CD PROJEKT RED STORE sp. z o.o. (as the acquiree), was officially registered.
Spokko sp. z o.o.	Developers of <i>The Witcher: Monster Slayer</i> – a mobile game.
The Molasses Flood LLC	This gamedev studio, based in Boston, is working on the project codenamed Sirius.
CD PROJEKT SILVER Inc.	This company participates in developing entertainment products tied 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 31 December 2022. Detailed information can be found in the *Consolidated Financial Statement of the CD PROJEKT Group for 2022*.

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

In 2022 the Group conducted business activities in two segments:

- CD PROJEKT RED,
- GOG.COM.

### SEGMENT CD PROJEKT RED

#### Target and scope of business activities

Developing and publishing videogames is carried out by the CD PROJEKT RED studio. This activity focuses on brands owned by the Company – *The Witcher* and *Cyberpunk*.



The segment concerns itself with 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 participation in trade fairs.

This segment also used to include the online merch store at [gear.cdprojektred.com](http://gear.cdprojektred.com), established in order to market 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.

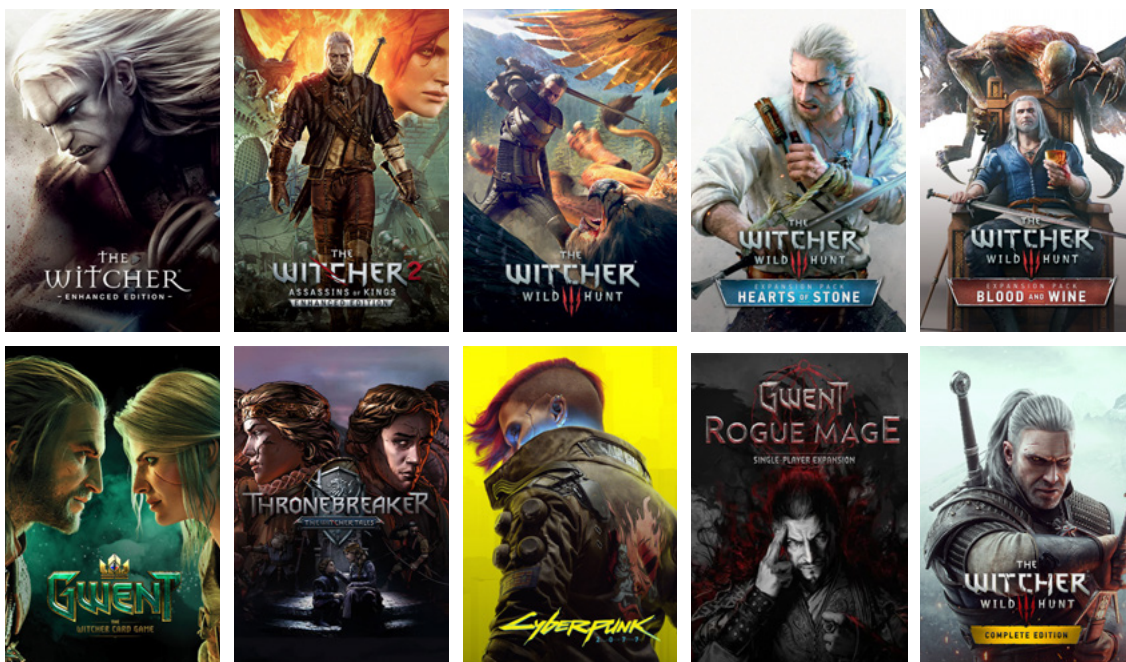
As of the publication date of this report, key releases in the Company's portfolio include *The Witcher*, *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt*, two expansion packs for the latter (*Hearts of Stone* and *Blood and Wine*) as well as *Cyberpunk 2077* released on 10 December 2020.

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

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

On 7 July 2022 *GWENT: Rogue Mage* was released for PC, iOS and Android – this is a single-player expansion for *GWENT: The Witcher Card Game*.

On 14 December 2022 the studio released the next-gen console edition of *The Witcher 3: Wild Hunt*, along with a major update for the game's PC version.



## Scheme 2 CD PROJEKT RED releases; 2007–2022



### Key sources of revenue

Sales of CD PROJEKT RED games are carried out under the following core 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 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. 2022 saw an increase in licensing revenues related to tie-in products, including the *Cyberpunk: Edgerunners* anime series co-produced by the Japanese Studio Trigger.

### Cyberpunk 2077

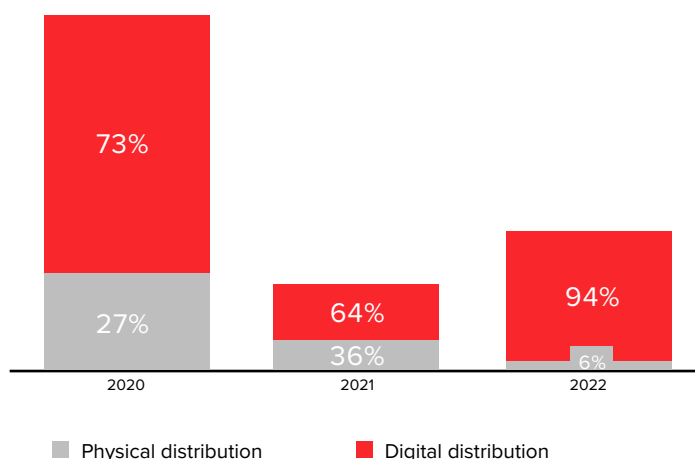
The bulk of CD PROJEKT RED revenues in 2022 came from *Cyberpunk 2077* – in fact, sales revenues generated by this game during the reporting period were 18% higher than in 2021.

On 15 February 2022 the Studio published the dedicated next-gen console edition of the game, while on 28 September it announced that sales of *Cyberpunk 2077* had topped 20 million units.

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

In 2022 94% of *Cyberpunk 2077* units sold were digital editions of the game.

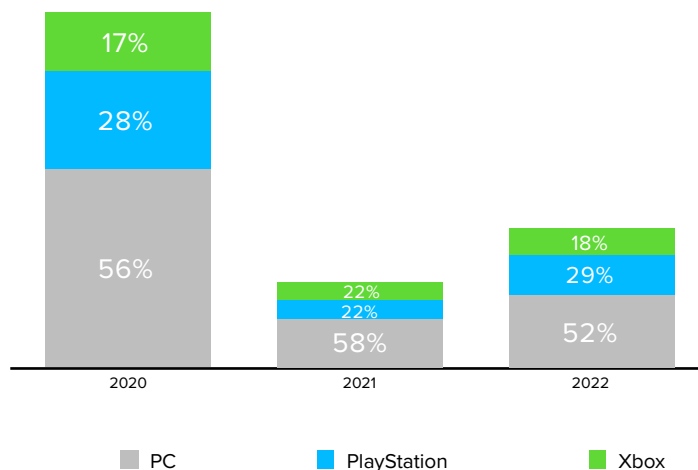
**Chart 9** *Cyberpunk 2077* – retail sales to gamers (sell-through) by distribution type (units sold; source: Company estimates based on information collected from distributors)





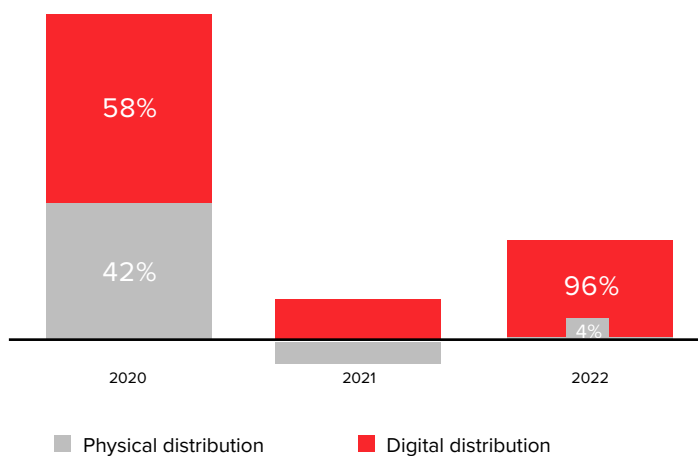
Much like in earlier years, the PC edition accounted for the largest share of *Cyberpunk 2077* sales in 2022.

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

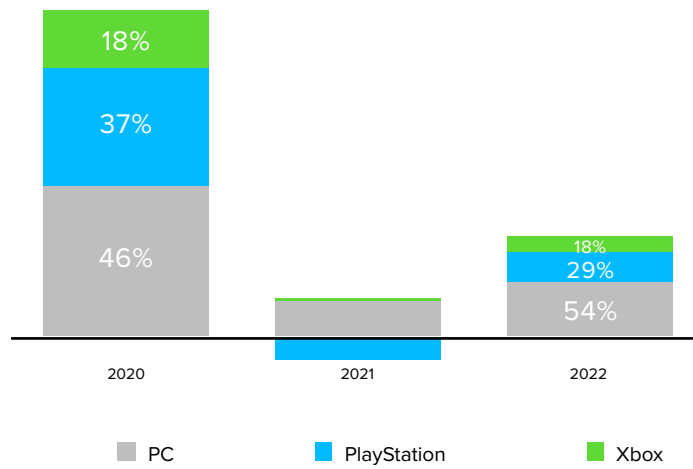


In order to maintain uniformity between the presented data and the corresponding sales figures for *The Witcher 3: Wild Hunt*, in future year the Company will report sales of *Cyberpunk 2077* using the sell-in figure (i.e. physical sales by distributors to retail outlets aggregated with purchases of digital editions by end customers).

**Chart 11** *Cyberpunk 2077* – sales by distribution type (units sold; sell-in figures)

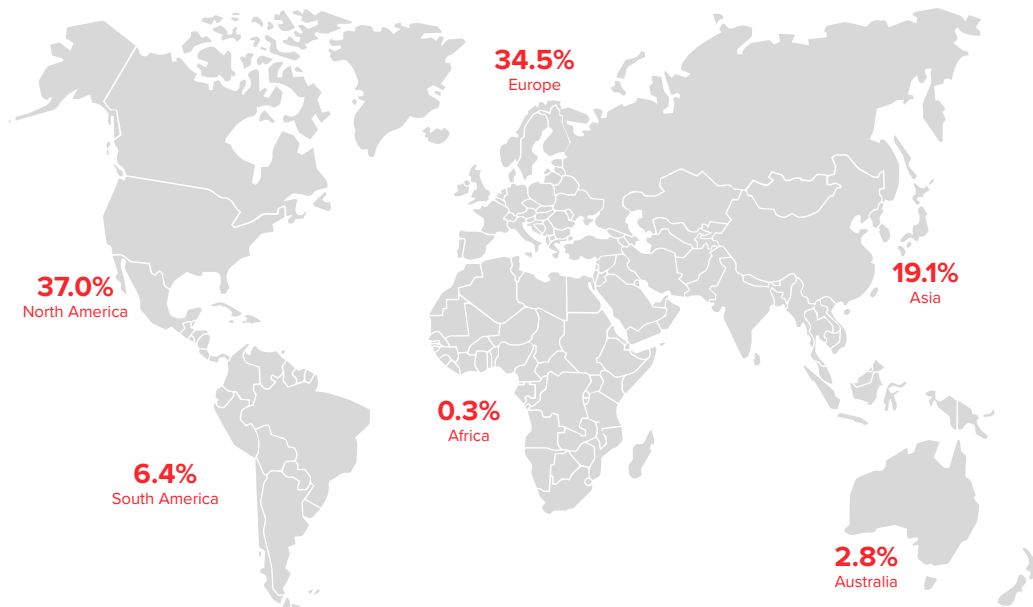


**Chart 12** *Cyberpunk 2077* – sales by platform type (units sold; sell-in figures)



Negative values reported for 2021 are due to returns of the game from distributors.

**Map 2** Purchases of *Cyberpunk 2077* by region (2022)

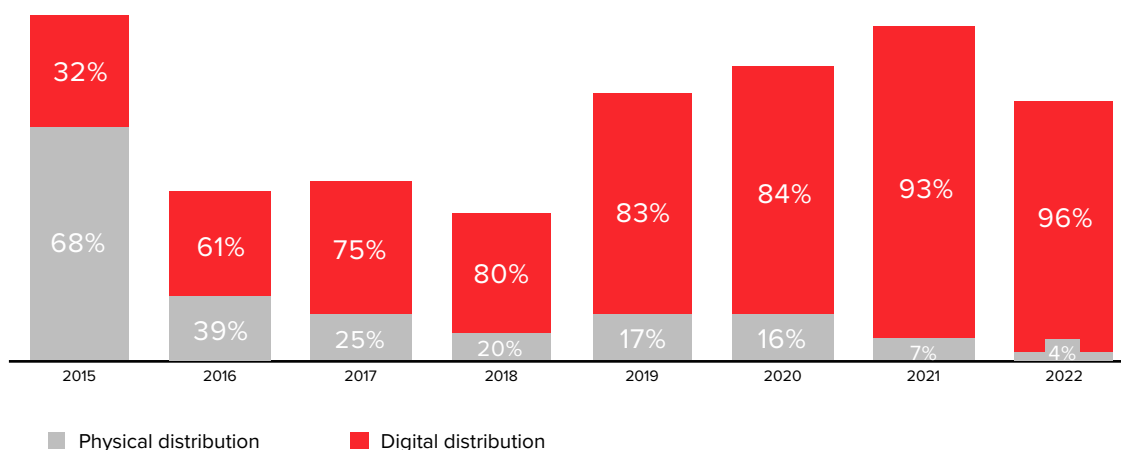


### The Witcher 3: Wild Hunt

*The Witcher 3: Wild Hunt* continued to sell well in 2022. On 14 December 2022 the Studio released the dedicated next-gen console edition of the game, along with a large update for the PC version. This release had a positive effect on sales revenues, and will support sales on next-gen hardware platforms in future years.

Digital channels accounted for 96% of *The Witcher 3* sales in the reporting period.

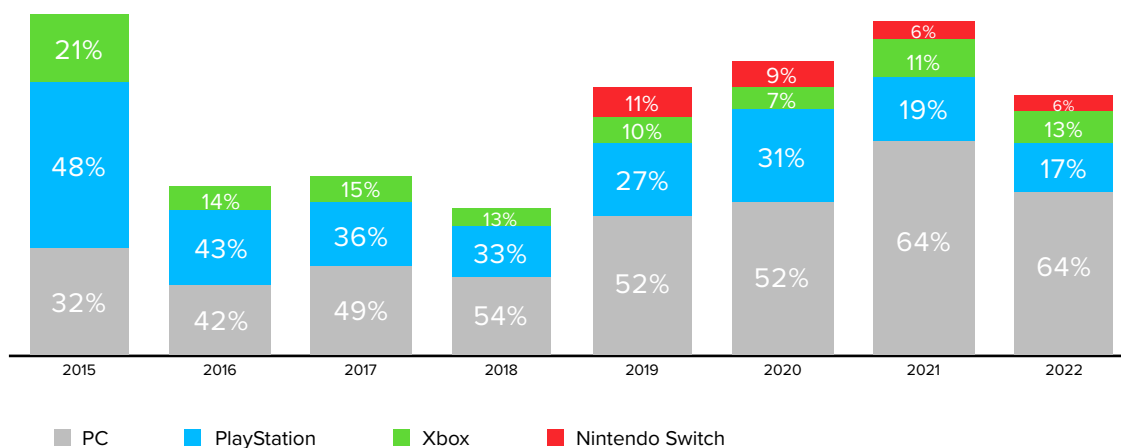
**Chart 13** Sales of *The Witcher 3* by hardware platform (units sold; sell-in figure)



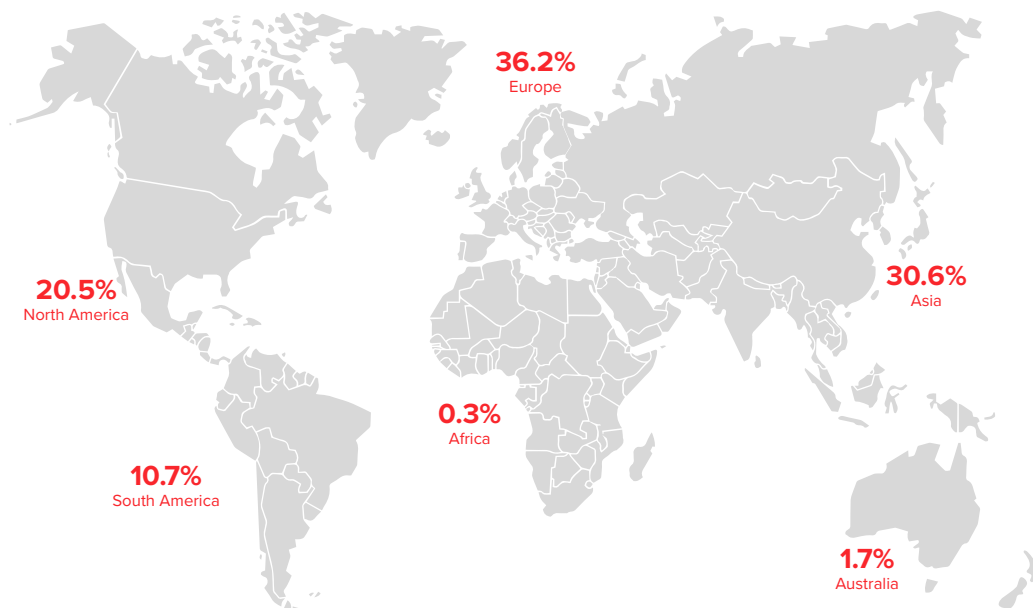
The observed growth in the share of digital distribution in total sales is due to the global shift towards digital purchases among consumers, and also due to the comparatively longer shelf life of digital releases compared to physical (box) editions.

In 2022, much like in the preceding years, most purchases of *The Witcher 3: Wild Hunt* involved the PC edition of the game.

**Chart 14** Sales of *The Witcher 3* by hardware platform (units sold; sell-in figure)



**Map 3** Map 3 Purchases of *The Witcher 3* by region (2022)



### Key suppliers and clients

Within the CD PROJEKT RED activity segment, the Group carries out active distribution of its games for various hardware platforms, through leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Epic Games Store, Nintendo, 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).

