



MANAGEMENT BOARD REPORT ON  
**CD PROJEKT CAPITAL GROUP ACTIVITIES**  
BETWEEN 1 JANUARY AND 30 JUNE 2019

#### 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.

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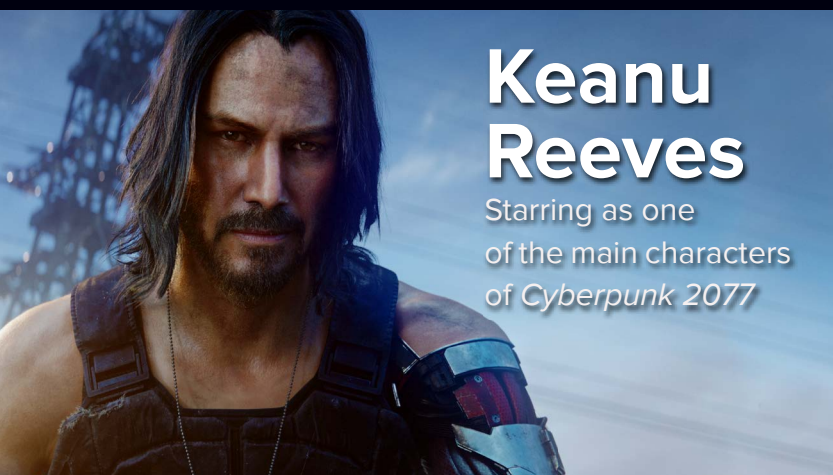


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# 16.04.2020

CYBERPUNK 2077 RELEASE DATE



## Keanu Reeves

Starring as one of the main characters of *Cyberpunk 2077*



## 7 000 participants

attended Cyberpunk presentations at E3

## 12 000 participants

attended Cyberpunk presentations at gamescom



## Cyberpunk 2077

has already received

## over 200 awards

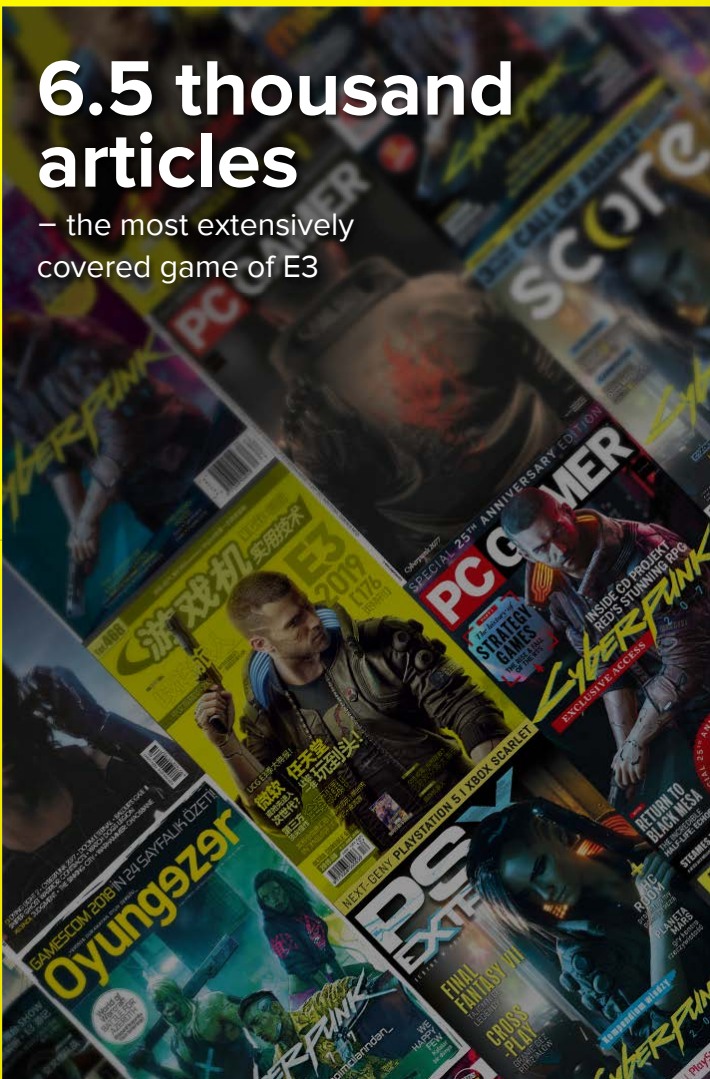


**Over 30 million\***

views (across all platforms)  
of the E3 2019 *Cyberpunk 2077*  
cinematic trailer

**6.5 thousand articles**

– the most extensively  
covered game of E3

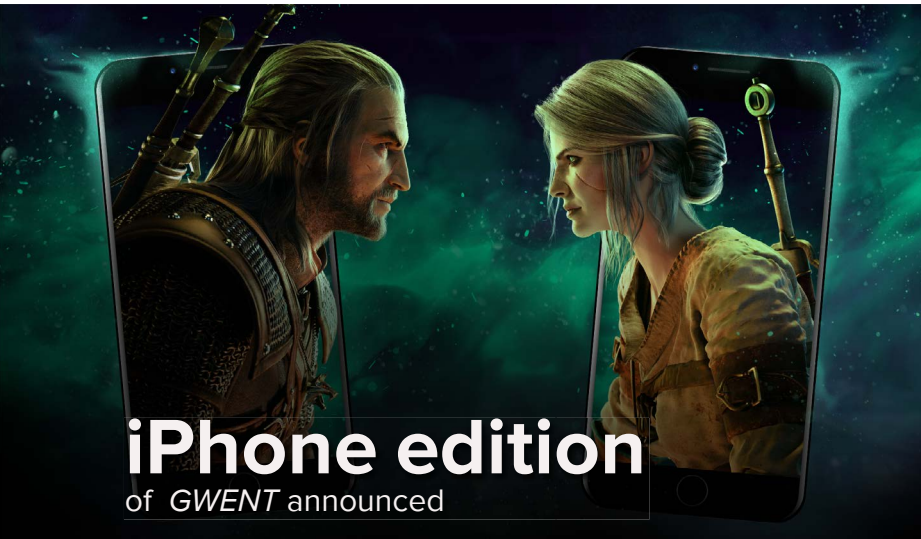


**Strong launch  
of the preorder  
campaign**

of *Cyberpunk 2077* – 09.06.2019



*Cyberpunk 2077* announced for  
**Google Stadia**



**iPhone edition**  
of *GWENT* announced



*The Witcher 3* for  
**Nintendo Switch**  
announced for  
**15.10.2019**

CD PROJEKT S.A. market capitalization  
**22.1 billion PLN\***



Two *GWENT* expansions released:  
**Crimson Curse**  
and  
**Novigrad**

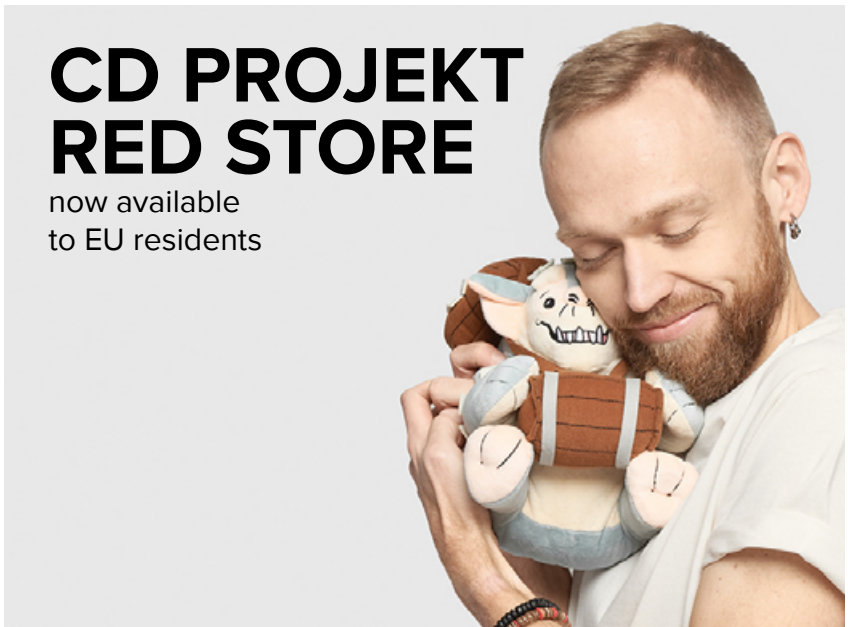
**214.4 million PLN**  
in sales revenues  
**51.7 million PLN**  
in net profit during H1 2019

beta version of  
**GOG GALAXY 2.0**  
garnering excellent reviews from  
the media and gamers alike



**40 million**  
copies of *The Witcher*  
games sold

Blizzard classics  
Available on GOG.com



**CD PROJEKT  
RED STORE**  
now available  
to EU residents

The background features abstract geometric shapes in shades of pink and grey. A large, light pink shape dominates the left side, with several sharp, triangular points extending towards the right. A darker pink shape is layered behind it, also with sharp points. In the bottom left corner, there is a grey triangular shape pointing towards the center.

**Brief description  
of the CD PROJEKT  
Capital 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 for 25 years and originally focused on the Polish market. The Company – then called CD PROJEKT – began by distributing foreign games in Poland (note that the corresponding activity segment, handled by the Group's CDP.pl subsidiary, was disaggregated in 2014). A pivotal moment in the Group's history came in 2002 with the establishment of the CD PROJEKT RED development studio, which initiated work on the Company's first major RPG<sup>1</sup> – *The Witcher*.

**Map 1** CD PROJEKT – worldwide sales



- Headquarters (CD PROJEKT RED studio and GOG.com)
- Dev teams
- Branch offices
- Community managers

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





The CD PROJEKT Group currently conducts operating activities in two key segments.

**CD PROJEKT RED**

Development and publishing of videogames and tie-in products based on the Company’s proprietary brands.

**GOG.com**

Digital distribution of videogames using the Company’s proprietary GOG.com platform and the GOG Galaxy application.



*CD PROJEKT S.A. headquarters in Warsaw*



During the reporting period 96% of the Capital Group’s sales revenues were generated by exports, with North America accounting for 66% of sales and Europe coming in second at 24%.



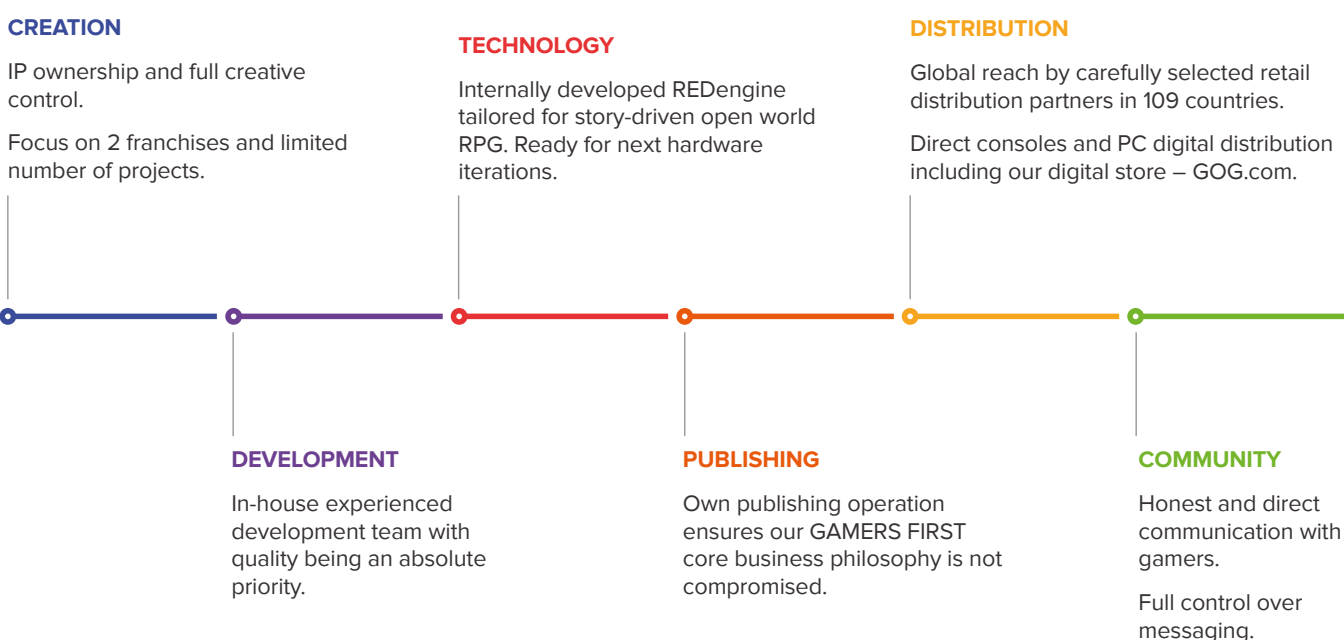
*GOG sp. z o.o. headquarters in Warsaw*



## Business philosophy

The business philosophy of the CD PROJEKT Capital Group rests upon two pillars: uncompromising dedication to quality in the videogame and service development process, and retention of financial and creative independence (itself necessary to facilitate the former goal). The Board regards these two factors as decisive in ensuring success on the competitive global digital entertainment market. CD PROJEKT RED stands apart from other major videogame developers and publishers in that it emphasizes control over every stage of the game development and marketing process – from initial design, through work on technological solutions, publishing activities, promotion and distribution, all the way to gamer community relations. This model is implemented by operating a proprietary digital distribution and online gaming platform – part of a broad user-friendly and gamer-centric ecosystem.

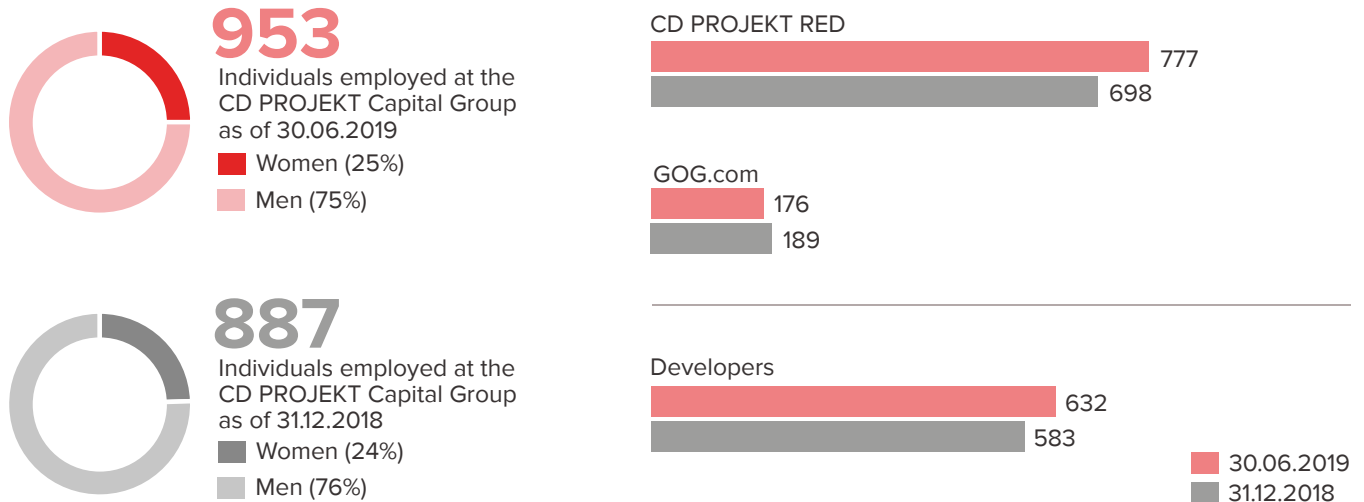
### Scheme 1 Videogame development business model at CD PROJEKT RED





## Employment structure

**Scheme 2** CD PROJEKT Capital Group employment structure at the end of 2018 and at the end of H1 2019



At the end of the first half of 2019 the CD PROJEKT Capital Group employed 953 individuals, 82% of whom were employed in the CD PROJEKT RED segment, with the remaining 18% representing the GOG.com segment.