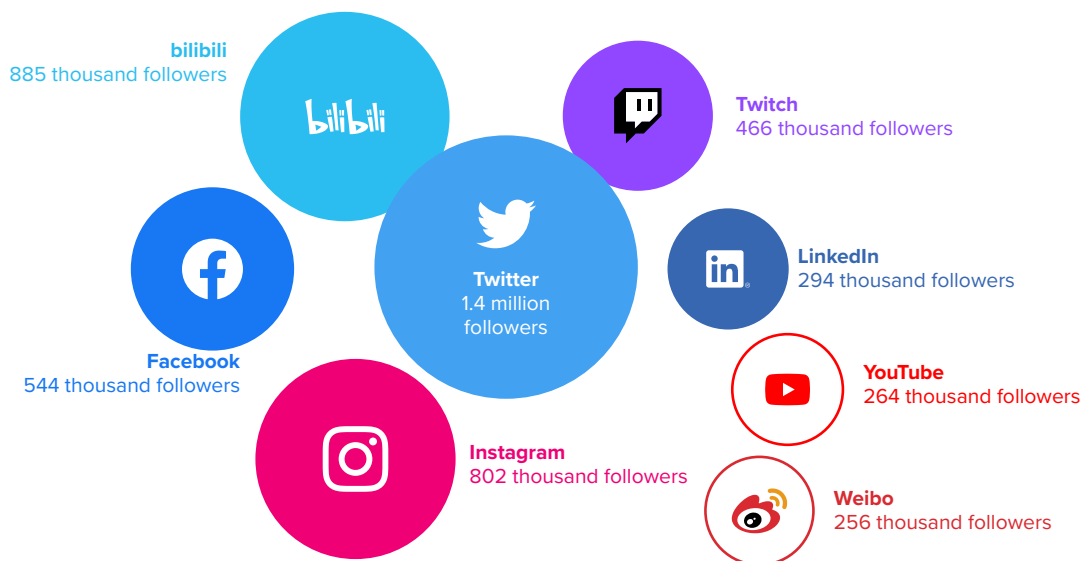
In 2022 sales to three clients exceeded 10% of the Group's consolidated sales revenues and totaled 317 116 thousand PLN, 157 570 thousand PLN and 114 505 thousand PLN respectively (33.3%, 16.5% and 12.0% of the Group's sales revenues respectively). These clients are not affiliated with CD PROJEKT S.A. or any of its subsidiaries. No other client accounted for more than 10% of the Group's consolidated sales revenues.

The videogame development process relies on certain bought-in tools and technical solutions; however, these do not result in significant concentration of supply. No CD PROJEKT RED supplier accounted for more than 10% of the consolidated revenues of the Group in 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 3 Followers and subscribers of CD PROJEKT RED social media profiles as of 1 March 2023



### Key product and marketing events

#### Cyberpunk 2077

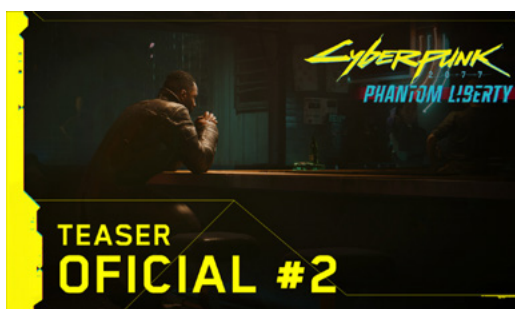
For *Cyberpunk 2077* the year 2022 began with new awards. The game was recognized, among others, in Steam Awards 2021, carrying the Outstanding Story-Rich Game category.

On 15 February 2022 CD PROJEKT RED's official Twitch channel hosted a stream devoted to key new features and changes introduced by Patch 1.5 for *Cyberpunk 2077*. As the stream was drawing to a close, studio representatives surprised the audience by announcing that the patch had just been released on all supported hardware platforms, including next-gen consoles, alongside the new edition of *Cyberpunk 2077* targeting Playstation 5 and Xbox Series X|S. A five-hour trial version of the game was made available free of charge to all gamers, for a period of one month. The launch of the game's next-gen edition was also accompanied by a reinvigorated marketing campaign titled "Love it, or burn it", which encouraged gamers to return to Night City and see for themselves how *Cyberpunk 2077* had changed since its original release in December 2020.

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 2022.

On 4 September, at PAX West in Seattle (USA) CD PROJEKT RED held pre-release screenings of *Cyberpunk: Edgerunners* for key media representatives and influencers. 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 (titled Phantom Liberty) was presented, along with a statement by Keanu Reeves where the actor confirmed he would be returning to



the *Cyberpunk 2077* universe and reprising his role in the expansion. 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).

On 13 September 2022 the *Cyberpunk: Edgerunners* anime series – a 10-episode series co-produced by CD PROJEKT RED and the Japanese Studio Trigger – was released on Netflix. The series received rave reviews from critics and widespread acclaim among viewers – with an average Metacritic user score of 8.9 and a 100% recommended rating among Rotten Tomatoes reviewers. In its release week the anime series ranked 8th on the “Netflix Top 10” global popularity chart (non-English category), and remained on the list over four successive weeks. *Cyberpunk: Edgerunners* also garnered a range of awards and accolades, including Best Anime Series of 2022 from IGN, Anime of the Year from the Crunchyroll Anime Awards 2023, and a Game Awards 2022 nomination in the Best Adaptation category.

On 4 October 2022, in the CD PROJEKT Group Strategy Update the Studio confirmed further development of the Cyberpunk franchise by announcing, among others, the project codenamed Orion – a *Cyberpunk 2077* sequel.

On 9 December 2022 at The Game Awards 2022 gala event, the Studio premiered a new trailer of Phantom Liberty – the upcoming expansion for *Cyberpunk 2077*. The video content prepared especially for this occasion featured new characters, the most important of which is Solomon Reed voiced by Idris Elba. This popular British actor is known, among others, from starring in such productions as *Luther*, *Fast & Furious Presents: Hobbs & Shaw*, or *Suicide Squad*. The official trailer was published on YouTube, and has already attracted more than 2 million views.

On 4 January 2023, after the close of the reporting period, Steam published its annual Steam Awards, with *Cyberpunk 2077* carrying the “Labor of Love” category. In a popular poll *Cyberpunk 2077* was recognized by the gaming community for its ongoing support and development.

#### Scheme 4 Followers and subscribers of *Cyberpunk 2077* social media profiles as of 1 March 2023



#### 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 second quarter of 2023.





On 7 July 2022 a single-player expansion for *GWENT – Rogue 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.

On 4 October 2022 at a conference dedicated to the CD PROJEKT Group Strategy Update, the Studio announced that it was further developing *The Witcher* franchise, among others by announcing a new *Witcher* trilogy (the first installment of which is codenamed Polaris) along with two other projects set in *The Witcher* universe (codenamed Sirius and Canis Majoris).

On 6–8 October 2022 the Game Industry Conference took place. This is the most important video gaming industry event in Poland, and CD PROJEKT RED is its Gold Sponsor. At the conference, which was accompanied by the Poznań Games Arena 2022 fair, *GWENT: Rogue Mage* received the CEEGA (Central & Eastern European Game Awards) award for the best mobile game of the year.

On 26 October 2022, at an event marking the 15th anniversary of *The Witcher* series, CD PROJEKT RED announced that it was working on a remake of the first game presenting the adventures of Geralt of Rivia (codenamed Canis Majoris). The new game will be based on Unreal Theory 5 and is being developed by the Fool's Theory studio which specializes in RPGs. CD PROJEKT RED retains full creative control over the project, which is currently at an early stage.

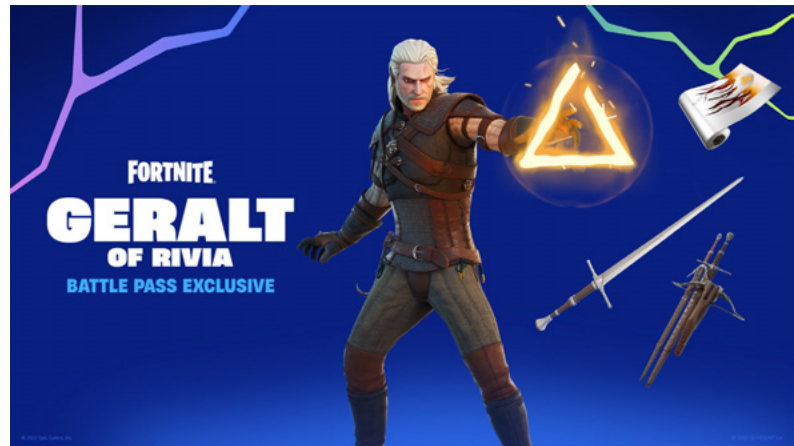
On 28 November a hand-on campaign focusing on the next-gen console release of *The Witcher 3: Wild Hunt – Complete Edition* began at CD PROJEKT RED. Representatives of key global gaming media had the opportunity to play the game ahead of its official release. As a result, over 17 gameplay review articles appeared in key gaming media outlets, including Digital Foundry, IGN and PC Gamer.

The final of the fourth edition of the *GWENT* Masters e-sports competition took place on 3–4 December 2022.

6 December 2022 marked the start of the global review campaign for *The Witcher 3: Wild Hunt – Complete Edition*. Several hundred media outlets from around the world were invited to try out and review the game ahead of its release.

Initial reviews of the next-gen console release of *The Witcher 3: Wild Hunt* appeared on 12 December 2022. Favorable impressions enabled the game to rank high on Metacritic, with an average rating of 94 on next-gen





consoles (Xbox Series X and Playstation 5), along with a “must play” accolade and a place among the top Playstation 5 games of 2022. Key global media confirmed that the game, which focuses on Geralt of Rivia and was originally published by CD PROJEKT RED back in 2015, remains one of the top RPGs of all time, and that its next-gen edition provides another enticing reason to try it out.

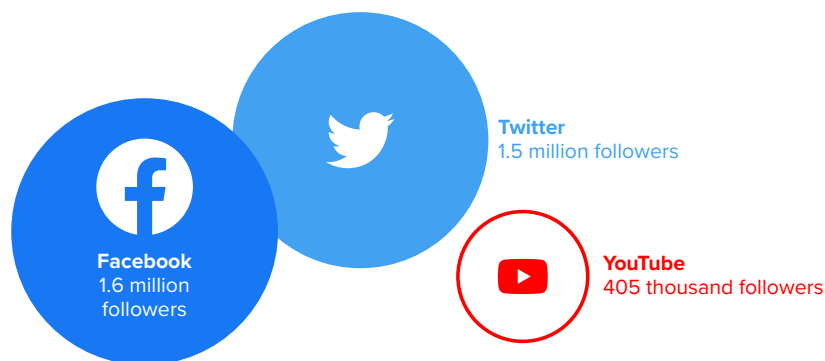
On 14 December 2022 *The Witcher 3: Wild Hunt* was released for next-gen devices throughout the world. The launch was accompanied by a number of events, both global and local. During the release week Twitch streams devoted to the game attracted over 4.5 million hours of views, with more than 20 thousand streamers. The launch of the console edition was also accompanied by a large update for the PC.

Among the highlights of early 2023 is the collaboration between CD PROJEKT RED and Amazon Games, announced on 18 January. *Lost Ark* players from Europe and both Americas were given the opportunity to play as Geralt of Rivia, and to undertake several unique *Witcher*-inspired Arcana quests.

On 26 January 2023 the studio released the box version of *The Witcher 3: Wild Hunt – Complete Edition* for next-gen consoles.

On 7 February 2023 Geralt of Rivia debuted in *Fortnite*, owing to collaboration between CD PROJEKT RED and Epic Games. *Fortnite* players can now unlock the Geralt skin, which is accompanied by several unique quests, events and items inspired by *The Witcher* videogame series.

**Scheme 5** Number of followers and subscribers of *The Witcher* social media profiles as of 1 March 2023



## GOG.COM

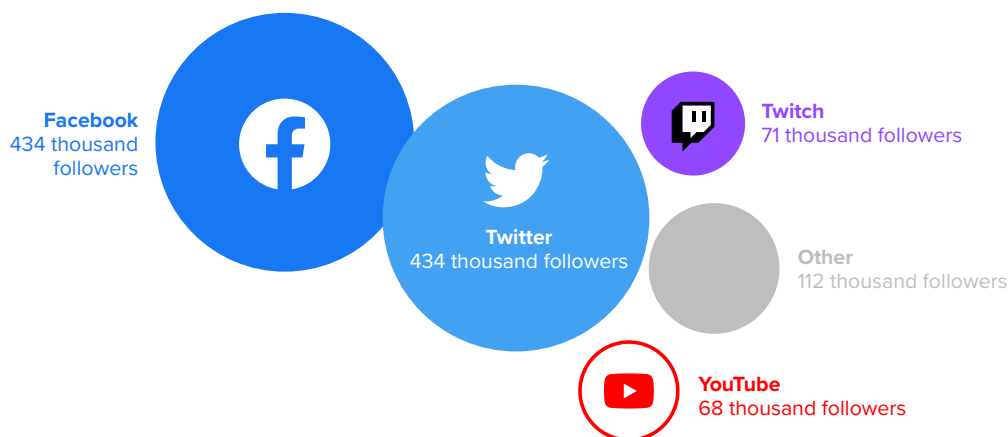
### Target and scope of business activity

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, Russian, Chinese and Polish – this includes full game localizations as well as dedicated customer support and integration with locally popular payment channels, accepting payments in thirteen currencies. GOG.COM also carries releases for the macOS and Linux operating systems.

Activities carried out in the GOG.COM segment focus on digital distribution of videogames via the Company's proprietary GOG.COM distribution platform and the GOG GALAXY application. The platform enables customers to purchase games, remit payment and download game files to their personal devices, while the GOG GALAXY application provides – among others – automatic updates, cloud saves, online and cross-play features. It is also responsible for the online features of *GWENT*, as well as for processing in-game sales and payments within the PC edition of the game.

Payments collected by GOG sp. z o.o. from customers are split with the Company's suppliers as agreed upon in distribution contracts. Typical contracts require the Company to submit sales reports to its suppliers in monthly or quarterly cycles, not later than 30 days following the close of the given reporting period. With regard to certain older products the company may be contractually permitted to adapt them to the requirements of modern operating systems, or to enable multiplayer gameplay if such features were originally provided by the given game.

### Scheme 6 Number of followers and subscribers of GOG.COM social media profiles as of 1 March 2023



### Key products

As of the publication date of this report, the GOG.COM digital distribution platform offers over 7000 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.

### 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 7000 items.

In 2022 the catalogue grew by more than 700 items, including *A Plague Tale: Requiem*, *Middle-Earth: Shadow of War*, *Scorn*, *Europa Universalis IV*, *Return to Monkey Island*, *Blacktail*, *The Elder Scrolls V: Skyrim*, *Middle-Earth: Shadow of Mordor*, *Warhammer 40,000: Space Marine*, *The Cult of the Lamb*, *Hard West 2*, *South of the Circle*, *Destroy All Humans! 2*, *ELEX II*, *Shadow Warrior 3*, *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.

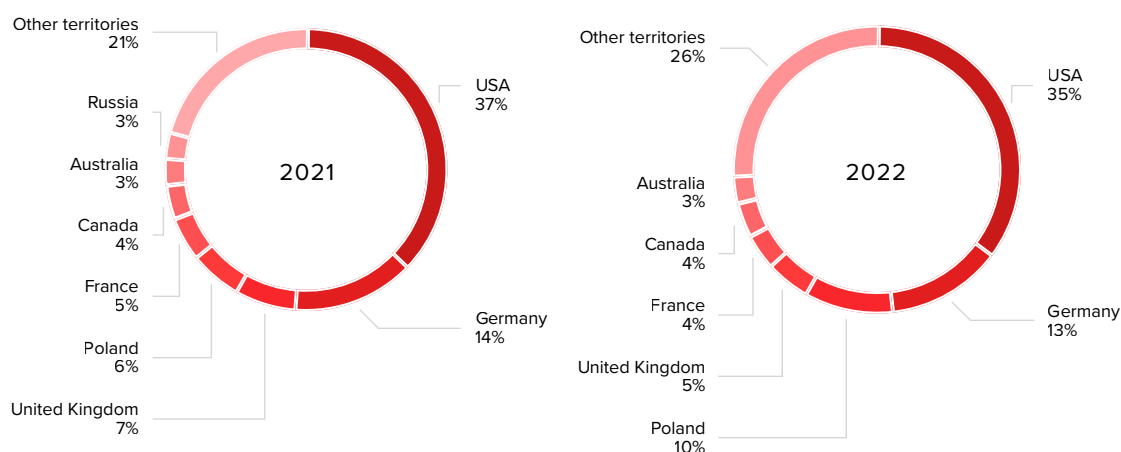
In the second half of 2022, in addition to weekly sales, GOG.COM organized several promotional events: GOG Sale, Find Your Indie Sale, Moon Festival Sale and the GOG birthday sale. Furthermore, to celebrate the 20th anniversary of the founding of CD PROJEKT RED, GOG.COM held a special sale covering all games from *The Witcher* and *Cyberpunk 2077* universes, along with a bonus content giveaway for these games. The end of the year was traditionally marked by the Winter Sale, which covered over 4.5 thousand titles and was

GOG.COM's biggest promotional event of 2022. Increased customer activity was also observed in conjunction with Black Friday, Cyber Monday and Halloween sales.

### 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 15** Sales of products and goods by GOG.COM in 2022 and 2021, by territory.



In terms of territorial breakdown, sales in 2022 followed the pattern established in the preceding years. In 2022 the largest group of GOG.COM customers came from the United States (35%), followed by Germany (13%), Poland (10%) and the United Kingdom (5%).

As of 31 December 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. Under the agreement the Company and its subsidiaries gain 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 and its subsidiaries. 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 the licensed technology.

On 25 March 2022 the Management Board of the Company announced changes in its 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.

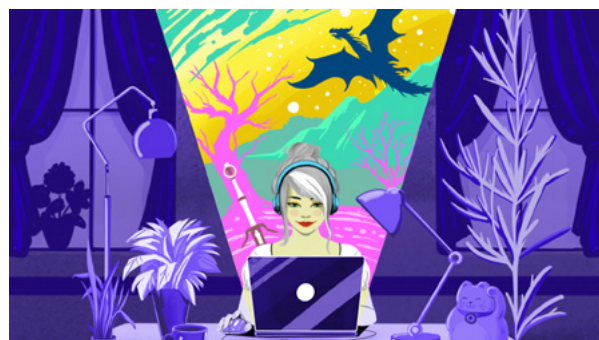
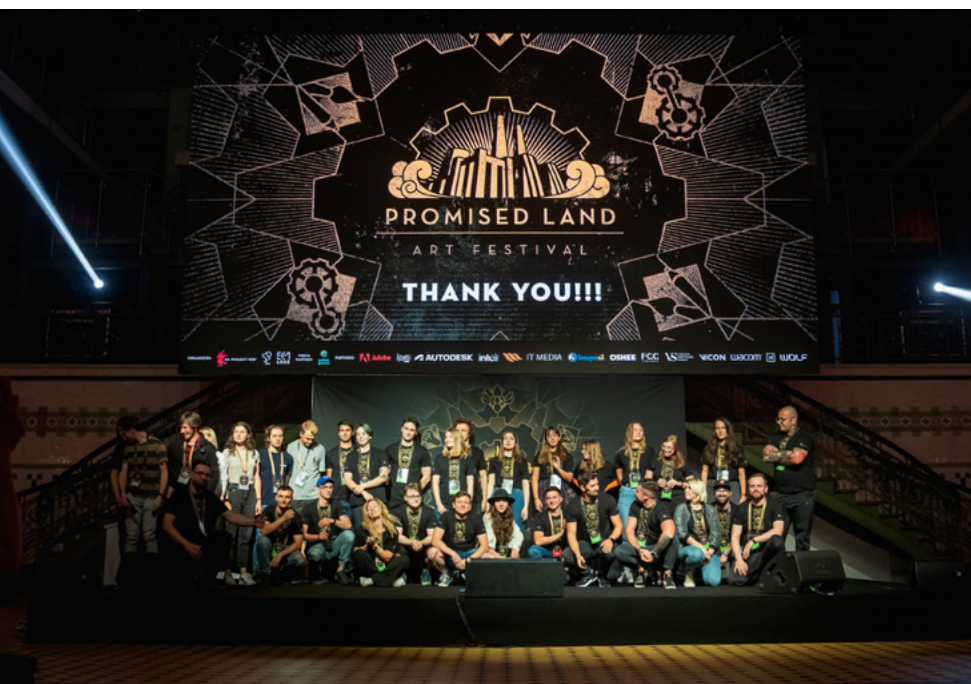
On 24 May 2022 the Extraordinary General Meeting of Spokko sp. z o.o. voted to increase the company's share capital by issuing 589 new shares. 584 of these newly issued shares were taken up by CD PROJEKT S.A. in exchange for a cash payment in the amount of 26 010 thousand PLN, while 5 newly issued shares 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.

On 1 July 2022 the CD PROJEKT RED Studio launched its first-ever summer internship program. From among 3 571 applications submitted by prospective candidates (as well as 1 200 additional applications received under the corresponding Ukrainian track) 31 interns were selected to kickstart their gaming industry adventure at the Studio's branches in Warsaw, Kraków and Wrocław. Following a three-month internship 25 persons decided to remain at the Studio to further develop their professional skills and work on new videogame releases.

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 GOG 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. Potential liabilities associated with this decision were



aggregated by the GOG.COM segment with its financial result for 2021, as well as – where interest on arrears due in 2022 is concerned – with its current calculation of financial result for 2022. The management board of GOG sp. z o.o. disagrees with the aforementioned decision and submitted an official appeal on 5 September 2022.

In August 2022 the Company adopted the CD PROJEKT S.A. Environmental Policy which is part of its sustainable development strategy, whereby the Company commits to undertake certain actions in the scope of environmental protection. Adoption of this document is one of the stated sustainability (ESG) goals in the environmental area for 2022.

In September 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. This year's edition, co-organized with EC1 Łódź – *Miasto Kultury*, attracted nearly 900 participants, offering over 30 hours of workshops and nearly 60 invited talks.

On 5 September CD PROJEKT RED launched the second edition of the “Girls in the Game!” scholarship and mentoring program co-organized with Fundacja Perspektywy and honoring Karolina Grochowska. The program targets female high school seniors who are interesting in pursuing a career in the gaming industry. Applications were accepted until 30 September. From among approximately 1 000 applicants, 20 participants were offered the opportunity to develop their professional skills under the tutelage of CD PROJEKT RED experts. Participants enrolled in the program were also assigned annual scholarships.

On 17 September 2022 the Company received confirmation that the liquidation of its CD PROJEKT Co., Ltd. subsidiary had concluded. The aforementioned subsidiary was effectively liquidated on 7 June 2022.

On 4 October 2022 the CD PROJEKT Group published its Strategy Update which builds upon the plans announced in 2021 and focuses on long-term development of key projects. In the coming years the studio aims to publish several new games within *The Witcher* and *Cyberpunk* franchises, and carry out internal development work on

its third proprietary IP codenamed Hadar. Details of the Strategy Update, presented in the form of a slide deck and a video commentary, are available on the Company website.

On 4 October Mr. Marcin Iwiński tendered his resignation from the position of Vice President of the Management Board for International Affairs and Member of the Management Board, effective at end of day on 31 December 2022, and notified the Company of his intent to seek appointment as Chairperson of the Supervisory Board of the Company on the day immediately following the day

on which his membership of the Management Board formally expires. Mr. Iwiński also published an open letter declaring that he wishes to continue on as a major shareholder of the Company, and support the Management Board in his new role.

On 4 October Mr. Piotr Pągowski tendered his resignation from the position of Member of the Supervisory Board and Member of the Audit Committee, effective at end of day on 31 December 2022.

On 4 December a decision was made concerning the circumstances and conditions of the buy-back of Company shares for voluntary redemption. The Company intended to proceed with buy-back of not more than 2 000 000 shares, for an amount not greater than 100 000 000 PLN, between 5 and 28 October 2022. On 24 October the Company announced that it had concluded the buy-back program, having purchased 860 290 shares which represent 0.854% of its share capital.

On 17 November 2022 a merger plan involving the Company (as the surviving company) and its subsidiary – CD PROJEKT RED STORE sp. z o.o. with a registered seat in Warsaw (as the target company) was formally agreed upon and signed. The goal of the merger is to simplify the Group's structure in light of the intent to continue the business activities of the target company in collaboration with a specialized external entity.

On 6 December 2022 the Extraordinary General Meeting of Spokko sp. z o.o. (a subsidiary of CD PROJEKT S.A.) undertook a decision to phase out *The Witcher: Monster Slayer*. As a result, further development of the project was suspended, distribution of the game to new players on Google Play and Apple App Store ceased on 31 January 2023, and the game will cease being available to existing players on 30 June 2023, as a result of which the project will come to a close on that date. These decisions are consistent with the basic tents of the CD PROJEKT Group's strategy update, according to which the Group intends to focus on its core activity and pursue mobile projects in collaboration with external partners. As a follow-up to the above, a reorganization of the CD PROJEKT Group is planned for 2023, whereby CD PROJEKT S.A. (as the surviving company) will merge with Spokko sp. z o.o. (as the target company). Spokko had not heretofore been subject to consolidation in the scope of the CD PROJEKT Group's financial statements. Given the phase-out of *The Witcher: Monster Slayer* and the anticipated reorganization, there are reasons to suspect impairment of Spokko assets. Following an asset impairment test, the Company decided to recognize an impairment allowance on Spokko sp. z o.o. shares in its possession, with a value of 27 271 thousand PLN.

An Extraordinary General Meeting (EGM) was held on 20 December 2022. The meeting approved, among others, Mr. Marcin Iwiński's appointment to the Supervisory Board of the Company, changes in remuneration of members of the Supervisory Board of the Company, and the merger between CD PROJEKT S.A. and its



subsidiary – CD PROJEKT RED STORE sp. z o.o. The EGM also undertook several decisions concerning the Company’s incentive program – among others, by adopting a resolution canceling the 2020–2025 incentive program. The entry into force of this resolution is, however, contingent on adopting resolutions which institute a new incentive program – which has not occurred as of the publication date of this report. Although the resolution instituting a new Incentive Program for the financial years 2023–2027 was formally adopted, the accompanying resolution which authorizes issuance of subscription warrants and approves a conditional increase in the Company’s share capital – and is therefore necessary to implement the new program – did not gain the required supermajority of votes. As a consequence, as of the publication date of this report the Company is not materially capable of implementing the new Incentive Program for the financial years 2023–2027; therefore, the preceding incentive program for the financial years 2020–2025 remains in force. The full wording of resolutions adopted by the Extraordinary General Meeting of CD PROJEKT S.A. of 20 December 2022 is annexed to Current Report no. 57/2022.

On 20 December the Supervisory Board of the Company undertook decisions as a result of which, effective on 1 January 2023:

- Mr. Marcin Iwiński will serve in the capacity of Chairperson of the Supervisory Board;
- Ms. Katarzyna Szwarc will serve in the capacity of Deputy Chairperson of the Supervisory Board;
- The composition of the Audit Committee will be as follows: Michał Bień – Chairperson of the Audit Committee; Maciej Nielubowicz and Jan Łukasz Wejchert – Members of the Audit Committee.

## EVENTS FOLLOWING THE BALANCE SHEET DATE

On 5 January 2023 the Company announced that it had received a notification from the law firm representing the Company in the U.S. class action lawsuit, to the effect that the Court had issued an order regarding the preliminary approval of the settlement. The order approves the provisions of the settlement concerning, in particular, relinquishing any claims against the Company and members of its Management Board, as well as remittance of 1 850 000 USD to the plaintiff class by the Company and its insurer – Colonnade Insurance S.A.

On 23 January 2023 CD PROJEKT RED announced its new initiative – RED Playtesting Program, which encourages gamers and community members to take part in the development process of the studio’s games. Playtests will be organized at the Warsaw CD PROJEKT RED campus, giving invited participants the opportunity to try out videogame elements and share feedback with members of the dev team, thus enabling the studio to further adapt its games to the needs of gamers.

On 28 February 2023 the District Court for the City of Warsaw in Warsaw, 14th Commercial Department of the National Court Register, registered the merger between the Company and its subsidiary – CD PROJEKT RED STORE sp. z o.o. with its registered seat in Warsaw (“Target Company”) in the register of entrepreneurs. The goal of the merger is to simplify the CD PROJEKT Group’s structure in connection with plans to continue the existing operations of the Target Company in cooperation with a specialized third party – in line with the Long-Term Strategic Growth Outlook of CD PROJEKT Group.

On 20–24 March 2023 San Francisco hosted the Game Developer Conference – one of the keystone global events which focuses on the gamedev industry. CD PROJEKT RED was represented by over thirty specialists



who delivered talks and participated in panel discussions, sharing their knowledge and experience gained during development of *Cyberpunk 2077*.

On 20 March 2023 the Management Board of the Company announced its decision concerning recognition, in its accounts, of an impairment allowance on to-date development expenditures related to Project Sirius, which is developed by The Molasses Flood. This decision was based on the outcome of evaluation of the scope and commercial potential of the Project in its original shape. The Company also announced that work was underway to define a new framework for the Project. Total development expenditures incurred by Project Sirius by the end of 2022 were 33.4 million PLN, and this amount will burden the financial result of the Company and the CD PROJEKT Group for the corresponding period. Expenditures incurred in January and February 2023 totaled 9.5 million PLN, which will accordingly burden financial results for the first quarter of 2023.

On 22 March 2023 the Management Board of the Company announced that an Extraordinary General Meeting would be convened on 18 April 2023. Key points of the meeting's agenda include adoption of resolutions concerning institution of new incentive programs at the Company, covering the years 2023–2027, as well as redemption of shares purchased by the Company in the framework of a buy-back program carried out in October 2022, along with the corresponding reduction in the Company share capital. The full wording of proposed draft resolutions is included in Current report no. 10/2023.

## **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 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 offered opportunities to carry out volunteer work and provide assistance to war victims during paid working hours. Nearly 50 employees took advantage of this offer. Further information can be found in the CD PROJEKT Group Sustainability Report for 2022.

### **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 2023, and does not jeopardize continuation of the Company's activities within 12 months of the conclusion of the reporting period. Given the unprecedented character of current events and significant uncertainty associated therewith – particularly the lack of reliable knowledge concerning the duration of the Russian invasion – as of the publication date of this report it is impossible to accurately predict the long-term effects of the invasion upon the condition and earnings of the Company and its Group. Any assessments and forecasts in this regard are fraught with uncertainty, and will be subject to further monitoring and analysis by the Group.

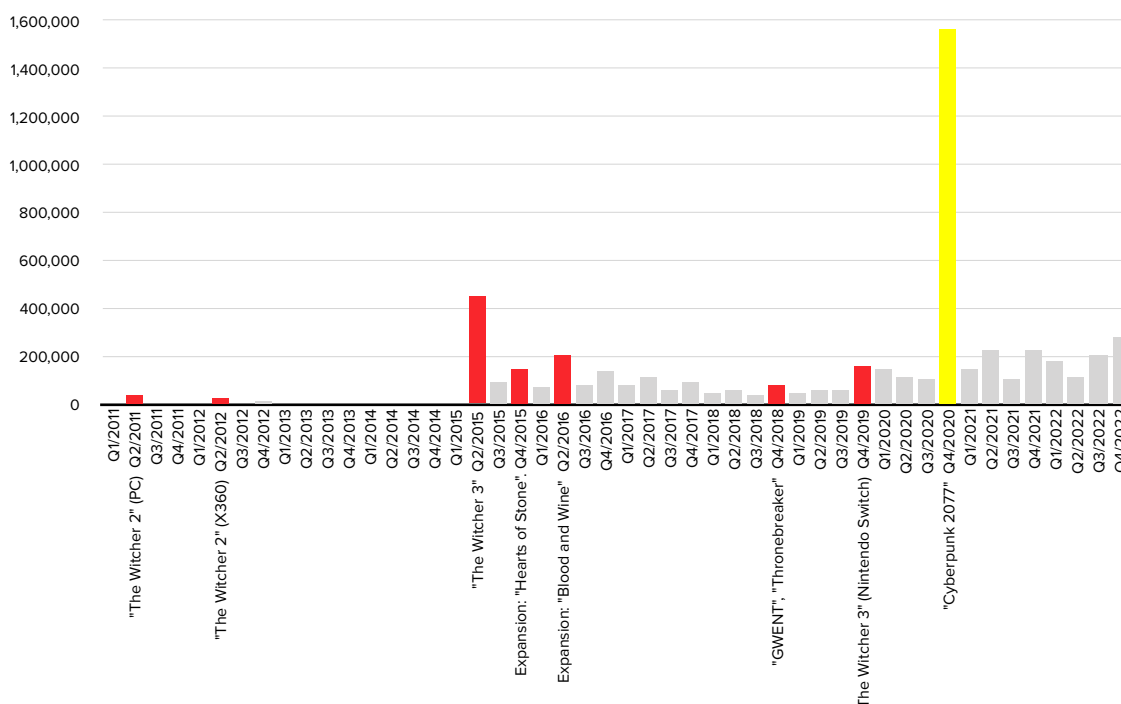
Insofar as possible, the above assessment reflects the Company's knowledge as of the publication date of this report.

## DISCLOSURE OF SEASONAL OR CYCLICAL ACTIVITIES

### CD PROJEKT RED

The revenues and financial result of the CD PROJEKT RED segment are strongly affected by the videogame release schedule. CD PROJEKT RED usually takes between 2 and 5 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released.

**Chart 16** 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.

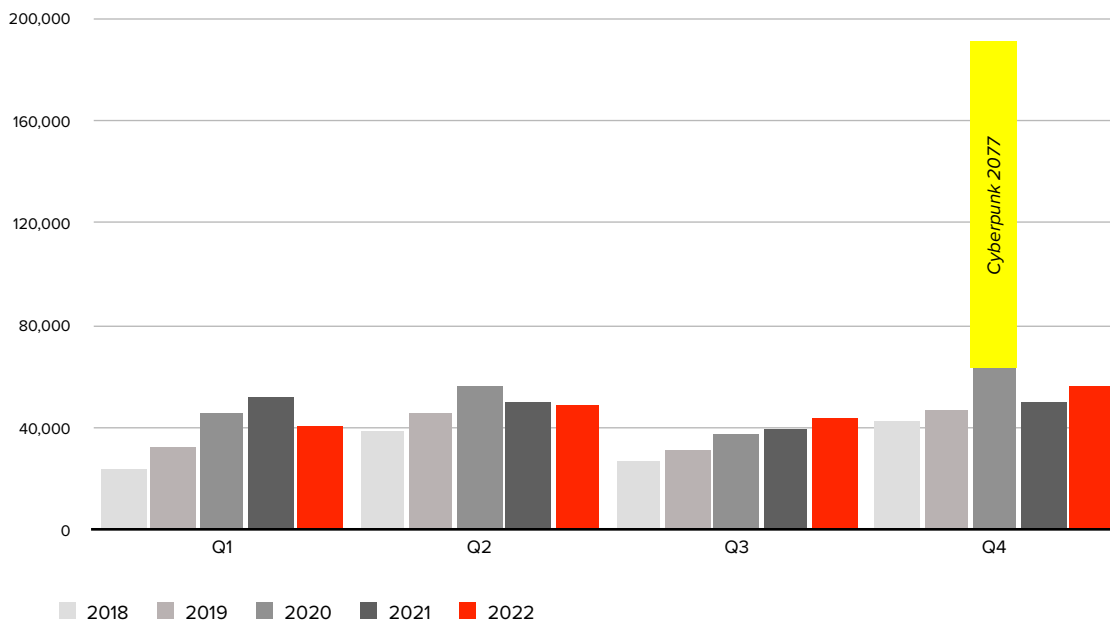
In addition to pure development activities, the Company also actively manages its franchises in other fields, working to continually expand its target audience, and exploring new media types and platforms.

### GOG.COM

The digital videogame distribution market, which is the main area of activity of GOG.COM, is characterized by seasonal fluctuations in revenues. On an annual basis, the highest revenues are typically obtained in the fourth quarter while the lowest revenues correspond to the third quarter. Sales in Q2 and Q4 are boosted by promotional activities organized in these periods.

The sales volume is also strongly dependent on the timing of new releases in each reporting period.

**Chart 17** Sales of goods and materials in the GOG.COM segment in 2018–2022 (PLN thousands)



## 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 Sustainability Report for 2022.

Another important factor which may support the Group's growth is effective implementation of CD PROJEKT RED's development plans announced in October 2022 as part of the Group's [Strategy Update](#), along with further broadening of the recognizability and popularity of the Group's franchises (including via cooperation with external entities), and enriching games based on the Group's proprietary IP with multiplayer gameplay elements.

Key internal and external factors which, in the Board's opinion, may prove detrimental to the Group's activities and growth prospects are listed in the risk assessment section elsewhere in this report.

In addition to the above, 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.

## 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 the big expansion for *Cyberpunk 2077*, along with further organic growth of business activities, including in the framework of the nascent CD PROJEKT RED North America studio.

Another notable process at CD PROJEKT RED – in the context of the studio's development – is the continued deployment of Unreal Engine 5 (based on the licensing and partnership agreement with Epic Games signed 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 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 the agile methodology in the videogame development process, thereby improving product quality. The growing team and the increasing number and scale of ongoing projects calls for effective team and development management procedures at CD PROJEKT RED – both in Europe (with branches located in Warsaw, Kraków and Wrocław) as well as in North America (Vancouver, and the newly formed Boston studio), at The Molasses Flood (Boston) and also with respect to publishing activities, which are carried out mainly by teams from Warsaw, Los Angeles, Seoul, Tokyo and local representatives in other countries. Commercial success of the studio's releases is important from the point of view of the studio's reputation as a developer of high quality, sought-after entertainment products, and contributes to long-term viability and recognizability of *The Witcher* and *Cyberpunk* franchises, the third franchise currently in internal development, as well as the studio itself – which is the cornerstone of further development of the Company and its Group. 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 (with a third franchise expected in the future) 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.