The dynamic growth in employment over the past year is mostly due to the upscaling of business and development activities.

## CD PROJEKT Capital Group growth outlook

The CD PROJEKT Capital Group conducts its business in the global videogame market which is among the fastest growing branches of the global economy. The cumulative annual growth rate (CAGR) for the 2018-2022 period is estimated at 9%, with an estimated 2019 market volume of 152.1 billion USD.<sup>2</sup> According to the PWC “Global Entertainment & Media Outlook 2018-2022”<sup>3</sup>, consumers devote ever more time and money to media and entertainment, with computer games currently ranking as the second most popular pastime.

The growth outlook of the Capital Group is affected not only by the increasing popularity of this form of entertainment as an approachable and attractive mass market offering, but also by the increasing sophistication and realism of products offered, increasing availability and

<sup>2</sup> Key numbers, Newzoo, accessed on 26 August 2019; [newzoo.com/key-numbers/](http://newzoo.com/key-numbers/)

<sup>3</sup> Perspectives from the Global Entertainment & Media Outlook 2018–2022, PWC, accessed on 19 January 2019, [pwc.com/gx/en/entertainment-media/outlook/perspectives-from-the-global-entertainment-and-media-outlook-2018-2022.pdf](http://pwc.com/gx/en/entertainment-media/outlook/perspectives-from-the-global-entertainment-and-media-outlook-2018-2022.pdf)

affordability of gaming hardware, new methods of engaging potential gamers and new game distribution channels.

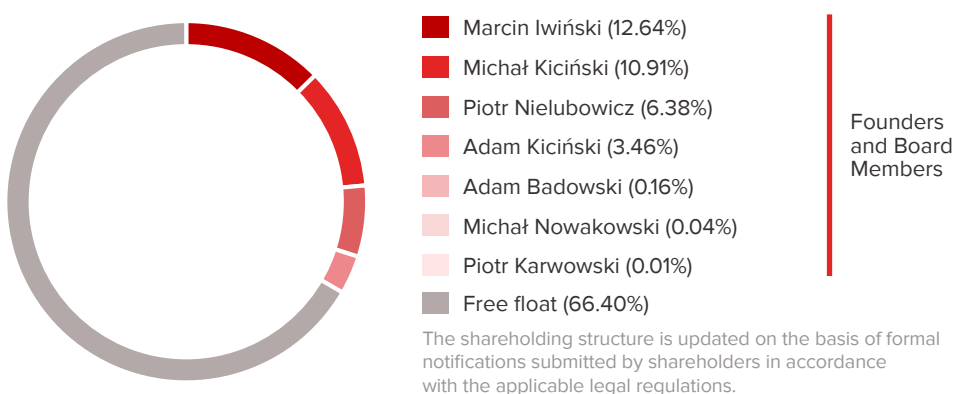


### CD PROJEKT S.A. on the securities market

The CD PROJEKT brand has been present on the Warsaw stock exchange since 2010, when – as a result of an investment agreement concluded in 2009 by CDP Investment sp. z o.o.<sup>4</sup>, and Optimus S.A., along with their respective shareholders – Optimus purchased 100% of shares in CDP Investment while existing shareholders of CDP Investment acquired Optimus S.A. shares. The formal merger between both companies was carried out in December 2010.

As of the publication date of this report 96 120 000 Company shares are traded on the Main Market of the Warsaw Stock Exchange under the continuous trading system. Key shareholders of CD PROJEKT S.A. are its co-founders – Marcin Iwiński and Michał Kiciński. Other major shareholders who are also members of the Company's Management Board are Adam Kiciński – President of the Board, and Piotr Nielubowicz – Vice President and CFO.

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



On 25 June 2019 Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. notified the Company that the percentage of Company shares held by itself dropped below the 5% threshold.<sup>5</sup>

Free float accounts for 66.40% of CD PROJEKT S.A. stock.

In March 2019 the Warsaw Stock Exchange launched its WIG.GAMES sectoral index. As of 29 June 2019 Company stock contributes 41.78% to the value of this index.

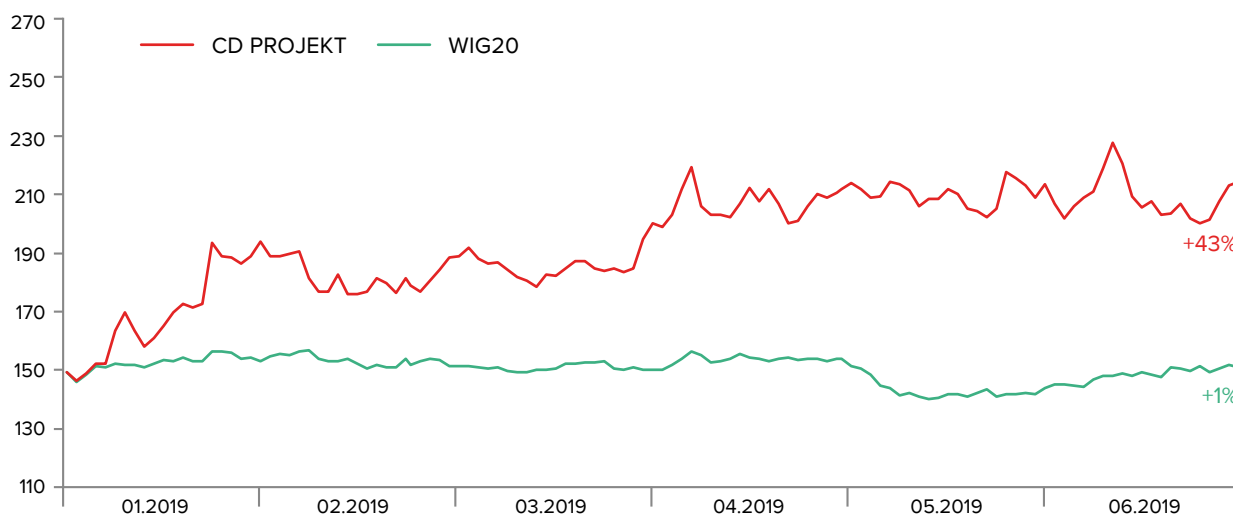
<sup>4</sup> Former holding company of the CD PROJEKT Group

<sup>5</sup> CR 15/2019





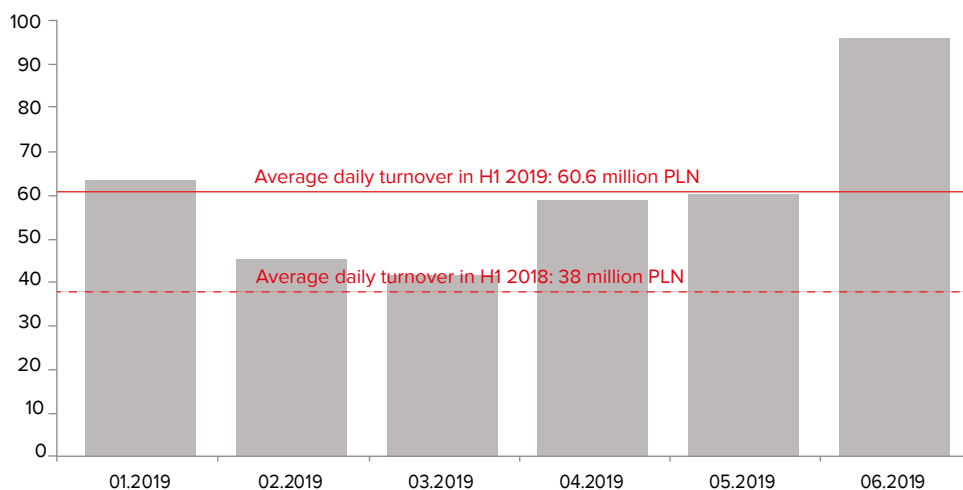
**Figure 2** CD PROJEKT S.A. stock price and WIG20 index at the Warsaw Stock Exchange between 1 January and 30 June 2019.