GOG.COM growth also depends on raising awareness of the platform among gamers and 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 carried out by its subsidiary – The Molasses Flood.

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

Research and development work, including the ongoing search for new solutions, evaluating their effectiveness and identifying ways to apply them constitutes a core aspect of CD PROJEKT RED's business profile and the studio's daily activities.

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

### Development activities

In 2022 development activities were carried out in the framework of the following projects:

- *Cyberpunk 2077* for next-gen consoles – project completed; new edition released on 15 February 2022;
- *GWENT: Rogue Mage* – project completed; game released on 7 July 2022;
- *The Witcher 3: Wild Hunt* for next-gen console: work initially carried out in collaboration with Saber Interactive, and later internally at CD PROJEKT RED – project completed; new edition released on 14 December 2022;
- *Cyberpunk 2077: Phantom Liberty* – large expansion for *Cyberpunk 2077*;
- Project Sirius, carried out by The Molasses Flood, in the framework of The Witcher franchise;
- Project Polaris – a game set in The Witcher universe – research phase concluded in February 2022; the project has progressed to the development phase (with further costs capitalized as expenditures on development projects).

### Research activities

In 2022 research activities were carried out in the framework of the following projects:

- Project Polaris – a game set in The Witcher universe – research phase concluded in February 2022;
- Project Orion – a game set in the Cyberpunk universe;
- Project Canis Majoris – a game set in The Witcher universe;
- internal conceptual work on a third franchise upon which future videogame releases will be based (codenamed Hadar);
- Data, Insights & Experiences – construction of a workspace dedicated to researching game functionality, user experience (UX) and immersion.

In addition to the above, there was ongoing work on new technologies, as well as further development and improvements to existing games, mainly *Cyberpunk 2077* and *GWENT*.

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

In 2018 CD PROJEKT gained the status of a Research and Development Center (RDC). On 11 August 2022 the Ministry of Development, Labor and Technology issued a decision confirming that the Company engages in R&D activities and upholding its RDC status.

## Disclosure of significant agreements

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

## Risk management at the Group

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### Risk management process

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 the Company, including its financial stability. While identifying strategic risks, the Company also works to identify opportunities which may ameliorate the circumstances related to risks under analysis.

In order to support 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 CD PROJEKT Group's subsidiaries is the responsibility of their respective management boards.

Each risk identified at the Company is subjected to analysis in order to determine its impact and likelihood of materialization. In determining this likelihood the Company acknowledges existing control systems and their effectiveness, while impact assessment is based on potential consequences for the Company – both financial and otherwise.

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 for approval by a member of the Management Board responsible for the specific area to which the risk applies. That Member of the Management Board may then decide on further steps, depending on the significance of the risk. The decision may be 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, develops suitable control mechanisms and remedial actions.



### Significant (strategic) risks

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

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

## BUSINESS MODEL RISKS

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

Description: CD PROJEKT RED focuses on developing multifaceted role-playing games with nonlinear storylines and based on cutting-edge technological solutions. Given the scope of such projects and their development lifecycles which span multiple years, these games – often referred to as “AAA” – require above-average development and marketing budgets. A hypothetical unsuccessful release of another AAA game by CD PROJEKT RED may potentially result from e.g. failure to meet gamers’ high expectations with regard to quality, gameplay appeal or content, technical issues associated with the game or negative reviews by journalists and market experts. Sales revenues in the wake of an unsuccessful release may not cover earlier expenditures on development and promotion of the game.

Actions taken: CD PROJEKT RED prioritizes developing innovative high-quality products. We believe that ensuring high quality of our releases is the best way to mitigate the risk of sales underperformance. Moreover, in line with the Group’s Strategy, in the coming years CD PROJEKT wants to base its growth on successive expansion of its product portfolio. This involves, among others, upscaling our production capabilities to be able to deliver more games while maintaining quality, and to introduce aspects of multiplayer gameplay. The Group also wants to expand its activities to cover new fields of use, which includes new media and platform types. To mitigate this risk the Company also estimates the commercial potential of future products, tests them at every stage of development and keeps track of emerging technological and market solutions.

### **Risk associated with entering new market segments**

Description: Entering new market segments, where the Company may not yet possess extensive experience and know-how, provides an opportunity to reach a wider audience, which might then be enticed to take up interest in Company games, but on the other hand carries the risk of project failures and may cause the Company to incur additional costs. Investing in new market segments may call for collaboration with new external partners, which, in turn, might cause difficulties in ensuring optimal project management, i.e. making sure that collaborative activities are performed in a timely fashion, that the Company’s IP is appropriately understood, or that the quality expected by the Company is, in fact, maintained. This could ultimately drive up costs or cause harm to the Company’s reputation.

Actions taken: When the Group decides to initiate a new project, in order to ensure optimal control, Group member companies take action to develop in-house skills and competences by recruiting experts and specialists who are familiar with the given field. In selected cases expansion to new fields may be carried out in collaboration with external partners who possess greater experience in that context. The Group is diligent in selecting potential contractors and in building relations based on shared values and quality standards.

### **Risk of failure to meet production goals**

Description: Engaging in R&D activities related to development and distribution of top-quality AAA games represents the core business of the CD PROJEKT Group. AAA development is often characterized by complex and iterative development cycles, as well as long production schedules, which requires creators to adapt to the changing market, accurately predict gamers' preferences and follow up on trends created by competing gamedev studios. The risk of incorrectly scheduling development processes related to a given release is an inherent aspect of innovative R&D work carried out by the Group. The ability to meet production goals is also affected by technological development, i.e. ongoing changes in programming tools, software, available technologies and gaming platforms. Products released on the market are characterized by increasing complexity and sophistication in terms of the underlying technologies as well as artistic merit – which also increases the length and complexity of the associated development processes. Rapid technological progress necessitates fast adaptation through continuous refinement of solutions and retaining the ability to offer ever more sophisticated products.

In 2022 the Company decided to enter into a licensing and partnership agreement with Epic Games International S.à r.l., which specifies the conditions under which the Company may apply Unreal Engine in its games, and establishes a framework for collaboration on further development and improvements in the engine, so as to adapt it to the requirements of open-world games. Developing and publishing games based on Unreal Engine requires the Company to familiarize itself with, and then successfully deploy, the technology, as well as to develop a range of new tools, or adapt existing tools used by the Studio's creators. Basing further releases on a licensed engine, i.e. Unreal Engine, may also render the Company's basic business activities dependent on collaboration with the license provider.

Failing to meet development goals, including as relates to production time, quality or entertainment appeal, may result, among others, in additional costs, reduced sales revenues, impairment charges on development expenditures, or a loss of reputation for the Studio.

Actions taken: In order to meet its development goals the Company strives to deliver games on time while upholding high quality standards. In the framework of the RED 2.0 transformation process, the Company has introduced the Agile development methodology. In line with the adopted principles, gamers' experience is prioritized – which is why the Studio works to uniformize and improve its project management to facilitate a more efficient production process. To this end, interdisciplinary teams are being set up, each equipped with the appropriate expertise and skills. Members of such teams can exchange knowledge and experience, and have access to training programs. The Studio continues to expand its gamedev workforce by opening new jobs. The Company also introduces solutions aimed at enhancing communication and transparency in collaboration between teams, providing a clear definition of roles and responsibilities in the decision-making process, and instituting a training program to build the necessary Agile development skillset. Production milestones are based on exchange of information between teams and on transparency, which enables ongoing verification of progress and enables the studio to react to potential mistakes. Member companies of the CD PROJEKT Group continue to monitor technological progress and, whenever possible, introduce changes which may benefit the quality, production or distribution of games.

### **Risk related to collaboration with key suppliers**

Description: In the course of their activities, Group member companies cooperate with many external entities. The Group relies on these entities, among others, for specialized applications and software, licenses and other services required in its daily work. Offloading certain activities to experienced contractors may increase the

efficiency of ongoing projects, but may also represent a risk. Choosing the wrong contractor, or terminating cooperation with a key supplier of essential products or services may impair the progress of ongoing projects, harm sales and thereby have a detrimental effect of the financial performance and reputation of Group member companies.

The strategic licensing and partnership agreement signed in 2022 with Epic Games International S.à r.l., which also provides for dedicated technical support for the Company's products on the part of Epic Games, entails the risk of terminating cooperation with this key business partner, which would affect the Company's development schedule, as well as the related goals and expenditures.

Actions taken: The Group minimizes the risk related to key suppliers by maintaining good trade relations with business partners and by actively seeking new collaboration opportunities. A procurement policy has been introduced at the Company, encompassing, among others, best practices in terms of communication and business negotiations with partners. The Company also provides training for employees who engage in procurement processes. Member companies of the Group work to make sure that business relations are appropriately structured – starting with selection of supplier, through quotations and negotiations, all the way to delivery. Member companies of the Group also actively monitor the market and may take steps to replace selected products or services, should such changes become necessary.

To mitigate this risk the Company takes steps to ensure far-reaching contractual protections. The licensing and partnership agreement with Epic Games International S.à r.l. was signed for a period of 15 years with a prolongation option; the agreement also does not restrict the number of games which can be developed with the use of Unreal Engine.

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

Description: The Company distributes its own products via physical channels (retail outlets) as well as digitally, which – except for the Group's proprietary GOG.COM platform – relies on cooperation with external distributors. Company games may be denied presence on, or withdrawn from selected storefronts, and their introduction or return to such storefronts may depend on multiple factors, some of which may be outside of Company control.

In particular, development of games for "closed" platforms, such as gaming consoles or iOS devices, and distributing games on markets where the applicable legislation calls for certification (e.g. China) requires direct cooperation with the certifier. Failure to meet certification criteria is a risk, as are changes in local laws or regulations affecting the certifier, termination of cooperation with the platform proprietor, delays in the certification process, denial of certification or revocation of previously granted certification. Each of those events may adversely impact revenues from sales of the Group's products on selected territories or platforms.

Restriction of sales in selected traditional or digital distribution channels may affect the revenues and therefore also the earnings of the Company and its Group. The impact of this risk depends on many factors, such as the importance of the product, market share of the given distributor or the region to which the restriction applies.

Actions taken: To minimize the risk of restricted availability of CD PROJEKT RED products the Company cooperates with a broad range of distribution partners. In order to minimize the risk of failing certification, and therefore of not being able to distribute its products on certain territories or platforms, the Company in justifiable cases

the Company engages with local partners who possess the experience and knowledge required to secure certification of the game (or of its new editions or supplementary content) prior to its rollout on the given market.

The Company also keeps track of legislative changes in key markets which may have a negative impact on the distribution of the Group's products. This enables the Group to react to such changes in a timely manner, and to mitigate the potential negative consequences for its member companies.

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

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

Actions taken: To minimize cybersecurity risks the Group has instituted the Information Security Policy which provides guidance with regard to processing and protection of information. This policy is augmented by specialized procedures, covering e.g. access management, collaboration with external partners or managing the security of IT systems. The Group continues to roll out and improve technical measures which contribute to the resilience of its IT infrastructure. Security requirements are uniformized and iterated to ensure that access to information and data processing are performed in a controlled manner. An important aspect of the Group's approach to cybersecurity is a series of internal training courses related to IT security, raising awareness of threats such as phishing. The Group continues to monitor its data processing systems to ensure appropriate technical safeguards against potential evasion of security measures.

### **Risk of unavailability of IT infrastructure or services**

Description: Given the nature of the business in which CD PROJEKT Group member companies engage, and the ongoing development of the digital entertainment markets, products and services offered by the Group are becoming ever more dependent on the reliability, accessibility and security of IT infrastructure. IT systems, including servers and networks, as well as Internet access devices, may be subject to outages and technical malfunctions caused by various factors, which may negatively affect the continuity or efficiency of ongoing projects. Such risks may involve e.g. unavailability of on-premises infrastructure or SaaS resources due to server crashes, network outages or upstream failures in the network provider's infrastructure.

Actions taken: In order to minimize the risk of unavailability of IT infrastructure or services, IT teams monitor the selection of IT tools used to ensure high availability of critical systems and services. Given that most of these systems are located on the Group's premises, the main server room has been equipped with uninterrupted power supply devices, access control systems as well as alarms and systems which monitor key environmental parameters. With regard to external services, the Group's contractors are screened for security arrangements such as operational continuity plans. Service provisioning agreements include SLA clauses which specify required reaction times, contractual penalties and audit rights.

## LEGAL RISKS

### **Risk associated with regulatory compliance**

Description: The activities of the CD PROJEKT Group are subject to a wide range of legal regulations which may differ depending on the territory where Group member companies carry out activities and distribute products, services or licenses. Numerous aspects require constant legal oversight, especially as relates to protection of intellectual property, corporate law (including provisions which regulate CD PROJEKT's listing on the Warsaw Stock Exchange), antitrust regulations, consumer rights or labor law. Frequent changes in the applicable laws or interpretations, occurring both in Poland and abroad, carry the risk of noncompliance or infringement on the part of the Group's member companies. Some changes in legal regulations may fail to acknowledge the specific nature of the videogame industry, exposing Group member companies to major unforeseen expenditures as they work to maintain legal compliance. In addition, there is a notable tendency among legislators to expand the scope of regulations applicable to the gaming industry – such as consumer protection, regulation of gambling, limiting the time spent in front of a video screen, or protection of minors. Each regulation which concerns the Group's activities may encounter legal uncertainty e.g. as a result of changing interpretations, lack of official guidelines governing application of legal provisions, or insufficient case law. This, in turn, complicates the process of addressing legal risks in order to maintain compliance.

Large portions of sale, purchase and licensing agreements concluded with foreign parties fall within the jurisdiction of countries indicated by the Group's business partners. This creates the risk of incorrect interpretations of foreign law or of the provisions of contracts governed by foreign law. Such exposure to multiple legal systems also carries the risk of potential inadvertent breaches of foreign law.

Actions taken: The Company takes a number of actions to manage and mitigate the risk of noncompliance. Compliance has been disaggregated within CD PROJEKT's organizational structure through appointment of a Chief Compliance Officer. By formalizing compliance, along with creating a distinct Privacy & Compliance team as part of the legal department, tasked with monitoring and coordinating the Company's compliance requirements (both internal and external), the Company attempts to ensure that upcoming legal changes are taken into account ahead of time, and that appropriate safeguards and adaptations are put in place at the Group's member companies. Furthermore, the Company also works to raise the expertise of personnel charged with maintaining compliance, through training courses, certification and involvement in expert panels, including at conferences devoted to the legal aspects of carrying out business activities in Poland as well as on the international stage. The Company performs ongoing monitoring of changes in legal regulations and case law, guidelines, best practices and announcements issued by public bodies and supervisory organs (this activity is carried out within the Company's legal department as well as externally, by contracting specialized law firms).

The need to ensure compliance in daily activities of persons employed by the Company motivates the teams responsible for compliance to practice their communication skills and ensure that the wording of procedures and internal regulations remains understandable for all employees.

### **Risk associated with processing personal data**

Description: The risk associated with processing personal data affects a range of data processing activities carried out by the Company which fall within the scope of Polish and foreign legal regulations on territories where the Group conducts its business. Noncompliance with privacy regulations applicable to the Company may result in additional costs related to administrative penalties or private claims by individuals whose data

is not being properly processed. If data protection measures – whether existing at present or expected to be rolled out in the future – prove insufficient, unlawful disclosure, corruption or loss of personal data may ensue. This may be caused by IT system failures, human error, or malicious third-party interference.

Actions taken: With regard to processing of personal data, CD PROJEKT Group member companies are assisted by internal mechanisms in place at the Group, as well as by external services, including those provided by the Personal Data Officer. The Group takes action to mitigate and control risks associated with processing personal data. This includes internal audits, confidentiality audits carried out in the framework of specific projects, data protection and privacy impact analysis, and ad-hoc consultations held for the benefit of employees who supervise processing of personal data. Specific activities are assigned to teams in the framework of internal audits. Additionally, a dedicated Privacy & Compliance team has been established at the Company, tasked, among others, with organizing regular training courses related to protection of personal data and information security in general, as well as with assisting Group member companies in this scope. In communication with consumers we try to use simple language and apply legal design practices to make our documentation more understandable, thereby increasing the transparency of our consumer relations and building trust in our organization.

### **Risk associated with intellectual property rights**

Description: Products and services offered by Group member companies are based upon intellectual property. Effective acquisition, licensing and protection of intellectual property rights held by the Group is therefore an important aspect of the Group's activities. In the course of their operating activities, including in the videogame development process, Group member companies acquire copyright to third-party works or images on the basis of contracts concluded with authors. The Group invests substantial effort in monitoring intellectual property (e.g. as relates to images, names or items); however, given the large number of such entities as well as the variability of legal regulations which extend protection to their creators on various territories, the risk of inadvertent infringement of third-party IPR cannot be entirely ruled out.

Due to the global reach of CD PROJEKT Group products and services, it is natural to offer such products and services in local languages and using national alphabets. This, however, involves the risk that some names used by the Company may conflict with existing trademarks, giving rise to trademark infringement claims. In addition, the Group may be unable to locally register some of its trademarks due to their resemblance to trademarks which have already been registered.

Group member companies monitor the impact of intellectual property regulations upon the Group's activities; however, claims related to inadvertent infringement of third-party IPR cannot be ruled out. It should be noted that any claim filed against the company in conjunction with potential infringement of intellectual property rights, patents or trademarks may undermine the Group's reputation and growth prospects.

Actions taken: The CD PROJEKT Group is actively involved in activities related to protection of intellectual property. It continually works to analyze and adapt its contracts to the existing legal circumstances in order to minimize the above-mentioned threats. In doing so, the Group enlists the assistance of specialized law firms. As a result, the legal safeguards present in the Group's third-party contracts are iteratively improved. The Group registers trademarks throughout the European Union and elsewhere. It also monitors, on an ongoing basis, the registration of trademarks by third parties, and performs ongoing legal verification of its products and services in order to prevent infringement of third-party IPR. The Group also takes action to combat infringement of its own IPR – among others, by monitoring online auction portals and distribution platforms in Europe, the United States

and Asia. Auctions which violate the Group's IPR are regularly struck down, depending on the solutions offered by the given portal. The Company performs ongoing monitoring of changes in legal regulations and case law, both Polish and EU-wide, along with guidelines, best practices and notifications issued by public authorities and supervisory bodies. A dedicated Privacy & Compliance team has been established within the legal department at the Company, tasked, among others, with monitoring and coordinating the Company's needs with regard to intellectual property. This team also organizes regular training courses for Company employees, and develops internal recommendations in the scope of IPR in order to raise awareness and supplement information regarding the requirements faced by the Group's projects.

In response to emerging IPR protection challenges, members of the legal department continue to improve their skills and gain expert knowledge, thereby improving solutions applied by the Company in this scope.