Between 1 January 2019 and 30 June 2019 the Company stock price fluctuated between 148 PLN (3 January 2019) and 228.50 PLN (10 June 2019). During this period the stock price increased by 43%, to 215.30 PLN at the close of the trading day on 28 June 2019. Over the same period the WIG20 index gained 1% while the main WIG index gained 3%.

On 30 June 2019 the Company market capitalization was 20.7 billion PLN, while by the end of July 2019 it increased to 22.1 billion PLN.

**Figure 3** Average daily turnover of CD PROJEKT S.A. stock by month; 1 January 2019 – 30 June 2019 (PLN millions).



In 2019 the liquidity of CD PROJEKT S.A. stock, measured in terms of turnover, increased substantially. The aggregate turnover for the first half of 2019 was 7.4 billion PLN, which is 68% more than during the corresponding period in 2018. The average daily turnover was 60.6 million PLN, compared to 36 million PLN during the reference period. A substantial increase was also observed in the number of transactions per trading day – from 2686 to 4014.

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

	H1 2019	H1 2018	Change
Net earnings per share (PLN)	0.54	0.55	-1.43%
Quantity of shares in trading (in thousands) at end of period	96 120	96 120	-
Highest closing price during fiscal year (PLN)	228.50	172.00	32.85%
Lowest closing price during fiscal year (PLN)	148.00	98.00	51.02%
Price at beginning of period (PLN)	151.00	100.00	51.00%
Price at end of period (PLN)	215.30	161.80	33.07%
Average price during period (PLN)	194.81	124.64	56.30%
P/E ratio at end of period	398.7	294.18	35.53%
Market capitalization at end of period (PLN thousands)	20 694 636	15 552 216	33.07%
Average number of transactions per trading day	4014	2 686	49.44%
Average daily turnover (PLN thousands)	60 568	38 031	59.26%
Average daily trading volume (shares)	307 524	278 337	10.49%

As of the publication date of this report 17 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: [cdprojekt.com/en/investors/analysts/](http://cdprojekt.com/en/investors/analysts/).





**CD PROJEKT Capital  
Group activity profile**

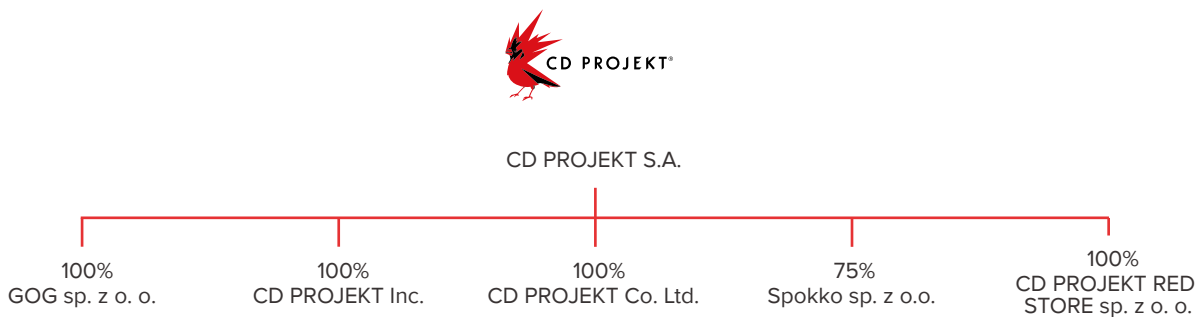


## Organizational structure of the CD PROJEKT Capital Group

On 14 January 2019 a new company was incorporated in the framework of the CD PROJEKT Capital Group under the name CD PROJEKT RED STORE sp. z o.o.

As of 31 December 2018 the CD PROJEKT Capital Group consists of the parent entity – CD PROJEKT S.A. – and five subsidiaries: GOG sp. z o.o., CD PROJEKT Inc., CDPROJEKT Co. Ltd., Spokko sp. z o.o. and CD PROJEKT RED STORE sp. z o.o.

**Scheme 3** Structure of the CD PROJEKT Capital Group at the end of H1 2019.







**Table 2** Summary of business activities of the parent company and other members of the CD PROJEKT Capital Group as of 30 June 2019

Company	Activity profile
CD PROJEKT S.A.	The core activities of the company, carried out by its CD PROJEKT RED studio, include development of videogames, publishing its own videogames, selling the associated distribution rights as well as manufacturing, selling and/or licensing tie-in products which exploit the popularity of brands owned by the company. CD PROJEKT S.A. also acts as the holding company of the CD PROJEKT Capital Group and coordinates the activities of other companies belonging to the Group.
GOG sp. z o.o.	This company concerns itself with online distribution of videogames, enabling customers from around the world to purchase games, remit payment and download game binaries to their personal devices. To this end the company owns and maintains the global digital distribution platform at GOG.com. In addition, GOG sp. z o.o. has formed a consortium with CD PROJEKT S.A. to develop and operate <i>GWENT: The Witcher Card Game</i> . Within the framework of this consortium, GOG sp. z o.o. is responsible for the game's online features and handling in-game transactions in the PC edition.
CD PROJEKT Inc.	This company coordinates publishing and promotional activities covering the Group's own products and the GOG.com platform throughout North America. To facilitate this goal, the company operates an office in Los Angeles.
CD PROJEKT Co. Ltd.	This company coordinates publishing and promotional activities covering the Group's products in the People's Republic of China, which includes managing a local team tasked with coordinating publishing and promotional activities related to <i>GWENT: The Witcher Card Game</i> .
Spokko sp. z o.o.	Gamedev studio focusing on mobile releases.
CD PROJEKT RED STORE sp. z o.o.	A company which engages in online marketing of tie-in products associated with CD PROJEKT RED releases throughout the European Union.

The above member companies of the CD PROJEKT Capital Group, with exception of CD PROJEKT Co. Ltd., Spokko sp. z o.o. and CD PROJEKT RED Store sp. z o.o., were subject to full consolidation as of 30 June 2019. Detailed information can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the first half of 2019.



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

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

- ◆ CD PROJEKT RED,
- ◆ GOG.com.

### CD PROJEKT RED

#### Target and scope of business activity

Videogame development is the main area of activity of the CD PROJEKT RED studio, which is a subunit of CD PROJEKT S.A. (domestic holding company of the CD PROJEKT Capital Group), CD PROJEKT Inc. (USA) and CD PROJEKT Co., Ltd. (China). Videogame development is based on two brands owned by the Company: *The Witcher* and *Cyberpunk*.



This activity covers creation and publication of videogames, licensing the associated distribution rights as well as manufacturing, distributing or licensing tie-in products which exploit the commercial appeal of brands held by the Company.