### **Risk associated with changes or differing interpretations of fiscal regulations, and with subsidies**

Description: Significant changes are occurring in tax law. Legislative bodies have imposed additional reporting obligations upon taxpayers and introduced a range of new restrictions related e.g. to eligibility of expenditures as tax-deductible revenues, while also introducing new forms of tax relief, enabling taxpayers to reduce their overall tax burden. Frequent conflicts between interpretations of fiscal regulations issued by public authorities give rise to uncertainties with regard to the correctness of the Company's tax reporting. When deciding to make use of tax relief, member companies of the CD PROJEKT Group must develop appropriate internal documentation and settlement standards, which, in turn, may potentially be brought into question by tax authorities.

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

Actions taken: To minimize the risk of rejection of its tax or subsidy-related settlements, the Group has established an internal tax unit, charged with overseeing such settlements as well as overall compliance with tax law. This unit monitors legislative processes and interpretations issued by fiscal authorities, and implements procedures which aim to systematize internal procedures and guarantee proper discharge of fiscal obligations by the Group, including in the context of its tax strategy. Any recommendation to apply specific fiscal regulations is preceded by in-depth analysis of the applicable regulations and interpretations covering the issue at hand. Furthermore, the tax unit assists in the development and clarification of tax law, solicits individual interpretations of tax law, and participates in public hearings in the context of legislative processes. When discharging their tax obligations and ensuring proper interpretation of tax law, Group member companies enlist the assistance of external consultants and experts, both Polish and foreign, who specialize in matters with a significant influence on their tax settlements.

## **TEAM-RELATED RISKS**

### **Risk associated with departure of team members**

Description: The risk associated with departure of team members, some of who may hold high-ranking positions, along a high churn rate, is an important threat to the continuity of operations and attainment of business objectives by member companies of the Group. Talent and commitment are highly prized in the gamedev

industry, and there is fierce competition among commercial entities wishing to attract skilled professionals. Loss of key team members may harm innovation, pace of work and quality of products and processes. It may also cause the Company to forfeit unique opportunities and, as a consequence, blunt its competitive edge. This translates into increased expenses (e.g. recruitment costs) and a potential reduction in revenues (delayed projects, disruption, loss of quality etc.)

Actions taken: The CD PROJEKT Group involves its employees in large-scale, ambitious and innovative projects, which offer many opportunities for career and personal development. The Group's internal vocational training and workshop curriculum actively supports development of professional capabilities and soft skills. The Group also continues to improve its remuneration and incentivization policies in order to keep abreast with market standards. The Group aims to offer competitive salary and compensation packages, among others by monitoring local and global trends related to various job categories, based on the available market reports.

Member companies of the Group strive to provide team members with market-competitive fringe benefits packages (such as medical care, fitness programs, access to internal gym, healthy food at the office, etc.) HR teams additionally undertake a range of activities to improve internal procedures, e.g. by measuring KPIs related to turnover, retention, headcount or rules concerning flexible work models (office work, remote work or hybrid arrangements).

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

#### **Risk associated with availability and recruitment of specialists**

Description: The activities and growth prospects of CD PROJEKT Group member companies are greatly dependent on maintaining an experienced, knowledgeable, talented and motivated workforce. The Group's development plans call for continual recruitment of employees, both Polish and foreign. Talent and commitment are highly prized in the digital entertainment industry, and there is fierce competition among commercial entities wishing to attract skilled professionals. Recruitment is a multistage process which aims to accurately assess the motivation, competences and predispositions of a prospective candidate; however, in some cases it may become too protracted, forcing the candidate to seek other opportunities. The inability to attract world-class specialists might impact the quality and release schedule of Group products, and therefore also the Group's growth rate and financial result.

Actions taken: Member companies of the Group work to expand and upgrade their internal HR and recruitment departments. Employees are offered comfortable work conditions, competitive remuneration, bonuses and incentives, Employee Pension Scheme coverage, participation in and co-funding of vocational training courses, as well as numerous fringe benefits (such as private medical care, three internal canteens, in-house gym, and access to external clubs and sports facilities). A relocation package is offered to foreign nationals who arrive in Poland, with a range of activities available in order to ease their immigration and settlement. To enable employees to perform their work regardless of location, the Company has introduced a flexible policy which includes home-first, office-first or hybrid work models – providing another potential incentive for candidates who may be considering CD PROJEKT as their potential employer.



### **Risk of noncompliance with employment regulations**

Description: Given the number and diversity of individuals employed at the Group there is a risk of violating employment regulations in the course of daily activities at the Company and its subsidiaries. In this context the Group may be subject to periodic inspections carried out by institutions and authorities authorized to perform such inspections, as well as to lawsuits filed by former employees alleging breaches of labor law and employment regulations. Such noncompliance may also cause undesirable dynamics in employee relations, and undermine the substance of civil law agreements related to the videogame development cycle. All of the above may negatively affect the employer-employee relationship, and the listed infringements may, in addition to legal consequences, carry the risk of harming the Group's public image.

Actions taken: Promoting a healthy organizational culture where everyone enjoys equal rights is key from the point of view of existing employees as well as potential candidates involved in recruitment activities. To implement its long-term strategy, the Group must safeguard the rights of its employees and counteract violations. With regard to minimizing risks related to employment regulations, the Company undertakes a range of activities to protect its team members. Each team at the Company is assigned a HR Partner; furthermore, procedures which regulate the rights and responsibilities of employees are implemented and enforced – this includes a procedure for counteracting misconduct in employee relations, as well as a formal Diversity Policy. Employees are able to anonymously or personally report any irregularities, including breaches of employment regulations, based on suitable whistleblowing regulations. There are systems in place which protect the confidentiality of such reports and their authors, and which protect whistleblowers from potential retribution. The Company also works to ensure transparent internal communication related to employment, including changes in regulations, types of agreements, absences, leaves (including parental leave) and feedback options.

## **FINANCIAL RISKS**

Financial risks identified by the Group have been described in the *Consolidated Financial Statement of the CD PROJEKT Group for 2022*.

## **ENVIRONMENTAL RISKS**

### **Risk of facing regulatory and market pressure to undertake activities related to environmental and climate protection**

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

Actions taken: Minimizing environmental impact and introducing solutions which benefit the environment are among the Group's priorities. In 2021 the Management Board of CD PROJEKT S.A. decided to initiate preparations for the deployment of an Environmental Management System consistent with ISO 14001:2015/EMAS, which involves, among others, ongoing analysis and keeping up to date with the relevant regulations, assessment of the environmental impact of the Group's activities against the backdrop of measurable indicators, and analysis of the Group's compliance in this regard. In 2022 the Company also adopted a formal Environmental Policy which serves as the basis for rolling out the Environmental Management System. The Company carries out periodic audits of its compliance with environmental regulations and works to raise environmental awareness of its team members, becoming involved in actions which benefit the environment and the climate. To ensure proper identification of requirements stemming from environmental and climate protection laws, the Company cooperates with a consulting agency which specializes in environmental audits and supports the Company in monitoring anticipated legal reforms.

In 2022 the Company held a taxonomy workshop to assess the materiality of climate risks, in line with the guidelines published by the Task Force on Climate-Related Financial Disclosures (TCFD).

The Company monitors its environmental indicators and the associated costs, including consumption of energy and water, waste management and atmospheric emissions. It works to increase the share of renewable-energy infrastructure and improve the energy efficiency of its buildings, and invests in environmentally-conscious solutions based on modern technologies. Continually improving its energy efficiency and minimizing its environmental footprint enables the Company to manage and mitigate potential environmental risks on an ongoing basis.

Detailed information regarding the Company's environmental impact, including its carbon footprint and the risks and opportunities related to climate change, can be found in the Company's Sustainability Report.



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

### CONSOLIDATED INCOME STATEMENT

**Table 3** Consolidated income statement of the CD PROJEKT Group (in PLN thousand)

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021	change	change %
<b>Sales revenue</b>	<b>952 576</b>	<b>888 172</b>	<b>64 404</b>	<b>7.3%</b>
Sales of products	767 499	691 564	75 935	11.0%
Sales of services	1 960	5 865	-3 905	-66.6%
Sales of goods for resale and materials	183 117	190 743	-7 626	-4.0%
<b>Cost of sales of products, services, goods for resale and materials</b>	<b>243 974</b>	<b>250 234</b>	<b>-6 260</b>	<b>-2.5%</b>
Costs of products and services sold	111 562	107 391	4 171	3.9%
Cost of goods for resale and materials sold	132 412	142 843	-10 431	-7.3%
<b>Gross profit/(loss) on sales</b>	<b>708 602</b>	<b>637 938</b>	<b>70 664</b>	<b>11.1%</b>
Selling expenses	222 350	299 225	-76 875	-25.7%
Administrative expenses	75 536	71 949	3 587	5.0%
Other operating income	19 443	17 376	2 067	11.9%
Other operating expenses	52 805	51 231	1 574	3.1%
(Impairment)/reversal of impairment of financial instruments	-7	-6	-1	16.7%
<b>Operating profit/(loss)</b>	<b>377 347</b>	<b>232 903</b>	<b>144 444</b>	<b>62.0%</b>
Finance income	71 501	9 523	61 978	650.8%
Finance costs	55 663	23 318	32 345	138.7%
<b>Profit/(loss) before tax</b>	<b>393 185</b>	<b>219 108</b>	<b>174 077</b>	<b>79.4%</b>
Income tax	46 092	10 200	35 892	351.9%
<b>Net profit/(loss)</b>	<b>347 093</b>	<b>208 908</b>	<b>138 185</b>	<b>66.1%</b>

## **DESCRIPTION AND ASSESSMENT OF THE FACTORS AND UNUSUAL EVENTS AFFECTING THE RESULTS OF OPERATIONS OF THE CD PROJEKT GROUP IN 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 release in 2022 of the Group's flagship titles: *Cyberpunk 2077* and *The Witcher 3: Wild Hunt* in the version for new generation consoles;
- Recognition in the income statement under corporate income tax of a part of the tax collected in other jurisdictions in respect of royalties paid to the Company (withholding tax) which does not qualify for deduction due to the application of the preferential IP Box tax rate;
- Release of *Cyberpunk: Edgerunners* update 1.6 and the first release on Netflix of the anime series *Cyberpunk: Edgerunners* produced in the CD PROJEKT RED segment, which had a significant favourable effect on the segment around the game and the level of *Cyberpunk 2077* sales in the second half of 2022;
- Conducting a buyback of the Company's shares with a view to their voluntary redemption;
- Adopting a decision to gradually phase out *The Witcher: Monster Slayer* project and, consequently, a recognition by the Company of a write-down of shares held in Spokko sp. z o.o. and adopting a strategic decision on a planned reorganization of the CD PROJEKT Group in 2023 by merging CD PROJEKT S.A. (as the acquirer) and Spokko sp. z o.o. (as the acquiree);
- Recognizing a write-down of expenditure incurred on development work associated with the Sirius project developed by The Molasses Flood studio incurred by 31 December 2022. The results of the evaluation of the scope and commercial potential of the Project in its original formula and the start of work to define a new project framework were the reasons behind that decision.

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

### CD PROJEKT RED segment

**Table 4** Income statement of the CD PROJEKT RED segment (in PLN thousand)

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021	change	change %
<b>Sales revenue</b>	<b>780 309</b>	<b>701 739</b>	<b>78 570</b>	<b>11.2%</b>
Sales of products	761 518	678 507	83 011	12.2%
Sales of services	3 044	8 103	-5 059	-62.4%
Sales of goods for resale and materials	15 747	15 129	618	4.1%
<b>Cost of sales of products, services, goods for resale and materials</b>	<b>124 808</b>	<b>118 547</b>	<b>6 261</b>	<b>5.3%</b>
Costs of products and services sold	112 997	104 933	8 064	7.7%
Cost of goods for resale and materials sold	11 811	13 614	-1 803	-13.2%
<b>Gross profit/(loss) on sales</b>	<b>655 501</b>	<b>583 192</b>	<b>72 309</b>	<b>12.4%</b>
Selling expenses	180 841	239 160	-58 319	-24.4%
Administrative expenses	69 256	65 413	3 843	5.9%
Other operating income	16 772	18 999	-2 227	-11.7%
Other operating expenses	52 604	34 065	18 539	54.4%
(Impairment)/reversal of impairment of financial instruments	-7	-6	-1	16.7%
<b>Operating profit/(loss)</b>	<b>369 565</b>	<b>263 547</b>	<b>106 018</b>	<b>40.2%</b>
Finance income	64 717	3 831	60 886	1 589.3%
Finance costs	47 932	15 036	32 896	218.8%
<b>Profit/(loss) before tax</b>	<b>386 350</b>	<b>252 342</b>	<b>134 008</b>	<b>53.1%</b>
Income tax	44 255	13 664	30 591	223.9%
<b>Net profit/(loss)</b>	<b>342 095</b>	<b>238 678</b>	<b>103 417</b>	<b>43.3%</b>

In 2022, **Sales of products** of this segment comprised, in particular:

- revenue relating to *Cyberpunk 2077*;
- revenue relating to *Witcher 3: Wild Hunt* and expansions: *Hearts of Stone* and *Blood and Wine*;
- licence revenue recognized in respect of the *Cyberpunk: Edgerunners* series which premiered in September;
- revenue generated as part of the project *GWENT: The Witcher Card Game*;
- licence revenue relating to games *The Witcher 2*, *The Witcher* and *Thronebreaker: The Witcher Tales*;
- licence revenue from franchises.

The higher level of **Sales of products** of the CD PROJEKT RED segment in 2022 compared with 2021 was mainly due to an increase in sales relating to the *Cyberpunk 2077* game due to, among other things good reception of the *Edgerunners Update 1.6* released in September preceding the premiere of the *Cyberpunk: Edgerunners* anime series on Netflix. The update released included additional content for the game related to the series (side quests, locations, items, an arcade game) and a number of updates and technical improvements to the game. A marketing and communication campaign supporting the update and the premiere of the series itself translated to a significant boost to sales of the game itself.

In 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.

**Sales of goods for resale and materials** of the CD PROJEKT RED segment in 2022 comprised mainly 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 sales of franchise products of CD PROJEKT RED.

The most significant component of the **Cost of products, services, goods for resale and materials sold** of the CD PROJEKT RED segment was the **Cost of products and services sold**, where mainly the cost of amortization of expenditure on development projects – own games manufactured is presented. The value of this item in 2022 comprised mainly amortization of expenditure on the *Cyberpunk 2077* game which, following the recognition of 40% of the expenditure in costs in the quarter when the premiere took place (the fourth quarter of 2020), is recognized in subsequent periods at 3% of the initial value of the asset, and production costs of the *Cyberpunk: Edgerunners* series recognized on a one-off basis in the period when the series premiered on Netflix.

The increase in the item discussed compared with 2021 was mainly due to one-off recognition of the production costs of the *Cyberpunk: Edgerunners* series.

In the item discussed, the Group also recognizes the cost of sales related to the Revenue from sales of services earned.

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

Costs of promotion of the products of the CD PROJEKT RED studio had the largest share in the cost of sales of the CD PROJEKT RED segment in 2022. They related mainly to the support of the sales of the *Cyberpunk 2077* game, including the new generation versions, and campaigns associated with the release of *Edgerunners*

Update 1.6, and the support of the release of *The Witcher 3* game for new generation Xbox Series X|S and Playstation 5 consoles in December 2022.

Moreover, costs of servicing and updating the products of the CD PROJEKT RED segment, mainly the *Cyberpunk 2077* game and *GWENT: The Witcher Card Game* constituted a significant part of the item discussed in 2022.

In the item discussed, 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.

A significant decrease in the level of Cost of sales in 2022 compared with the prior year was affected, to the largest extent, by a reduction of more than 50% in expenditure on servicing and updating products, and lower promotional expenditure.

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

- the fixed and performance-based 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 fixed part of the remuneration of the management boards of the companies;
- costs of work on the future games incurred at an initial stage (research phase) preceding the execution of the projects (development phase) and the start of their capitalization as part of Expenditure on development projects forming part of Non-current assets (PLN 4 593 thousand in 2022 compared with PLN 23 985 thousand in 2021); the drop in expenditure in 2022 compared with the prior year is due to completion of the research phases of two projects of two of the projects and their moving on to the development phase;
- the cost of valuation of the rights awarded under the incentive scheme for the years 2020–2025.

As regards **Other operating income and expenses**, the CD PROJEKT RED segment recognizes the revenue generated 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, revenue and costs from re-invoiced services, revenue in respect of the subsidies received and the costs of one-off events: recycling of inventories, scrapping of fixed assets, write-offs of intangible assets and donations (including, in the period discussed, mainly support for the Polish Humanitarian Action for assistance related to the situation in Ukraine). A material increase in Other operating expenses in 2022 in relation to the comparative period was due to recognition of a write-down relating to expenditure on development work associated with the Sirius Project being developed by The Molasses Flood studio incurred until 31 December 2022.

In 2022, the CD PROJEKT RED segment showed a surplus of **Financial income** over **Financial costs** compared with a loss in the comparative period. This was mainly due to an increase in interest income on bank deposits and Treasury bonds, and the recognition of a gain on redemption of Treasury bonds which, in total, exceeded the excess of foreign exchange losses and write-downs of non-current financial assets:

- a write-down of PLN 2 900 thousand of shares in CD PROJEKT RED STORE sp. z o.o. in connection with plans to continue the existing operation of a mail-order shop with gadgets for gamers in cooperation with a specialized external entity;



- a write-down of PLN 27 271 thousand resulting from an impairment test of the shares in a subsidiary Spokko sp. z o.o. relating with the decision to phase out *The Witcher: Monster Slayer* project and reorganization of the CD PROJEKT Group in 2023 by merging CD PROJEKT S.A. (as the acquirer) and Spokko sp. z o.o. (as the acquiree).

**Corporate income tax** recognized in the income statement for the current year and the effective tax rate increased significantly compared with 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 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 2022 amounted to PLN 342 095 thousand and was PLN 103 417 thousand (43.3%) higher than in the comparative period.