In the scope of its publishing activities the Company also assumes responsibility for its promotional and advertising campaigns, and maintains direct relations with the player base via electronic and social media channels (see the [Communications](#) section) as well as through regular participation in trade fairs. ✎



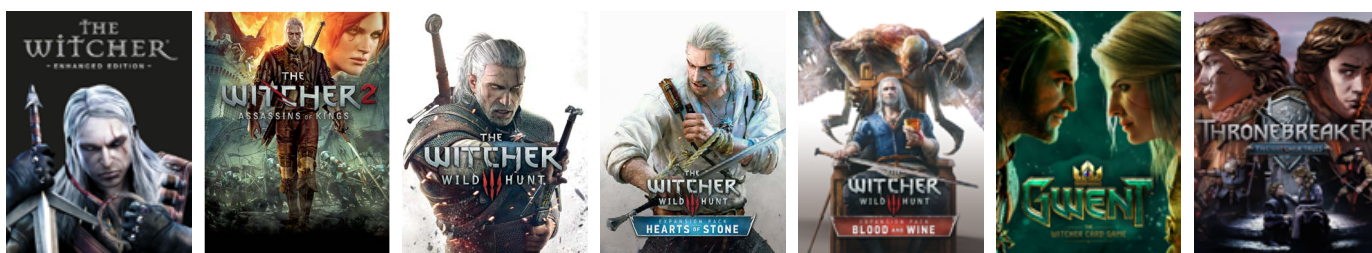
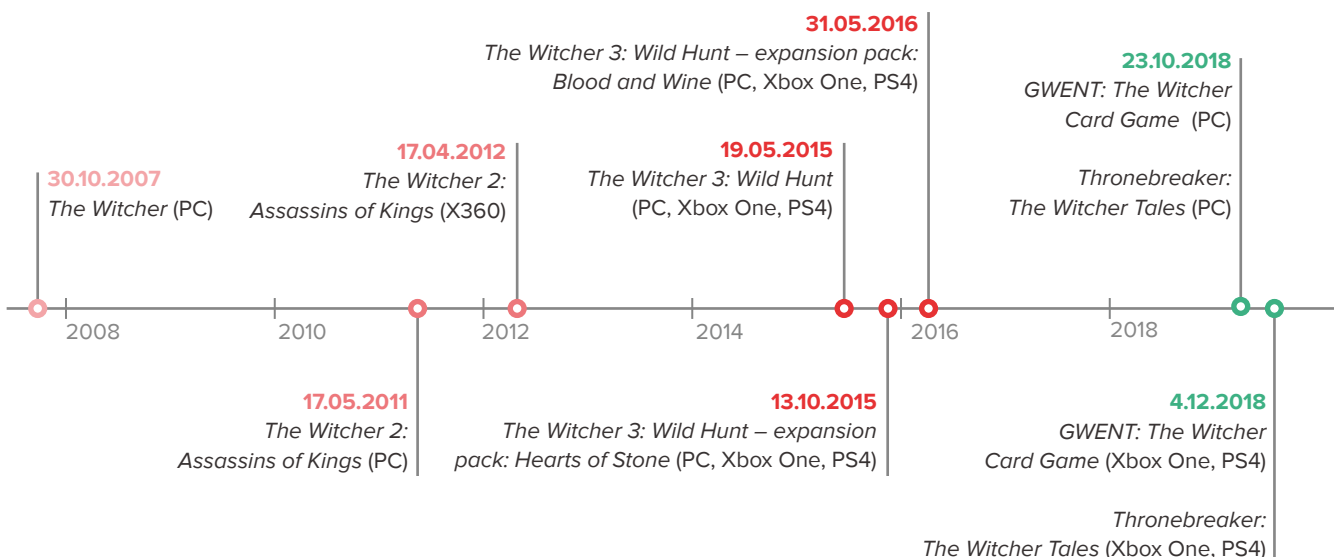
## Key products

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

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

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

**Scheme 4** Figure 4: Timeline of CD PROJEKT RED releases; 2007-2019



Altogether, videogames featuring the professional monster hunter Geralt of Rivia have received over 1000 awards.

A Nintendo Switch release of *The Witcher 3: Wild Hunt*, and a mobile edition of *GWENT: The Witcher Card Game* for iOS devices have both been announced for 2019.

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



## Key sources of revenue

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

- ◆ sales of territorial distribution rights (for box and digital editions), settled post factum on the basis of monthly or quarterly sales reports / licensing reports submitted by the Company's business partners,
- ◆ supplies of physical box editions to the Company's business partners for retail resale,
- ◆ supplies of batches of activation codes which permit games to be downloaded and installed,
- ◆ sales carried out through optional microtransactions in *GWENT: The Witcher Card Game* (incl. kegs and meteorite dust) via GOG and proprietors of console platforms.

Sales of CD PROJEKT S.A. products are governed by several dozen long-term licensing and distribution agreements concluded with publishers and distributors, both international (e.g. BANDAI NAMCO Entertainment Europe S.A.S., Microsoft, Sony, VALVE Corporation, Warner Bros. Home Entertainment) and domestic (including cdp.pl and GOG) Digital distribution agreements are typically settled in monthly cycles, while distribution of physical videogame editions follows quarterly reporting cycles. Depending on the specific partner or contract, the Company also collects licensing reports – these are submitted 30, 45 or 60 days following the end of each reporting period (typically each month or quarter).

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

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

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



## Key suppliers and clients

Within the CD PROJEKT RED activity segment, the Group carries out active distribution of its games for various hardware platforms, using both traditional distribution channels, in cooperation with leading global distributors (such as BANDAI NAMCO Entertainment Europe S.A.S., BANDAI NAMCO Entertainment Australia PTY LTD, cdp.pl sp. z o.o. and Warner Bros. Home Entertainment), and leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Origin, Amazon, Humble Bundle and AppStore, along with its own proprietary GOG.com platform).

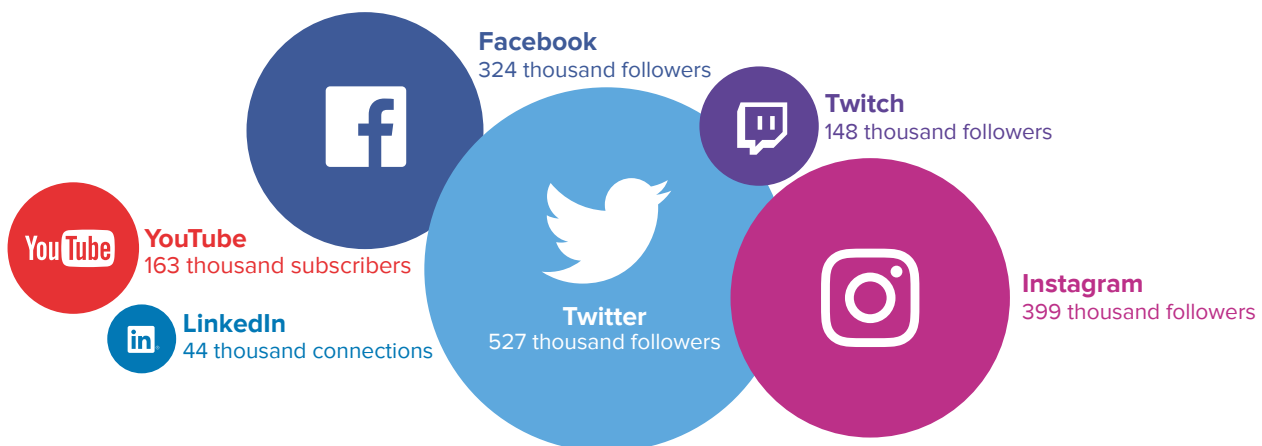
In the first half of 2019 sales to two clients exceeded 10% of the Group's consolidated sales revenues and totaled 45 897 thousand PLN and 43 406 thousand PLN respectively (21.4% and 20.2% of the Group's revenues respectively). These clients are not affiliated with CD PROJEKT S.A. or any of its subsidiaries. No other client accounted for more than 10% of the Group's consolidated sales revenues.

The videogame development process relies on certain bought-in tools and technological solutions; however, these do not result in significant concentration of supply. No CD PROJEKT RED supplier accounted for more than 10% of the consolidated revenues of the Capital Group in the first half of 2019.

## Communications

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

**Scheme 5** Number of users and subscribers of CD PROJEKT RED social media profiles as of 1 August 2019





## Key product and marketing events

### Cyberpunk

The most notable event of the first half of 2019 was the presentation of *Cyberpunk 2077* at E3 – the world’s premier gaming fair, held annually in Los Angeles. On 9 June, at the official Microsoft conference, the Company officially announced the game’s release date: 16 April 2020.

CD PROJEKT RED took this opportunity to unveil the contents of the game’s box edition, in both standard and collector’s variants. Following the reveal the Company, together with its business partners, began accepting preorders of the game.

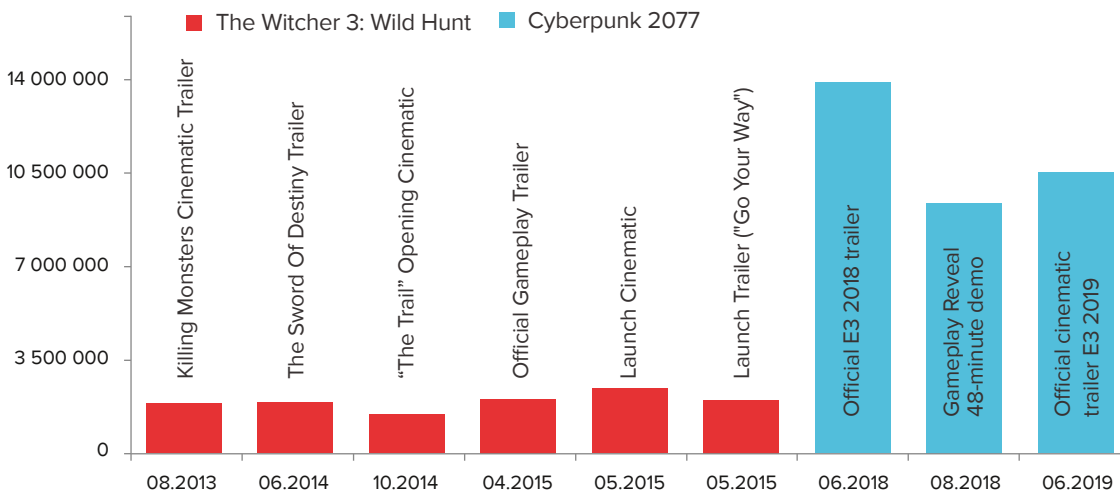




At the Microsoft conference the Company furthermore announced that Johnny Silverhand would be played by Keanu Reeves. As part of his collaboration with the studio, the acclaimed actor participated in a series of motion capture sessions and lent his visage as well as his voice to the character (the latter refers to the game’s English localization).

During the same event a new cinematic trailer was also unveiled – as of the publication date of this report, it has been viewed 30 million times across all of its distribution channels.

**Figure 4** Viewership of CD PROJEKT RED promotional content on the Studio’s Youtube channel (first 4 weeks following release).



At this year’s E3 *Cyberpunk 2077* demos were showcased in both the public and the business sector. CD PROJEKT RED held a series of closed presentations for media and business partners, showcasing a nearly hourlong gameplay trailer of *Cyberpunk 2077* for approximately 2000 attendees. In the public sector 54 presentations were organized over the course of three days, attracting over 5000 spectators.

These events were very favorably received by journalists and the game received over 85 awards for E3 excellence. Following the close of E3 *Cyberpunk 2077* was featured on the covers of numerous gaming magazines throughout the world, with over 6.5 thousand related articles appearing in both gaming and mainstream media. According to data published by GameIndustry.biz, *Cyberpunk 2077* was the most widely covered videogame of E3.





Following the balance sheet date, on 2-5 August, at China Joy – the largest gaming fair in China – the Company presented Chinese localizations of the *Cyberpunk* gameplay trailer and cinematic trailer. Presentations of the game were attended by representatives of several dozen major media outlets and local influencers.

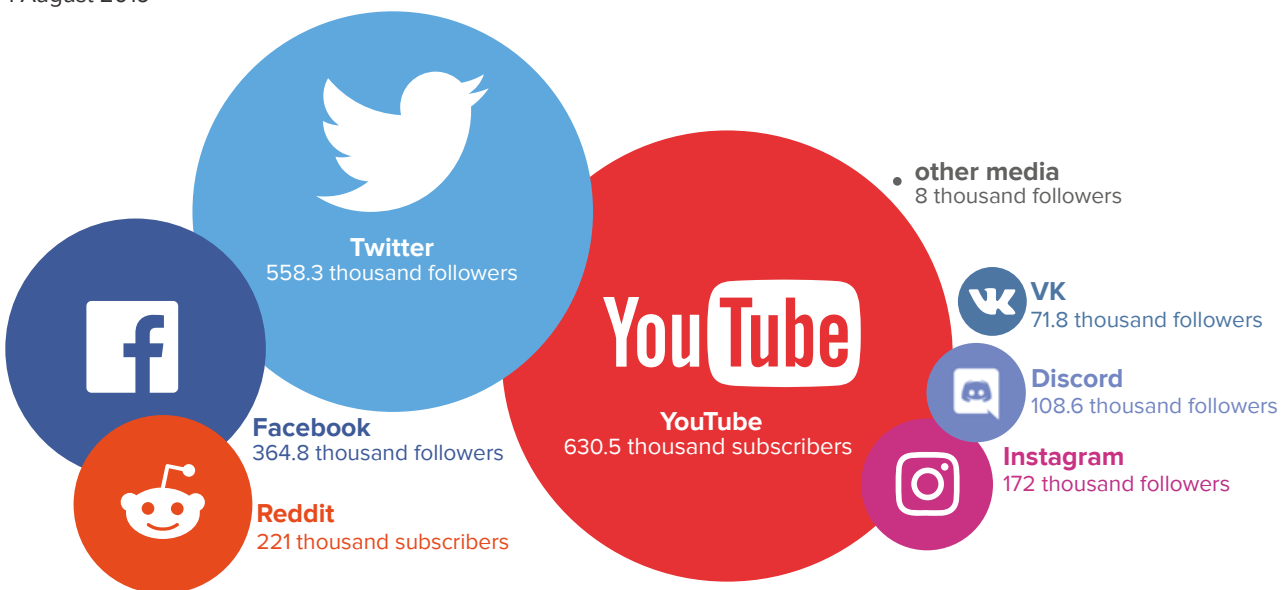
On 20-24 August the Company took part in Gamescom in Cologne – the largest such event on the European videogame market. *Cyberpunk* demos, displayed in two theaters, attracted 12 000 spectators, including 2000 media representatives, influencers and business partners from around the world.

At the fair the Company also held the first qualifying round of the official *Cyberpunk* cosplay competition. The winner – Katarina Petraskova – will face off against the winners of further qualifying rounds in a grand finale for a chance to claim 40 000 USD in prizes and secure a cover photo session deal with one of the world’s foremost entertainment mags.



After the close of the reporting period the Company also announced its collaboration with Refused, which would appear as the in-universe SAMURAI band. The collaboration involves composition and recording of clips inspired by *Cyberpunk 2020* pen-and-paper edition songs, as well as a selection of entirely new content created specifically for *Cyberpunk 2077*.