## GOG.COM segment

**Table 5** Income statement of the GOG.COM segment (in PLN thousand)

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021	change	change %
<b>Sales revenue</b>	<b>188 579</b>	<b>199 983</b>	<b>-11 404</b>	<b>-5.7%</b>
Sales of products	-	8 264	-	-
Sales of services	272	286	-14	-4.9%
Sales of goods for resale and materials	188 307	191 433	-3 126	-1.6%
<b>Cost of sales of products, services, goods for resale and materials</b>	<b>134 387</b>	<b>144 458</b>	<b>-10 071</b>	<b>-7.0%</b>
Costs of products and services sold	50	4 236	-4 186	-98.8%
Cost of goods for resale and materials sold	134 337	140 222	-5 885	-4.2%
<b>Gross profit/(loss) on sales</b>	<b>54 192</b>	<b>55 525</b>	<b>-1 333</b>	<b>-2.4%</b>
Selling expenses	42 168	60 382	-18 214	-30.2%
Administrative expenses	6 489	6 735	-246	-3.7%
Other operating income	7 077	1 640	5 437	331.5%
Other operating expenses	4 457	20 609	-16 152	-78.4%
(Impairment)/reversal of impairment of financial instruments	-	-	-	-
<b>Operating profit/(loss)</b>	<b>8 155</b>	<b>-30 561</b>	<b>38 716</b>	<b>-</b>
Finance income	6 784	5 692	1 092	19.2%
Finance costs	7 810	8 380	-570	-6.8%
<b>Profit/(loss) before tax</b>	<b>7 129</b>	<b>-33 249</b>	<b>40 378</b>	<b>-</b>
Income tax	1 881	-3 458	5 339	-
<b>Net profit/(loss)</b>	<b>5 248</b>	<b>-29 791</b>	<b>35 039</b>	<b>-</b>

**Sales revenue** of the GOG.COM segment in 2022 amounted to PLN 188 579 thousand and was 5.7% lower than in 2021. A decrease in Sales revenue compared with the comparative period was mainly due to an absence of Sales of products due to termination of GOG.COM's participation in the GWENT consortium at 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 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.

**Sales of goods for resale and materials** had the largest share (99.9%) in Sales revenue of the GOG.COM segment. They include 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 value of Sales of goods for resale and materials earned in 2022 was slightly 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.

The most important release of 2022 on GOG.COM was one of the most anticipated games by the GOG community – *The Elder Scrolls V: Skyrim Anniversary Edition*, considered a classic of the open-world RPG genre. In addition, a number of launches have also been added to the shop's offer, such as the classic title *Wheel of Time*, available only on our platform, and the *Middle-earth™* series: *Shadow of War™* and *Middle-earth™: Shadow of Mordor™*, *A Plague Tale: Innocence*, *Alien: Isolation*, *Two Point Hospital*, or a new game in the iconic series *Return to Monkey Island*.

In addition, in response to the invasion of Ukraine by Russian armed forces, as from the beginning of March 2022 the Company discontinued sales to 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%.

**Cost of goods for resale and materials sold** of the GOG.COM segment corresponds to the costs of games sold and its increase in the reporting period is mainly due to lower sales of goods for resale and materials of the segment.

In the period discussed, **Selling expenses** of the GOG.COM segment decreased by 30.2% compared with 2021. This was possible due to a number of cost optimization initiatives implemented by GOG and the termination of its participation in the GWENT consortium by the end of 2021.

Among the Selling expenses shown in the GOG.COM segment relating to the functioning of the GOG.COM platform, the following had the most significant share in Selling expenses:

- 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, these 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.

In 2022, **Administrative expenses** of the GOG.COM segment were also slightly lower than those recognized in the comparative period. The main components of the Administrative expenses of the GOG.COM segment are remuneration of the administrative teams, fixed remuneration of the Company's Management Board, as

well as the costs of the incentive scheme and other external services classified in this category. A decrease in Administrative expenses in the period discussed compared with the comparative period was mainly due to lower costs of external services acquired.

In 2022, **Other operating income** of the GOG.COM segment comprised mainly income resulting from remeasurement of liabilities as at the balance sheet date, income from re-invoicing and sales of other services, including the provision of IT services within the Group.

In **Other operating expenses** of the GOG.COM segment, the largest items included:

- costs of IT services provided within the Group to support GWENT: The Witcher Card Game;
- costs relating to remeasurement of the estimated recoverable amount of non-current prepayments (the so-called minimum guarantees) made by GOG.COM to the providers of digital content offered on the GOG.COM platform.

A significant decrease in Other operating expenses compared with the prior year is due to one-off events charged to the income statement in 2021, including, among other things, costs resulting from updating historical assumptions regarding the depreciation of previously developed technology related to the shop's customer, and a provision for potentially overdue CIT in proceedings before the customs and tax office.

As at the date of preparing the financial statements covering 2022, a first-instance tax assessment decision has been issued, but GOG.COM and its advisors disagree with the position adopted by the tax authorities. GOG.COM appealed against the decision of the customs and tax office and is awaiting its consideration.

In the 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. Foreign exchange losses in the GOG.COM segment result primarily from the translation of liabilities to suppliers as at the balance sheet date.

**Income tax expense** for the current year comprises mainly: change in the balance of deferred tax, CIT payable and an adjustment of tax on capital gains relating to 2021.

In 2022, the **Net profit** amounted to PLN 5 248 compared with a Net loss of PLN 29 791 in the comparative period.

**Table 6** Net profitability ratio – Alternative Performance Measure

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
	CD PROJEKT Group		CD PROJEKT RED		GOG.COM	
Net profit margin (Net profit / sales revenues)	36.4%	23.5%	43.8%	34.0%	2.8%	-14.9%

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.

An increase in the Net profitability ratio of the Group in 2022 compared with the prior year is mainly due to the improvement of the ratio in the CD PROJEKT RED segment, where a decrease, compared with 2021, in typical costs for the period was noted after the release of a large project, namely *Cyberpunk 2077*:

- expenditure on the work associated with servicing the *Cyberpunk 2077* game significantly decreased;
- costs of the research phase of newly launched development projects recognized in the segment's results of operations decreased significantly;
- expenditure on promotional campaigns decreased.

In addition, in 2022, the GOG.COM segment generated a positive profitability ratio compared with the negative one resulting from one-off events (additional costs relating to higher depreciation of technology and recognition of a provision for potential tax liabilities and the related interest) in the prior year.

Therefore, the Group and each of its segments recorded a significant increase in the net profitability of their operations in 2022.

## INCOME STATEMENT OF CD PROJEKT S.A.

**Table 7** Income statement of CD PROJEKT S.A. (in PLN thousand)

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021	change	change %
<b>Sales revenue</b>	<b>772 500</b>	<b>692 196</b>	<b>80 304</b>	<b>11.6%</b>
Sales of products	761 508	678 566	82 942	12.2%
Sales of services	1 745	5 502	-3 757	-68.3%
Sales of goods for resale and materials	9 247	8 128	1 119	13.8%
<b>Cost of sales of products, services, goods for resale and materials</b>	<b>118 275</b>	<b>111 002</b>	<b>7 273</b>	<b>6.6%</b>
Costs of products and services sold	110 851	102 946	7 905	7.7%
Cost of goods for resale and materials sold	7 424	8 056	-632	-7.8%
<b>Gross profit/(loss) on sales</b>	<b>654 225</b>	<b>581 194</b>	<b>73 031</b>	<b>12.6%</b>
Selling expenses	184 162	241 785	-57 623	-23.8%
Administrative expenses	63 651	59 030	4 621	7.8%
Other operating income	17 192	19 321	-2 129	-11.0%
Other operating expenses	52 599	34 371	18 228	53.0%
(Impairment)/reversal of impairment of financial instruments	-7	-6	-1	16.7%
<b>Operating profit/(loss)</b>	<b>370 998</b>	<b>265 323</b>	<b>105 675</b>	<b>39.8%</b>
Finance income	64 712	3 876	60 836	1 569.6%
Finance costs	50 817	14 965	35 852	239.6%
<b>Profit/(loss) before tax</b>	<b>384 893</b>	<b>254 234</b>	<b>130 659</b>	<b>51.4%</b>
Income tax	43 820	14 121	29 699	210.3%
<b>Net profit/(loss)</b>	<b>341 073</b>	<b>240 113</b>	<b>100 960</b>	<b>42.0%</b>

## DISCUSSION OF THE INCOME STATEMENT OF CD PROJEKT S.A.

CD PROJEKT S.A. is the Parent Company of the CD PROJEKT Group and, at the same time, the largest entity in both the Group and the CD PROJEKT RED segment. Therefore, a commentary on the Income statement of the CD PROJEKT RED segment (excluding the impact of the significantly smaller subsidiaries CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc.) corresponds directly to the operations and results of CD PROJEKT S.A.

In 2022, the **Sales revenue** of CD PROJEKT S.A. amounted to PLN 772 500 thousand and was 11.6% higher than the Company's Sales revenue for 2021. The Company's **Net Profit** for 2022 amounted to PLN 341 073 thousand and was 42.0% higher than in the prior year.

In 2022, the value of Sales revenue and Net profit of CD PROJEKT S.A. accounted for, respectively, 99.0% and 99.7% of the Sales revenue and Net profit disclosed in the Income statement of the CD PROJEKT RED segment discussed above.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**Table 8** Consolidated statement of financial position of the CD PROJEKT Group (in PLN thousand)

	31.12.2022	31.12.2021*	change	change %
<b>NON-CURRENT ASSETS</b>	<b>1 119 978</b>	<b>905 846</b>	<b>214 132</b>	<b>23.6%</b>
Property, plant and equipment	145 252	119 588	25 664	21.5%
Intangible assets	69 157	58 393	10 764	18.4%
Expenditure on development projects	473 202	350 195	123 007	35.1%
Investment properties	42 560	44 634	-2 074	-4.6%
Goodwill	56 438	56 438	0	0.0%
Shares in non-consolidated subsidiaries	41 607	38 520	3 087	8.0%
Prepayments and deferred costs	31 074	11 434	19 640	171.8%
Other financial assets	207 437	178 540	28 897	16.2%
Deferred tax assets	52 862	47 418	5 444	11.5%
Other receivables	389	686	-297	-43.3%
<b>CURRENT ASSETS</b>	<b>1 154 146</b>	<b>1 252 889</b>	<b>-98 743</b>	<b>-7.9%</b>
Inventories	12 701	15 886	-3 185	-20.0%
Trade receivables	165 290	125 293	39 997	31.9%
Current income tax receivable	1 458	98	1 360	1 387.8%
Other receivables	57 139	113 498	-56 359	-49.7%
Prepayments and deferred costs	22 886	13 763	9 123	66.3%
Other financial assets	279 515	307 765	-28 250	-9.2%
Bank deposits over 3 months	337 330	265 000	72 330	27.3%
Cash and cash equivalents	277 827	411 586	-133 759	-32.5%
<b>TOTAL ASSETS</b>	<b>2 274 124</b>	<b>2 158 735</b>	<b>115 389</b>	<b>5.3%</b>

\* restated data



	31.12.2022	31.12.2021	change	change %
<b>EQUITY</b>	<b>2 033 404</b>	<b>1 894 356</b>	<b>139 048</b>	<b>7.3%</b>
Share capital	100 771	100 739	32	0.0%
Supplementary capital	1 567 325	1 425 647	141 678	9.9%
Share premium	116 700	115 909	791	0.7%
Treasury shares	-99 993	-	-	-
Other reserves	2 255	47 994	-45 739	-95.3%
Foreign exchange differences on translation	1 904	1 591	313	19.7%
Retained earnings / (Accumulated losses)	-2 651	-6 432	3 781	-58.8%
Net profit (loss) for the period	347 093	208 908	138 185	66.1%
<b>NON-CURRENT LIABILITIES</b>	<b>36 186</b>	<b>36 112</b>	<b>74</b>	<b>0.2%</b>
Other financial liabilities	18 883	21 080	-2 197	-10.4%
Other liabilities	2 620	2 860	-240	-8.4%
Deferred tax provision	50	-	-	-
Deferred income	3 669	6 424	-2 755	-42.9%
Provision for retirement and similar benefits	366	380	-14	-3.7%
Other provisions	10 598	5 368	5 230	97.4%
<b>CURRENT LIABILITIES</b>	<b>204 534</b>	<b>228 267</b>	<b>-23 733</b>	<b>-10.4%</b>
Other financial liabilities	9 578	25 802	-16 224	-62.9%
Trade payables	72 119	53 380	18 739	35.1%
Current income tax liabilities	2 116	24 446	-22 330	-91.3%
Other liabilities	10 244	10 042	202	2.0%
Deferred income	22 425	31 548	-9 123	-28.9%
Provision for retirement and similar benefits	10	7	3	42.9%
Other provisions	88 042	83 042	5 000	6.0%
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 274 124</b>	<b>2 158 735</b>	<b>115 389</b>	<b>5.3%</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 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 write-downs resulting from writing off expenditure on discontinued 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).

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 copyright and computer software held by the Group. 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 lease (both to related entities and external lessees).

The value of **Shares in non-consolidated subsidiaries** as at the end of 2022 comprised the equity of The Molasses Flood LLC, Boston, CD PROJEKT RED Vancouver Studio Ltd. and Spokko sp. z o.o., Warsaw. The increase in the value of this item during 2022 was mainly due to an increase in equity of The Molasses Flood LLC, Boston and CD PROJEKT RED Vancouver Studio Ltd.

In **Other financial assets** under Non-current 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 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** as at 31 December 2022 comprised mainly receivables resulting from license reports received after the balance sheet date relating to sales in the periods of the last quarter of 2022 in the CD PROJEKT RED segment. Its increase compared with the end of 2021 was directly attributable to higher sales, compared with the prior year, in the CD PROJEKT RED segment in the last quarter of the year.

The decrease in the value of the Group's **Other receivables** during 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, Group companies disclose VAT settlements and advances to suppliers in respect of future deliveries of goods for resale and services and security deposits paid in this item.

The consolidated value of the current and non-current **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 list of 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** (current) 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 current and non-current Other financial assets) held by the Group as at 31 December 2022 amounted to PLN 1 091 005 thousand.

As at the end of 2022, Non-current assets accounted for 49.2%, and Current assets – 50.8% of Total assets of the CD PROJEKT Group.

### Liabilities and equity

The increase in the CD PROJEKT Group's **Equity** during 2022 was mainly due to the net profit earned in an amount exceeding a decrease in equity resulting from decisions of the General Shareholders Meeting of CD PROJEKT S.A. regarding the payment of dividend for 2021 (May 2022) and the buyback of own shares (October 2022).

The value of **Non-current liabilities** did not change materially in 2022.

In current and non-current **Other financial liabilities**, 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. A decrease in this item during 2022 is due to reclassification of the liabilities arising on the valuation of instruments hedging foreign exchange risk to Other financial assets, and the settlement of a part of the liability relating to the payment of a part of the purchase price of the shares in The Molasses Flood.

The increase in the Group's **Trade payables** as at the end of 2022 is mainly due to trade payables of the CD PROJEKT RED segment relating to the services provided to this segment.

In **Deferred income** (current and non-current) as at the end of 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 the settlement of the sales made in the period and the settlement of a subsidy in the CD PROJEKT RED segment.

The value of the Group's **Other liabilities** as at 31 December 2022 comprised mainly current tax liabilities (VAT, PIT) and social security liabilities.

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

- the balance of provisions for performance-based remuneration increased compared with the end of 2021 in line with an increase in the result of operations for the reporting period;
- there was a surplus of provisions for other costs utilized and released over the balance of new provisions for costs recognized during the period.

In the Equity and liabilities of the CD PROJEKT Group as at the end of 2022, Equity represented 89.4%, whereas Current and non-current liabilities represented 11.6%.

The consolidated statement of financial position by business segment of the Group is contained in the *Consolidated financial statement of the CD PROJEKT Group for 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 2022, the CD PROJEKT Group had assets with a carrying value of PLN 2 274 124 thousand. Within these assets, liquid financial reserves maintained in bank accounts, in the form of bank deposits and Treasury bonds (foreign and domestic) amounted to PLN 1 091 005 thousand and represented 48.0% 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 702 621 thousand represented 30.9% of total assets. As at 31 December 2022, the total of Trade receivables, Other current receivables and Inventories amounted to PLN 235 130 thousand, whereas the total value of current and non-current liabilities amounted to PLN 240 720 thousand. As at the end 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.

## STATEMENT OF FINANCIAL POSITION OF CD PROJEKT S.A.

**Table 9** Statement of financial position of CD PROJEKT S.A. (in PLN thousand)

	31.12.2022	31.12.2021*	change	change %
<b>NON-CURRENT ASSETS</b>	<b>1 094 596</b>	<b>887 663</b>	<b>206 933</b>	<b>23.3%</b>
Property, plant and equipment	143 439	103 986	39 453	37.9%
Intangible assets	70 324	59 086	11 238	19.0%
Expenditure on development projects	471 537	347 822	123 715	35.6%
Investment properties	42 560	57 082	-14 522	-25.4%
Goodwill	49 168	49 168	0	0.0%
Investments in subordinated entities	53 566	43 447	10 119	23.3%
Prepayments and deferred costs	5 314	4 741	573	12.1%
Other financial assets	207 437	178 540	28 897	16.2%
Deferred tax assets	50 868	43 418	7 450	17.2%
Other receivables	383	373	10	2.7%
<b>CURRENT ASSETS</b>	<b>1 089 378</b>	<b>1 173 501</b>	<b>-84 123</b>	<b>-7.2%</b>
Inventories	9 886	13 539	-3 653	-27.0%
Trade receivables	164 708	123 821	40 887	33.0%
Other receivables	54 677	113 163	-58 486	-51.7%
Prepayments and deferred costs	6 189	4 015	2 174	54.1%
Other financial assets	279 515	308 168	-28 653	-9.3%
Bank deposits over 3 months	337 330	265 000	72 330	27.3%
Cash and cash equivalents	237 073	345 795	-108 722	-31.4%
<b>TOTAL ASSETS</b>	<b>2 183 974</b>	<b>2 061 164</b>	<b>122 810</b>	<b>6.0%</b>

\* restated data

	31.12.2022	31.12.2021	change	change %
<b>EQUITY</b>	<b>2 001 765</b>	<b>1 869 049</b>	<b>132 716</b>	<b>7.1%</b>
Share capital	100 771	100 739	32	0.0%
Supplementary capital	1 539 437	1 366 952	172 485	12.6%
Share premium	116 700	115 909	791	0.7%
Treasury shares	-99 993	-	-	-
Other reserves	3 777	49 515	-45 738	-92.4%
Retained earnings / (Accumulated losses)	-	-4 179	-	-
Net profit (loss) for the period	341 073	240 113	100 960	42.0%
<b>NON-CURRENT LIABILITIES</b>	<b>36 106</b>	<b>29 756</b>	<b>6 350</b>	<b>21.3%</b>
Other financial liabilities	18 883	14 757	4 126	28.0%
Other liabilities	2 620	2 860	-240	-8.4%
Deferred income	3 666	6 403	-2 737	-42.7%
Provision for retirement and similar benefits	339	368	-29	-7.9%
Other provisions	10 598	5 368	5 230	97.4%
<b>CURRENT LIABILITIES</b>	<b>146 103</b>	<b>162 359</b>	<b>-16 256</b>	<b>-10.0%</b>
Other financial liabilities	1 788	18 620	-16 832	-90.4%
Trade payables	39 587	16 028	23 559	147.0%
Current income tax liabilities	2 116	24 445	-22 329	-91.3%
Other liabilities	4 350	4 059	291	7.2%
Deferred income	15 032	23 042	-8 010	-34.8%
Provision for retirement and similar benefits	9	5	4	80.0%
Other provisions	83 221	76 160	7 061	9.3%
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 183 974</b>	<b>2 061 164</b>	<b>122 810</b>	<b>6.0%</b>

## DISCUSSION OF THE STATEMENT OF FINANCIAL POSITION OF CD PROJEKT S.A.

CD PROJEKT S.A. is the Parent Company of the CD PROJEKT Group and, at the same time, the largest entity in both the Group and the CD PROJEKT RED segment. Therefore, a commentary on the statement of financial position of the Group, excluding information relating to the GOG.COM segment and the impact of the statement of financial position of the subsidiaries CD PROJEKT Inc. and CD PROJEKT RED STORE sp. z o.o., to a large extent covers the operations and results of CD PROJEKT S.A.