**Scheme 6** Number of users and subscribers of *Cyberpunk 2077* social media profiles as of 1 August 2019







**GWENT**

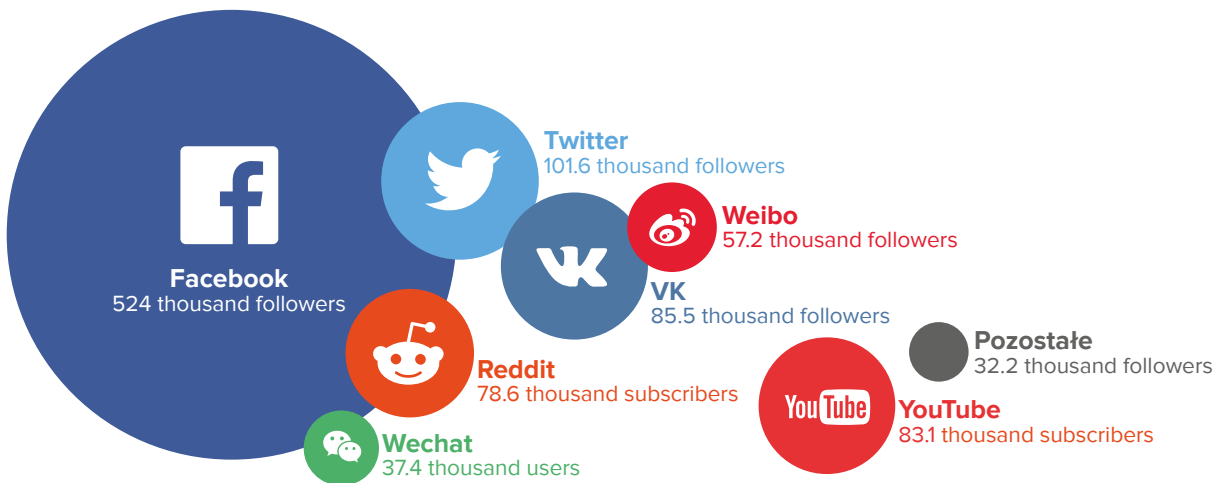
On 27 March 2019 the Company announced that *GWENT* would be coming to smartphones. The iPhone release is scheduled for the fall of 2019, and will be followed by the Android release.

Two *GWENT* expansions were released in the first half of 2019: the *Crimson Curse* expansion on 28 March, and the *Novigrad* expansion on 28 June, the latter introducing *GWENT* to one of the most important locations of *The Witcher 3: Wild Hunt*.

Another *GWENT* Open tournament was held on 16-17 March, with a total prize pool of 25 thousand USD. This time the main prize was claimed by the Chinese gamer Ni “wangid1” Lipao.



**Scheme 7** Number of users and subscribers of *GWENT* social media profiles as of 1 August 2019





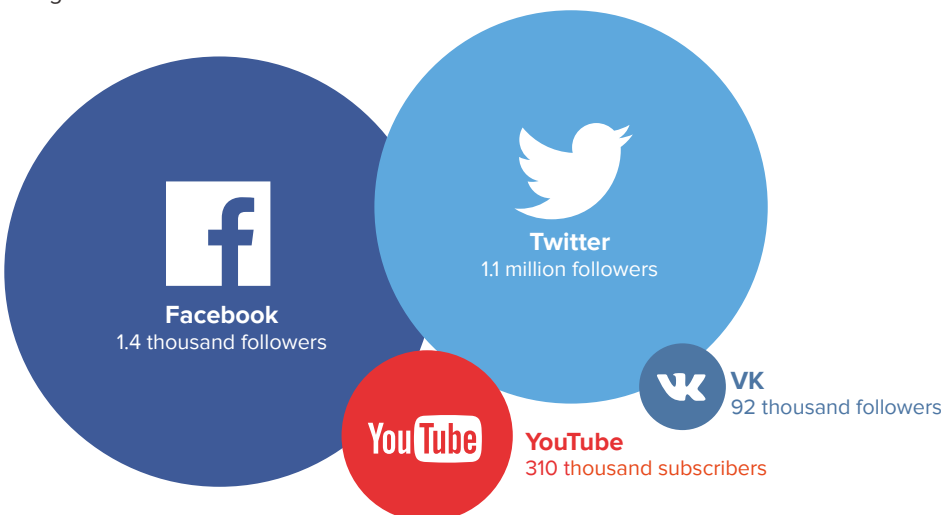
Other events related to The Witcher videogame series

On 8 February 2019 add-on content inspired by *The Witcher 3: Wild Hunt* was released for *Monster Hunter: World*.

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



**Scheme 8** Number of users and subscribers of *The Witcher* social media profiles as of 1 August 2019





## GOG.com

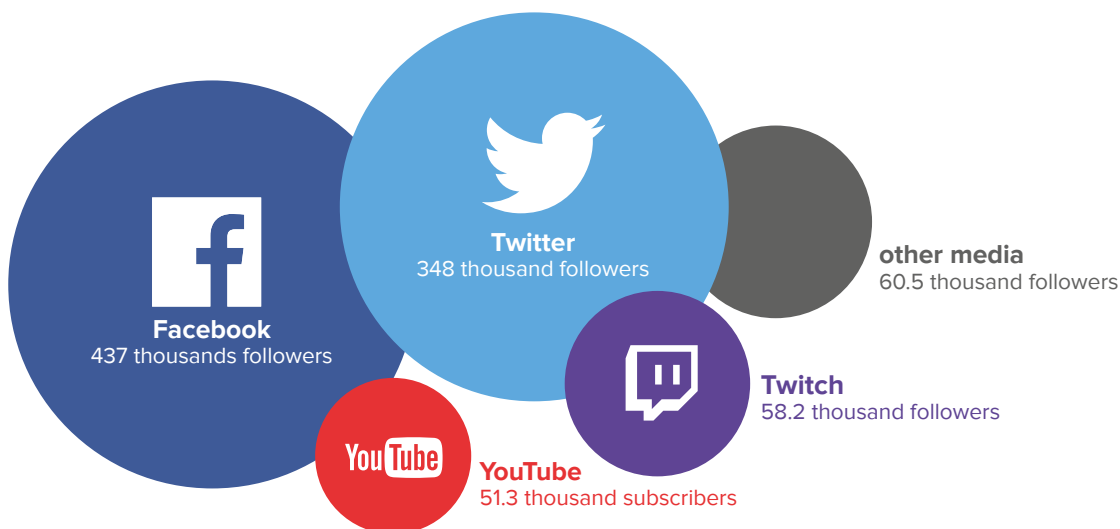
### Target and scope of business activity

The GOG.com platform was launched in August 2008. Its initial mission was to revitalize major PC cult classics and offer them for sale to international customers with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. The platform is now offered in English, French, German, Russian, Chinese and Polish – this includes full game localizations as well as dedicated customer support and integration with locally popular payment channels, accepting payments in thirteen currencies. GOG.com also carries releases for the macOS and Linux operating systems.

GOG.com activities focus on:

- ◆ digital distribution of videogames via the Company's proprietary GOG.com distribution platform and the GOG Galaxy application, based on contracts concluded by GOG sp. z o.o. with producers, IPR holders and external publishers. The platform enables customers to purchase games, remit payment and download game files to their personal devices.
- ◆ development and support for the Company's proprietary GOG Galaxy application to provide user-friendly and straightforward purchase, launch and update features for all games from the GOG.com catalogue, and to facilitate cross-platform online gameplay. GOG Galaxy is currently responsible for all networking features of *GWENT*, including in-game sales and payment processing in the PC edition.
- ◆ collaboration with CD PROJEKT S.A. in the framework of a consortium set up to develop and operate *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. In this scope, GOG sp. z o.o. is responsible for handling in-game purchases in the PC edition, and for delivering the required IT infrastructure and implementing networking features.

**Scheme 9** Number of users and subscribers of GOG.com social media profiles as of 1 August 2019



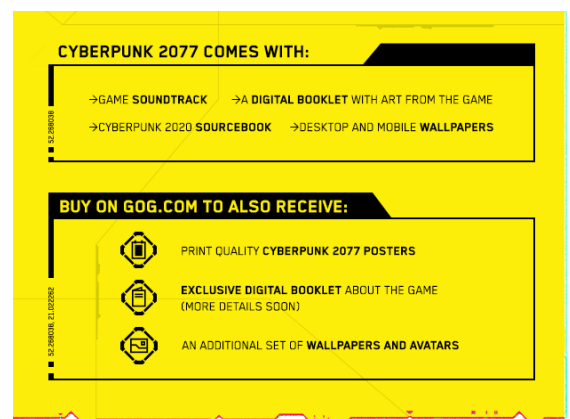
Payments collected by GOG sp. z o.o. from customers are split with the Company's suppliers as agreed upon in distribution contracts. Typical contracts require the Company to submit sales reports in monthly or quarterly cycles, not later than 30 days following the close of the given reporting period.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



## Key products

As of the publication date of this report, the GOG.com catalogue comprises nearly 2800 products from more than 600 publishers and producers of videogames, including such well-known brands as Activision Blizzard, Bethesda, Disney, Electronic Arts, Ubisoft and Warner Bros. The key difference between GOG.com and its competitors (i.e. other independent platforms – Steam, Gamersgate, Humble Bundle etc.) is its set of core principles. As a rule, the company ensures that all of its games are free of cumbersome DRM measures. Products offered on GOG.com are richly featured and usually include bonus content such as soundtracks, maps and wallpapers. GOG.com also ensures full compatibility of its games with current versions of MS Windows, Mac OS and popular distributions of Linux, and provides technical support in case of installation problems. If a game cannot be made to run on the user's computer, it can be returned within 30 days of purchase for a full refund. Owing to these values GOG.com has become one of the most popular digital videogame distribution platforms in the world.