As at the end of 2022, total assets of CD PROJEKT S.A. amounted to PLN 2 183 974 thousand and were PLN 90 150 thousand lower than total assets of the CD PROJEKT Group, representing 96.0% of the Group's total assets.

The largest differences between the consolidated statement of financial position of the CD PROJEKT Group and the separate statement of financial position of CD PROJEKT S.A. relate to the following items:

- investments in subsidiaries – CD PROJEKT S.A., as owner of the other Group companies on a stand-alone basis, discloses the value of investments in subsidiaries which amounted to PLN 53 566 as at the end of 2022 and is eliminated at the Group consolidation level and presented in Shares in non-consolidated subsidiaries;
- Other items of Assets and Liabilities – on a stand-alone basis, they do not take into account the values resulting from the consolidation of the financial statements of other Group companies, including, in particular, with regard to the items indicated, amounts attributable to the subsidiary GOG sp. z o.o. whose total assets represent 4.3% of the total assets of the CD PROJEKT Group.



## CONSOLIDATED STATEMENT OF CASH FLOWS

**Table 10** Consolidated statement of cash flows of the CD PROJEKT Group (in PLN thousand)

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021*
<b>OPERATING ACTIVITIES</b>		
<b>Net profit/(loss)</b>	<b>347 093</b>	<b>208 908</b>
<b>Total adjustments:</b>	<b>55 878</b>	<b>766 750</b>
Depreciation and amortization of property, plant and equipment, intangible assets, expenditure on development projects and investment properties	13 828	17 764
Amortization of development projects recognized as cost of goods sold	103 604	86 965
Foreign exchange gains/(losses)	4 561	(15 047)
Interest and participation in profits	(42 487)	(228)
Gains/(Losses) on investing activities	42 077	55 282
Increase/(Decrease) in provisions	(5 700)	(311 449)
(Increase)/Decrease in inventories	3 185	(8 929)
(Increase)/Decrease in receivables	(44 052)	1 036 886
Increase/(Decrease) in liabilities, excluding loans and borrowings	13 034	(85 023)
Change in other assets and liabilities	(40 881)	(11 127)
Other adjustments	8 709	1 656
<b>Cash from operating activities</b>	<b>402 971</b>	<b>975 658</b>
Income tax expense	13 817	4 337
Withholding tax paid abroad	32 275	5 863
Income tax (paid)/refunded	(43 032)	(18 033)
<b>Net cash from operating activities</b>	<b>406 031</b>	<b>967 825</b>
<b>INVESTING ACTIVITIES</b>		
<b>Cash inflows</b>	<b>1 292 199</b>	<b>257 135</b>
Sale of intangible assets and property, plant and equipment	568	241
Repayment of loans granted	12 240	-
Sale of shares in a subsidiary	76	19
Expiry of bank deposits over 3 months	975 860	164 368
Redemption of bonds	268 426	82 715
Interest on bonds	7 879	1 703
Interest received on deposits	26 885	68
Inflows from execution of forward contracts	-	7 887
Other inflows from investing activities	265	134

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021*
<b>Cash outflows</b>	<b>1 627 806</b>	<b>870 930</b>
Acquisition of intangible assets and property, plant and equipment	48 274	27 969
Expenditure on development projects	207 831	155 401
Acquisition of investment properties and capitalization of expenditure	214	2 085
Loans granted	4 187	4 340
Acquisition of a subsidiary	6 769	19 306
Contribution to the capital of a subsidiary	28 318	-
Placement of bank deposits over 3 months	1 048 190	265 000
Purchase of private equity interests in the gaming sector	2 556	-
Purchase of bonds and cost of their purchase	253 580	396 829
Outflows from execution of forward contracts	27 887	-
<b>Net cash from investing activities</b>	<b>(335 607)</b>	<b>(613 795)</b>

#### FINANCING ACTIVITIES

<b>Cash inflows</b>	<b>861</b>	<b>2 189</b>
Net proceeds from the sale of shares and issue of shares in the execution of the incentive scheme	822	2 149
Payment of finance lease liabilities	39	40
<b>Cash outflows</b>	<b>205 044</b>	<b>507 968</b>
Purchase of treasury shares for redemption	99 993	-
Dividends and other distributions to shareholders	100 739	503 694
Payment of lease liabilities	3 731	3 733
Interest paid	581	541
<b>Net cash used in financing activities</b>	<b>(204 183)</b>	<b>(505 779)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(133 759)</b>	<b>(151 749)</b>
<b>Change in cash and cash equivalents in the balance sheet</b>	<b>(133 759)</b>	<b>(151 749)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	<b>411 586</b>	<b>563 335</b>
<b>Cash and cash equivalents as at the end of the period</b>	<b>277 827</b>	<b>411 586</b>

\* restated data

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

Under **Operating activities** in 2022, the CD PROJEKT Group showed net cash inflows of PLN 406 031 thousand, i.e. PLN 561 794 thousand less than in 2021. However, it should be noted that the reference period was unusual due to the inflow of record-high receivables as a result of the premiere of *Cyberpunk 2077* in December 2020 at CD PROJEKT S.A.

The consolidated net profit was adjusted for:

- I. Non-cash items (an increase 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, and one-off recognition of expenditure on the Cyberpunk: Edgerunners series in costs;
  - **Foreign exchange gains (losses)**, an increase resulting from the translation of foreign Treasury bonds;
  - **Gains/(Losses) on investing activities**, an increase due to write-downs of intangible assets and shares in subsidiaries;
  - **(Increase)/decrease** in provisions (a decrease);
  - **Other adjustments**, an increase resulting mainly from the elimination of accounting for the costs of the incentive scheme and adjustments to the amortization/depreciation recognized in the cost of sales and operating expenses.
- II. Items related to changes in current assets and current liabilities (a decrease 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**, a decrease in the balance of cash flows as a result of an increase in the balance of receivables in the CD PROJEKT RED segment as at the end of 2022;
  - **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 2022, taking into account settlements related to withholding tax.

The negative balance of **Net cash flows from investing activities** during 2022 was mostly affected by investment in the following 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**;
- **Contributions to the capital of subsidiaries** – mainly 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.

At the same time, during 2022, inflows from expired bank deposits (longer than 3 months) and inflows from redemption of bonds amounted to PLN 1 244 286 thousand in total, while outflows on new bank deposits placed (longer than 3 months) and acquisition of new Treasury bonds amounted to PLN 1 301 770 thousand.

Negative **Net cash from financing activities** of the CD PROJEKT Group in 2022 were mainly due to the payment of dividend (PLN 100 739 thousand) and buyback of own shares (PLN 99 993 thousand).

In total, in 2022, the CD PROJEKT Group generated **Net cash outflows** of PLN 133 759 thousand. At the same time, the total balance of financial reserves which comprise Cash and cash equivalents, Bank deposits over 3 months and Treasury bonds purchased decreased by PLN 62 996 thousand. In the same period, the Group spent PLN 200 732 in total on the payment of dividend and buyback of own shares with a view to their redemption and invested PLN 207 831 thousand in new productions.

## STATEMENT OF CASH FLOWS OF CD PROJEKT S.A.

**Table 11** Statement of cash flows of CD PROJEKT S.A. (in PLN thousand)

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021*
<b>OPERATING ACTIVITIES</b>		
<b>Net profit/(loss)</b>	<b>341 073</b>	<b>240 113</b>
<b>Total adjustments:</b>	<b>91 805</b>	<b>802 191</b>
Depreciation and amortization of property, plant and equipment, intangible assets, expenditure on development projects and investment properties	10 676	12 658
Amortization of development projects recognized as cost of goods sold	103 530	82 736
Foreign exchange gains/(losses)	4 584	(15 118)
Interest and participation in profits	(41 131)	(343)
Gains/(Losses) on investing activities	44 980	41 323
Increase/(Decrease) in provisions	(3 651)	(307 704)
(Increase)/Decrease in inventories	3 653	(9 712)
(Increase)/Decrease in receivables	(43 660)	1 067 693
Increase/(Decrease) in liabilities, excluding loans and borrowings	18 175	(57 773)
Change in other assets and liabilities	(13 736)	(13 846)
Other adjustments	8 385	2 277
<b>Cash from operating activities</b>	<b>432 878</b>	<b>1 042 304</b>
Income tax expense	11 550	8 263
Withholding tax paid abroad	32 270	5 858
Income tax (paid)/refunded	(41 329)	(17 143)
<b>Net cash from operating activities</b>	<b>435 369</b>	<b>1 039 282</b>
<b>INVESTING ACTIVITIES</b>		
<b>Cash inflows</b>	<b>1 291 485</b>	<b>263 407</b>
Sale of intangible assets and property, plant and equipment	266	1 015
Expenditure on development projects provided as part of a consortium	-	152
Repayment of loans granted	13 220	5 301
Sale of shares in a subsidiary	76	19
Expiry of bank deposits over 3 months	975 860	164 368
Redemption of bonds	268 426	82 715
Interest on bonds	7 879	1 703
Interest received on deposits	25 481	68
Inflows from execution of forward contracts	-	7 887
Other inflows from investing activities	277	179

	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021*
<b>Cash outflows</b>	<b>1 632 474</b>	<b>875 004</b>
Acquisition of intangible assets and property, plant and equipment	47 676	27 789
Expenditure on development projects	207 435	155 265
Acquisition of investment properties and capitalization of expenditure	214	2 085
Loans granted	4 787	7 339
Acquisition of a subsidiary	-	7 679
Contribution to the capital of a subsidiary	40 149	13 018
Placement of bank deposits over 3 months	1 048 190	265 000
Purchase of private equity interests in the gaming sector	2 556	-
Purchase of bonds and cost of their purchase	253 580	396 829
Outflows from execution of forward contracts	27 887	-
<b>Net cash from investing activities</b>	<b>(340 989)</b>	<b>(611 597)</b>

#### FINANCING ACTIVITIES

<b>Cash inflows</b>	<b>861</b>	<b>2 189</b>
Net proceeds from the sale of shares and issue of shares in the execution of the incentive scheme	822	2 149
Payment of finance lease liabilities	39	40
<b>Cash outflows</b>	<b>203 963</b>	<b>506 993</b>
Purchase of treasury shares for redemption	99 993	-
Dividends and other distributions to shareholders	100 739	503 694
Payment of lease liabilities	2 685	2 834
Interest paid	546	465
<b>Net cash used in financing activities</b>	<b>(203 102)</b>	<b>(504 804)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(108 722)</b>	<b>(77 119)</b>
<b>Change in cash and cash equivalents in the balance sheet</b>	<b>(108 722)</b>	<b>(77 119)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	<b>345 795</b>	<b>422 914</b>
<b>Cash and cash equivalents as at the end of the period</b>	<b>237 073</b>	<b>345 795</b>

\* restated data

## DISCUSSION OF THE STATEMENT OF CASH FLOWS OF CD PROJEKT S.A.

CD PROJEKT S.A. is the Parent Company of the CD PROJEKT Group and, at the same time, the largest entity in both the Group and the CD PROJEKT RED segment which accounts for 81.1% of the Group's sales and controls, as at the end of 2022, 96.3% of the Group's cash and cash equivalents, deposits and investments in Treasury bonds, and has the largest impact on cash flows of the entire CD PROJEKT Group, as part of its operating, investing and financing activities. Therefore, a commentary on the statement of cash flows of the Group, excluding information relating directly to the GOG.COM segment and the impact of the subsidiaries CD PROJEKT Inc. and CD PROJEKT RED STORE sp. z o.o., in principle covers the operations and results of CD PROJEKT S.A.

## DISCUSSION OF THE FEASIBILITY OF INVESTMENT PLANS

As at 31 December 2022, the Group had no liabilities in respect of loans and borrowings and held its own cash, deposits and Treasury bonds totalling PLN 1 091 005 thousand. As at the end of 2022, the Group's trade receivables amounted to PLN 165 290 thousand and current liabilities amounted to PLN 204 534 thousand. The planned sources of funding for future investment plans include accumulated own funds and future net cash inflows from operating activities. As at the date of publication of these financial statements, the Group does not anticipate any problems in securing funds for the implementation of its investment plans in the foreseeable future.

## DIVIDENDS

CD PROJEKT S.A. does not have a formal dividend policy. The Company aims to have sufficient working capital to conduct and develop its business activities. If the indicated objectives are secured and the Company is adequately funded, the Company's management will consider distributing the net profit generated to the shareholders, in whole or in part.

Due to the cyclical nature of the business (usually associated with a multi-year period of investment in game production and the high impact of release periods on the Group's results and cash flows), each year the Company's management takes an individual decision regarding the recommendation to the General Meeting of Shareholders to distribute a portion of net profit to shareholders, e.g. in the form of a dividend.

When deciding to recommend payment of a dividend, the Management Board takes into account, among other things, the Group's financial position; the current and anticipated operating results of the Group; demand for capital resulting from investments and potential acquisition activity; macroeconomic situation and other factors which the Management Board may deem material.

## INFORMATION ON LOANS AND BORROWINGS IN 2022

In 2022, the CD PROJEKT Group did not have any liabilities in respect of external loans or borrowings.

## **INFORMATION ON LOANS GRANTED IN 2022**

In 2022, 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., Spokko sp. z o.o. and The Molasses Flood LLC used the financing in the form of loans from CD PROJEKT S.A.

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

Information on sureties and guarantees and other material off-balance-sheet items is presented in the *Consolidated financial statement of the CD PROJEKT Group for 2022*.

## **INFORMATION ON THE CURRENT ECONOMIC AND FINANCIAL POSITION OF THE GROUP**

In recent years, the Group conducted profitable operations which generated net cash inflows. The work completed in recent years, crowned by the largest in the Group's history premiere of the *Cyberpunk 2077* game, moved the Company and the Group to a new business and economic level, while showing the areas which require improvements in the future.

In the reporting period, the Parent Company continued improving its internal organization and production processes which enabled it to start working on two AAA projects in parallel. Along the work on the *Cyberpunk 2077* updates and the version for new generation consoles (released on 15 February 2022), and the work on the new version of *The Witcher 3: Wild Hunt* for new generation consoles (released on 14 December 2022), research and development work related to the Company's subsequent productions was also carried out. The Group has cash reserves and its current economic and financial position is stable.

## **INFORMATION ON THE ANTICIPATED ECONOMIC AND FINANCIAL POSITION OF THE GROUP**

In accordance with an updated strategy of the CD PROJEKT Group announced on 4 October 2022 focusing on the long-term development of its key projects, in the coming years the Group's activities will be based on the existing and new productions realized under the *The Witcher* and *Cyberpunk* brands as well as under the third franchise, as part of which a video game with the code name Hadar is being developed. For the current year, the Company announced releasing a large expansion for *Cyberpunk 2077* entitled "Phantom Liberty".

As at the date of publication of these financial statements, the Management Board believes that the Group's financial and economic position is stable and does not anticipate any threats to liquidity or restrictions to the Group's solvency in the period of 12 months after the balance sheet date.



## **RELATED-PARTY TRANSACTIONS**

Within the activities of the CD PROJEKT Group in 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 offer 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);
- 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 *Consolidated financial statement of the CD PROJEKT Group for 2022*.

## **DESCRIPTION OF THE MAIN DOMESTIC AND FOREIGN INVESTMENTS AND THE STRUCTURE OF THE MAIN CAPITAL INVESTMENTS**

At the end of 2022, material items of the Group's Assets comprised Cash and cash equivalents (PLN 277 827 thousand), Bank deposits with maturity of more than 3 months (PLN 337 330 thousand), domestic Treasury bonds (PLN 232 757 thousand) and foreign Treasury bonds (PLN 243 091 thousand). Surplus cash is invested both domestically and abroad, in deposits with banks cooperating with the Group or in low-risk financial instruments (respecting the principle of diversification of deposits placed and investments made). As at 31 December 2022, Cash and cash equivalents, deposits and bonds amounted to PLN 1 091 005 thousand.

The business activities of the Group, and CD PROJEKT S.A. in particular, are directly related to the production and release of video games. The ongoing production of new projects is at the same time the main focus of the Group's and the Parent Company's investments. Expenditure incurred on work related to new projects is presented within Non-current assets under Expenditure on development projects. The balance of expenditure incurred as at the end of 2022 amounted to PLN 473 202 thousand and increased by PLN 123 007 compared with the end of 2021. CD PROJEKT RED's intention is to further increase the production capacity, number and scale of its projects in line with the strategy announced in October 2022.

In connection with the acquisition of properties at ul. Jagiellońska 74 and 76 in Warsaw in 2018 and 2019, the Group began the process of revitalising the CD PROJEKT campus by adapting it to the needs and specific nature of its business. The Group intends to continue this process in the coming years.

A detailed description of the individual items comprising the Group's Non-current assets is included in the commentary on the Consolidated statement of financial position of the Group in this report.

At the end of 2022, the CD PROJEKT Group had the following wholly owned subsidiaries of CD PROJEKT S.A. operating abroad:

- CD PROJEKT Inc. (Los Angeles);
- CD PROJEKT RED Vancouver Studio Ltd. (acquisition of the company took place in 2021);
- CD PROJEKT SILVER Inc. (acquisition of 100% of the company's shares by CD PROJEKT Inc. took place in 2022).
- In addition, CD PROJEKT Inc. acquired a 60% interest in The Molasses Flood LLC (Boston) in 2021.

At the end of 2022, the Company's domestic subsidiaries within the CD PROJEKT Group were:

- GOG sp. z o.o. (100% of shares);
- Spokko sp. z o.o. (87.6% of shares);
- CD PROJEKT RED STORE sp. z o.o. (100% of shares).

The total value of investments in domestic and foreign subsidiaries disclosed in the separate financial statements of CD PROJEKT S.A. (the Group's holding company) amounted to PLN 53 566 thousand at the end of 2022.

In 2022, the CD PROJEKT Group financed its current operations and investment projects from its own funds.

## **EXPLANATION OF THE DIFFERENCES BETWEEN THE FINANCIAL RESULTS REPORTED FOR 2022 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**

As part of exercising the rights under the incentive scheme operated in the Group from 2016 to 2019, the Company:

- i) conducted an issue of new shares obtaining total proceeds of PLN 2 149 thousand in 2021;
- ii) conducted an issue of new shares obtaining total proceeds of PLN 822 thousand in 2022;

Total proceeds from the issues of shares under the incentive scheme in 2021 and 2022 represented 3.0% of the expenditure incurred to conduct a buyback of own shares with a view to their redemption conducted in 2022.



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**CORPORATE GOVERNANCE**

## Entity contracted to audit financial statements

On 9 March 2022 the Supervisory Board of CD PROJEKT S.A., acting on advice of the Audit Committee of the Company's Supervisory Board recommending extension of the Company's contract with its licensed auditor, decided to select Grant Thornton Polska sp. z o.o. sp. k. (now operating as Grant Thornton Polska PSA) with a registered office in Poznań as the entity contracted to conduct an audit and review of the separate and consolidated financial statements of the Company for 2022 and 2023.

Grant Thornton Polska PSA 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 100 770 800 PLN, divided into 100 770 800 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 12** Shareholders controlling at least 5% of the vote at the General Meeting as of the publication date of this report

	Number of votes at the GM	% of total number of votes at the GM
Marcin Iwiński	12 873 520	12.78%
Michał Kiciński *	10 433 719	10.35%
Piotr Nielubowicz	6 858 717	6.81%
The Goldman Sachs Group, Inc. **	6 444 289	6.39%

\* As disclosed in the most recent declaration received by the Company – see Current Report no. [33/2021](#) of 26 May 2021.

\*\* As disclosed in Current Report no. [4/2023](#) of 15 February 2023, the aggregate percentage share of votes controlled by The Goldman Sachs Group, Inc. as a result of holding shares (1.70%) and other financial instruments (4.70%) was 6.39% as of 10 February 2023. According to the relevant notification obtained by the parent Company, The Goldman Sachs Group, Inc. controls 1 708 240 votes from shares, 2 122 503 votes which may be gained in the exercise or conversion of a financial instrument comprising securities on loan, and 2 613 546 votes from other types of financial instruments.

## **INCENTIVE PROGRAM COVERING THE YEARS 2020–2025**

Pursuant to General Meeting adopted on 28 July 2020 and 22 September 2020, a third edition of the Company incentive program, covering the years 2020–2025, was formally instituted. In line with the adopted stipulations, a total of 4 000 000 entitlements may be granted under the program. The program may also vest by issuing and assigning to entitled parties a certain quantity of subscription warrants which incorporate the right to take up shares of the parent Company 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.

### **Earnings goal - 80% of entitlements**

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

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

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

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

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

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

### **Market goal – 20% of entitlements**

#### **Entitlements exercised at base price:**

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

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

As of the publication date of this report there are 2 113 000 entitlements outstanding under the 2020–2025 incentive program.

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 earnings 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 earnings goal for the duration of the program cannot be attained.

## Information regarding the control system of employee share programs

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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

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On 4 October 2022 the Management Board of the Company announced that, based on Resolution no. 4 of the Extraordinary General Meeting of the Company of 29 November 2016, it had decided on the terms and conditions of buy-back of Company shares for voluntary redemption.

As a result of a buy-back program based on the aforementioned decision, between 5 October 2022 and 24 October 2022 the Company purchased a total of 860 290 of its own shares with a nominal value of 1 PLN each, constituting 0.85% of the Company's share capital, having allocated 99 943 thousand PLN for this purpose. Own shares were purchased on the regulated market of the Warsaw Stock Exchange. The Management Board provided detailed updates on the commencement and course of the buy-back program in Current Reports no. 40/2022, 40/2022K, 42/2022, 44/2022 and 45/2022 respectively. As of the publication date of this report the aforementioned shares have not been redeemed and remain in the Company's possession.

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

**Table 13** Shares held by members of the Management Board and Supervisory Board of the Company\*

Name	Position	as of 30.03.2023	as of 31.12.2022	as of 01.01.2022
Adam Kiciński	President of the Board	4 046 001	4 046 001	4 046 001
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	530 290	530 290	580 290
Piotr Karwowski	Board Member	108 728	108 728	108 728
Paweł Zawodny	Board Member	18 508	18 508	n/a
Marcin Iwiński	Chairperson of the Supervisory Board	12 873 520	12 873 520	12 873 520
Katarzyna Szwarz	Deputy Chairperson of the Supervisory Board	10	10	10
Maciej Nielubowicz	Supervisory Board Member	51	51	51
Piotr Pągowski	Deputy Chairperson of the Supervisory Board (until 31 December 2022)	n/a	33	-

\* based on declarations and notifications filed with the Company.

On 30 November 2022 the Company disclosed the sale of Company shares carried out by a member of the Management Board – Michał Nowakowski. According to the notification received by the Company, Mr. Nowakowski had sold 50 000 Company shares on the regulated market of the Warsaw Stock Exchange.

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 corporate bodies include the Management Board and the Supervisory Board.

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

As of the publication date of this report, the composition of the Company's Management Board is as follows:



### **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.



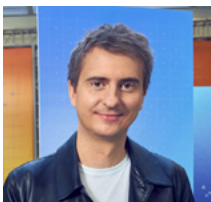
### **Piotr Nielubowicz** – Vice President of the Board; Chief Financial Officer

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 cyber-security. Also responsible for the activities and development of the GOG.COM segment and *GWENT: The Witcher Card Game*.



### **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.



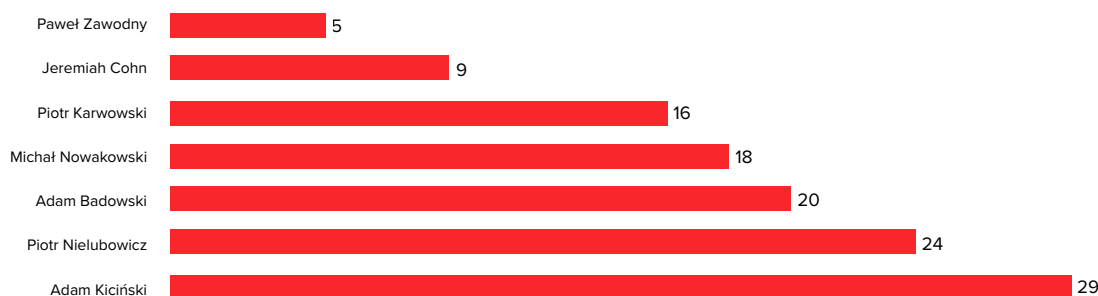
### **Jeremiah Cohn** – Board Member

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



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

The following changes in the composition of the Management Board occurred during the reporting period:

- On 26 January 2022 the Supervisory Board of the Company adopted resolutions appointing two new persons to the Management Board of CD PROJEKT S.A.: **Paweł Zawodny** and **Jeremiah Cohn** – effective on 1 February 2022 in both cases.
- On 4 October 2022 the Company received a notice of resignation of **Marcin Iwiński** from his duties as Vice President of the Management Board for International Affairs and Member of the Management Board, effective at end of day on 31 December 2022. Concurrently, Mr. Iwiński also notified the Company of his intent to seek appointment as Chairperson of the Supervisory Board of the Company starting on the day immediately following expiration of his membership of the Management Board.

Consequently, as of 1 January 2023, the Management Board of the Company consists of seven members.

All other incumbent members of the Management Board of the Company were appointed to the current term by Supervisory Board resolutions of 25 May 2021.

## 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:

- **Marcin Iwiński** – Chairperson of the Supervisory Board
- **Katarzyna Szwarc** – Deputy Chairperson of the Supervisory Board
- **Maciej Nielubowicz** – Secretary of the Supervisory Board; Member of the Audit Committee
- **Michał Bień** – Supervisory Board Member; Member and Chairperson of the Audit Committee meeting independence criteria
- **Jan Łukasz Wejchert** – Supervisory Board Member; Member of the Audit Committee meeting independence criteria

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

On 4 October 2022 the Company received a notice of resignation of **Piotr Pągowski** from his duties as Member of the Supervisory Board and Member of the Audit Committee, effective at end of day on 31 December 2022.

On 20 December 2022 the Extraordinary General Meeting of the Company appointed **Marcin Iwiński** to the Supervisory Board for its current term of office, effective on 1 January 2023.

On the same day – 20 December 2022 – the Supervisory Board adopted a resolution which (i) dismisses Ms. Katarzyna Szwarc from her duties as Chairperson of the Supervisory Board for its current term, effective on 1 January 2023; (ii) appoints Mr. Marcin Iwiński as Chairperson of the Supervisory Board for its current term of office, effective on 1 January 2023; (iii) appoints Ms. Katarzyna Szwarc as Deputy Chairperson of the Supervisory Board for its current term of office, effective on 1 January 2023.

Moreover, in light of the above-mentioned changes in its composition, the Supervisory Board decided that **beginning on 1 January 2023 the composition of the Audit Committee for the current term of office of the Supervisory Board** will be as follows:

- i) **Michał Bień** – Chairperson of the Audit Committee meeting independence criteria specified in Art. 129 section 3 of the Act on Licensed Auditors, Audit Firms and Public Supervision; Member of the Audit Committee meeting criteria specified in Art. 129 section 5 of the said Act,
- ii) **Maciej Nielubowicz** – Member of the Audit Committee possessing knowledge and skills in the scope of accounting or auditing financial statements; Member of the Audit Committee meeting criteria specified in Art. 129 section 5 of the Act on Licensed Auditors, Audit Firms and Public Supervision,
- iii) **Jan Łukasz Wejchert** – Member of the Audit Committee meeting independence criteria specified in Art. 129 section 3 of the Act on Licensed Auditors, Audit Firms and Public Supervision; Member of the Audit Committee meeting criteria specified in Art. 129 section 5 of the said Act, possessing knowledge and skills in the scope of accounting or auditing financial statements.

The following incumbent members of the Supervisory Board were appointed for the current term of office by Ordinary General Meeting resolutions adopted on 25 May 2021: Katarzyna Szwarc, Michał Bień, Maciej Nielubowicz and Jan Łukasz Wejchert.

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

A remuneration policy is in force at the Group, adopted on 27 August 2020 by the Supervisory Board as authorized by the General Meeting of 28 July 2020. The policy specifies, among others, the composition of variable remuneration, criteria and deferment periods for disbursement of variable remuneration, as well as non-monetary benefits which may be assigned to members of the Management Board as part of their fixed remuneration.

### ADAM KICIŃSKI, PRESIDENT OF THE BOARD

Mr. Kiciński's fixed remuneration paid by CD PROJEKT S.A. in 2021 was 420 thousand PLN. In 2022 this fixed remuneration was increased to 600 thousand PLN. In 2022 Mr. Kiciński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2021, was 4 387 thousand PLN, while the portion associated with the net earnings of the Group in 2022 was 5 033 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

### MARCIN IWIŃSKI, VICE PRESIDENT OF THE BOARD (CURRENTLY CHAIRPERSON OF THE SUPERVISORY BOARD)

Mr. Iwiński's fixed remuneration paid by CD PROJEKT S.A. in 2021 was 336 thousand PLN. In 2022 this fixed remuneration was increased to 600 thousand PLN. In 2021 Mr. Iwiński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2021, was 2 194 thousand PLN, while the portion associated with the net earnings of the Group in 2022 was 2 517 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

### PIOTR NIELUBOWICZ, VICE PRESIDENT OF THE BOARD

Mr. Nielubowicz's fixed remuneration paid by CD PROJEKT S.A. in 2021 was 348 thousand PLN. In 2022 this fixed remuneration was increased to 600 thousand PLN. In 2021 Mr. Nielubowicz also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2021, was 4 387 thousand PLN, while the portion associated with the net earnings of the Group in 2022 was 5 033 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

### **ADAM BADOWSKI, BOARD MEMBER**

Mr. Badowski's fixed remuneration paid by CD PROJEKT S.A. in 2021 was 398 thousand PLN. In 2022 this fixed remuneration was increased to 600 thousand PLN. In 2021 Mr. Badowski also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2021, was 3 029 thousand PLN, while the portion associated with the net earnings of the Group in 2022 was 5 033 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

### **MICHAŁ NOWAKOWSKI, BOARD MEMBER**

Mr. Nowakowski's fixed remuneration paid by CD PROJEKT S.A. in 2021 was 360 thousand PLN. In 2022 this fixed remuneration was increased to 600 thousand PLN. In 2021 Mr. Nowakowski also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2021, was 3 029 thousand PLN, while the portion associated with the net earnings of the Group in 2022 was 5 033 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

### **PIOTR KARWOWSKI, BOARD MEMBER**

Mr. Karwowski's fixed remuneration paid by CD PROJEKT S.A. in 2021 was 185 thousand PLN. In 2022 this fixed remuneration was increased to 540 thousand PLN. In 2021 Mr. Karwowski also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2021, was 3 029 thousand PLN, while the portion associated with the net earnings of the Group in 2022 was 5 033 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

### **PAWEŁ ZAWODNY, BOARD MEMBER**

Mr. Zawodny's fixed remuneration paid out by CD PROJEKT S.A. for the period between his appointment (i.e. 1 February 2022) and 31 December 2022 was 550 thousand PLN. Since 2022, in light of his appointment to the Management Board, Mr. Zawodny is also eligible for bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2022 was 2 516 thousand PLN, and had not been disbursed as of the balance sheet date. In 2022 Mr. Zawodny also received variable remuneration in the amount of 440 thousand PLN, associated with the net earnings of the Company in 2021.

### **JEREMIAH COHN, BOARD MEMBER**

Mr. Cohn's fixed remuneration paid out by CD PROJEKT S.A. for the period between his appointment (i.e. 1 February 2022) and 31 December 2022 was 110 thousand USD. Since 2022, in light of his appointment to the Management Board, Mr. Cohn is also eligible for bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net earnings of the Group in 2022 was 2 516 thousand PLN, and had not been disbursed as of the balance sheet date.

**Table 14** Remuneration paid to members of the Management Board of CD PROJEKT S.A. during their tenure as members of the Company's managerial bodies, and paid by the Company's subsidiaries in association with discharging managerial duties at these subsidiaries

	01.01.2022–31.12.2022	01.01.2021–31.12.2021
Marcin Iwiński	-	24 thousand PLN
Piotr Karwowski	60 thousand PLN	4 792 thousand PLN
Jeremiah Cohn	606 thousand USD	n/a

## Assignment of bonuses to Members of the Management Board

The variable portion of Management Board Members' remuneration is settled in annual cycles based on the Group's longstanding incentive scheme, and is tied to the Group's net earnings.

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

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

**Table 15** Entitlements assigned and potential value of monetary benefits (in PLN thousands) obtainable by members of the Management Board in light of their involvement in the 2020–2025 incentive program

Name	Position	Entitlements granted	Value of potential benefits	
			01.01.2021–31.12.2021	01.01.2022–31.12.2022
Adam Kiciński	President of the Board	200 thousand	-9	450
Marcin Iwiński	Vice President of the Board (until 31.12.2022)	200 thousand	-9	450
Piotr Nielubowicz	Vice President of the Board	200 thousand	-9	450
Adam Badowski	Board Member	200 thousand	-9	450
Michał Nowakowski	Board Member	200 thousand	-9	450
Piotr Karwowski	Board Member	200 thousand	-9	450
Paweł Zawodny	Board Member	40 thousand	n/a	82
Jeremiah Cohn	Board Member	40 thousand	n/a	82

The value of potential benefits listed in the above tables, payable to participants of successive editions of long-term share-based incentive programs for Management Board members is based on the fair value of assigned entitlements on the grant date, as calculated by a licensed actuary. These values have been duly recognized as Group expenditures in the years 2021 and 2022 respectively. The presented figures incorporate the change in Management Board's projections regarding the attainability of earnings goals of the 2020–2025 incentive program.

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

## Remuneration of Supervisory Board members

**Table 16** Gross remuneration (including for participation in the Audit Committee) paid out to members of the Supervisory Board of CD PROJEKT S.A. in 2021 and 2022 (PLN thousands)

Name	01.01.2021–31.12.2021	01.01.2022–31.12.2022
Katarzyna Szwarc – Chairperson of the Supervisory Board	135	164
Piotr Pągowski – Deputy Chairperson of the Supervisory Board	87	109
Maciej Nielubowicz – Secretary of the Supervisory Board	87	109
Michał Bień – Supervisory Board Member; Chairperson of the Audit Committee	87	109
Krzysztof Kilian – Supervisory Board Member	29	–
Łukasz Wejchert – Supervisory Board Member	58	109

## Disclosure of retirement benefits and similar compensation payable to former members of the Issuer’s executive, supervisory or administrative bodies, and of any liabilities associated with such benefits, specifying the aggregate amounts for each category of recipients

As of 31 December 2022 the Company had no such liabilities.

## Agreements between the Issuer and members of its managing bodies concerning compensation in the event of their resignation or dismissal

As of 31 December 2022 and as of the preparation date of this report there were no provisions in force regulating compensation in the event of resignation or dismissal of members of the Company’s Management Board.

## Transactions between the Issuer and members of its managing and supervisory bodies not otherwise reported

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In 2022 there were no significant transactions with members of the managing and supervisory bodies of CD PROJEKT S.A. not disclosed elsewhere in this report.

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

## Changes in basic management practices at the Company and its Group

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No significant changes in basic management policies affecting the Company and its Group occurred in 2022.

## Corporate governance policies

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CD PROJEKT S.A. follows the corporate governance policies listed in the “Best Practice for WSE Listed Companies 2021” document, published as an attachment to Resolution no. 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange on 29 March 2021. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2022 can be found on the Company website at <https://www.cdprojekt.com/en/investors/corporate-governance/>.

## Disclosure of significant legal proceedings

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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 District Court for the City of Warsaw subsequently filed the case under no. XVIII K 316/17. 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 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 thousand 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 Settlement 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.

On 4 January 2023, after the balance sheet date, the Company was notified that the District Court for the Central District of California had issued an order concerning preliminary approval of the class action settlement. The order approves the conditions of the settlement, including full relinquishing of any claims against the Company and members of its Management Board on the part of the plaintiffs, and the remittance of a settlement in the amount of 1 850 thousand USD to the plaintiff class by the Company and its insurer, Colonnade Insurance S.A. (Polish division).

This Management Board report on the activities of the CD PROJEKT Group and CD PROJEKT S.A. was approved for publication by the Management Board of CD PROJEKT S.A. on 30 March 2023 and signed on 30 March 2023, pursuant to Art. 52 section 3 item 2 of the Accounting Act of 29 September 1994 (JL 2023, item 120, as amended). This report is subject to approval by the General Meeting of CD PROJEKT S.A.



**Piotr Nielubowicz**  
Vice President  
of the Board



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