The Group uses GOG.com to market its own products directly to end users – this includes *The Witcher* and *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt* (along with its expansion packs – *Hearts of Stone* and *Blood and Wine*, also offered as the Game of the Year Edition), *Thronebreaker: The Witcher Tales* and *The Witcher Adventure Game*. Thanks to GOG Galaxy support for *GWENT* networking features, distribution of *GWENT* to PC users can take advantage of the sales and payment mechanisms offered by GOG.com.



## Key sources of revenue

Revenues obtained in the GOG.com segment are directly dependent on the popularity of the offered games and their respective sales volumes. The Company continuously expands the scope of its cooperation with suppliers and seeks access to new, attractive products. GOG.com is also home to seasonal and one-off sales campaigns, including summer, fall and Christmas bargain packages as well as other events which introduce new means of attracting gamers.

Other notable sources of revenue include *Thronebreaker: The Witcher Tales* and *GWENT: The Witcher Card Game*. In this scope, revenues attributed to the GOG.com segment comprise:

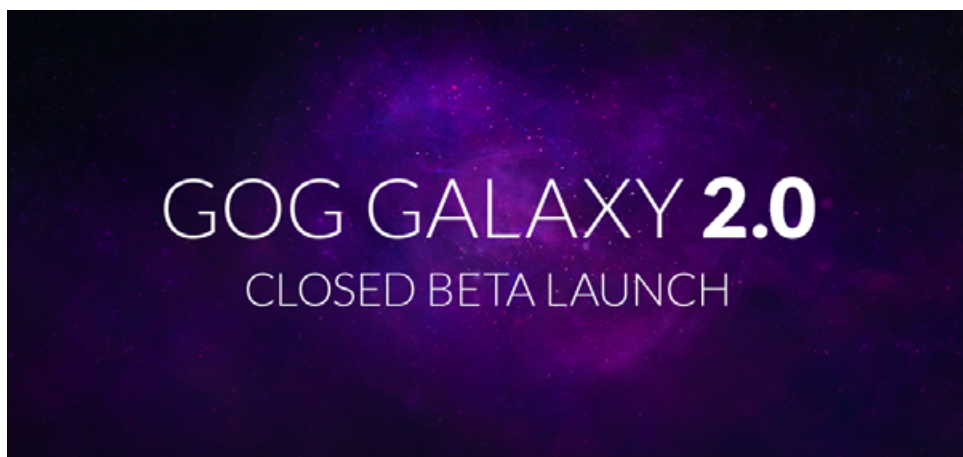
- ◆ the GOG sp. z o.o. share of revenues from in-game sales to final customers in the PC edition (excluding the Chinese market), as stipulated in the consortium agreement,
- ◆ the GOG sp. z o.o. share of revenues from in-game sales handled by external partners (including the Chinese partner), as stipulated in the consortium agreement.




## Key product and marketing events

### GOG Galaxy 2.0

In the second quarter of 2019 GOG unveiled GOG Galaxy 2.0, which has now entered its beta testing phase. The goal of the application is to enable players to integrate all their game shelves into a single library, to communicate with friends and to track their progress regardless of their preferred gaming platforms. Its functionality will span PC and console platforms, extending beyond the GOG.com user base.



The application is being developed in response to the growing fragmentation of the gaming market, where new digital distribution platforms are emerging and an increasing number of games are released on a platform-exclusive basis.

During this year's E3 fair demo versions of the applications were showcased to invited representatives of top gaming media (including Gamespot, IGN and Game Informer). Following the launch of the beta testing phase, access to GOG Galaxy 2.0 was provided to several hundred media editors and influencers from around the world, resulting in a large volume of positive reports and recommendations. Beta subscriptions are still available – see: [gogalaxy.com/en/](https://gogalaxy.com/en/)  for details.



### New games in the GOG.com catalogue

In the first half of 2019 the list of classic PC games offered on GOG.com was extended with several cult classics from Blizzard Entertainment games. Remastered games, such as *Diablo* (along with its long-unavailable *Hellfire* expansion pack), *Warcraft: Orcs and Humans* and *Warcraft II Battle.net Edition* quickly topped the list of fastest-selling classic games in GOG.com's history, becoming the most important external products marketed on GOG.com in the first half of 2019 – in terms of revenues.

Other notable fresh releases and new games introduced in the first of the year include *Imperator: Rome*, *Mutant Year Zero: Road to Eden*, *Spec Ops: The Line*, *Blood: Fresh Supply*, *Bioshock Infinite: Complete Edition* and *Vampyr*.

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

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

### Sales support

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

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

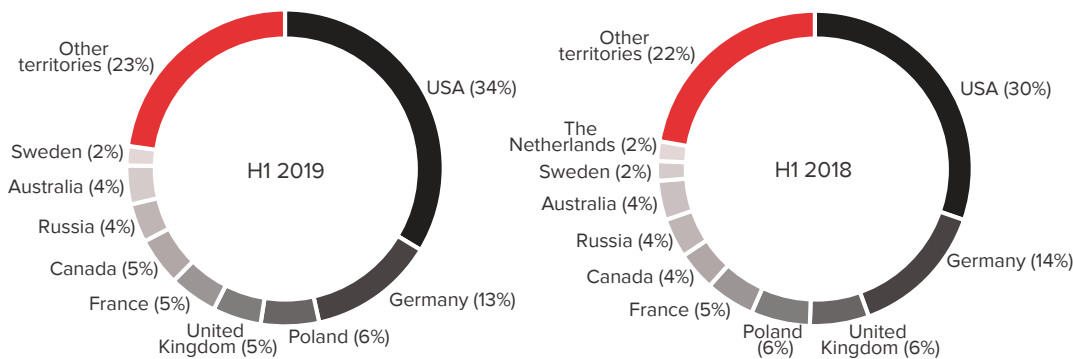
In addition to its other themed events, such as the Spring Sale, Hot Sale, Lantern Festival Sale and Indie Week, GOG.com also hosts weekly sales.



## Key suppliers and clients

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

**Figure 5** Sales of products and goods by GOG.com in the first halves of 2018 and 2019 by territory.



In the first half of 2019 the largest group of GOG.com customers comprised residents of the United States (34%), followed by Germany (13%), Poland (6%) and the United Kingdom (5%).

## Key corporate events

On 14 January 2019 a new member company was incorporated in the framework of the Capital Group – CD PROJEKT RED STORE sp. z o.o., fully owned by CD PROJEKT S.A. On 8 May the new company launched an online store which sells high quality collector's items inspired by the studio's videogames. The store's catalogue will be progressively expanded with new products and categories. Currently CD PROJEKT RED STORE serves European Union member states; however, its geographical reach will soon expand to cover – among others – the US and Canada.

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

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

## Events occurring after the balance sheet date

No significant events occurred after the close of the reporting period which would merit inclusion in this semiannual report on CD PROJEKT Capital Group activities.



## Disclosure of seasonal or cyclical activities

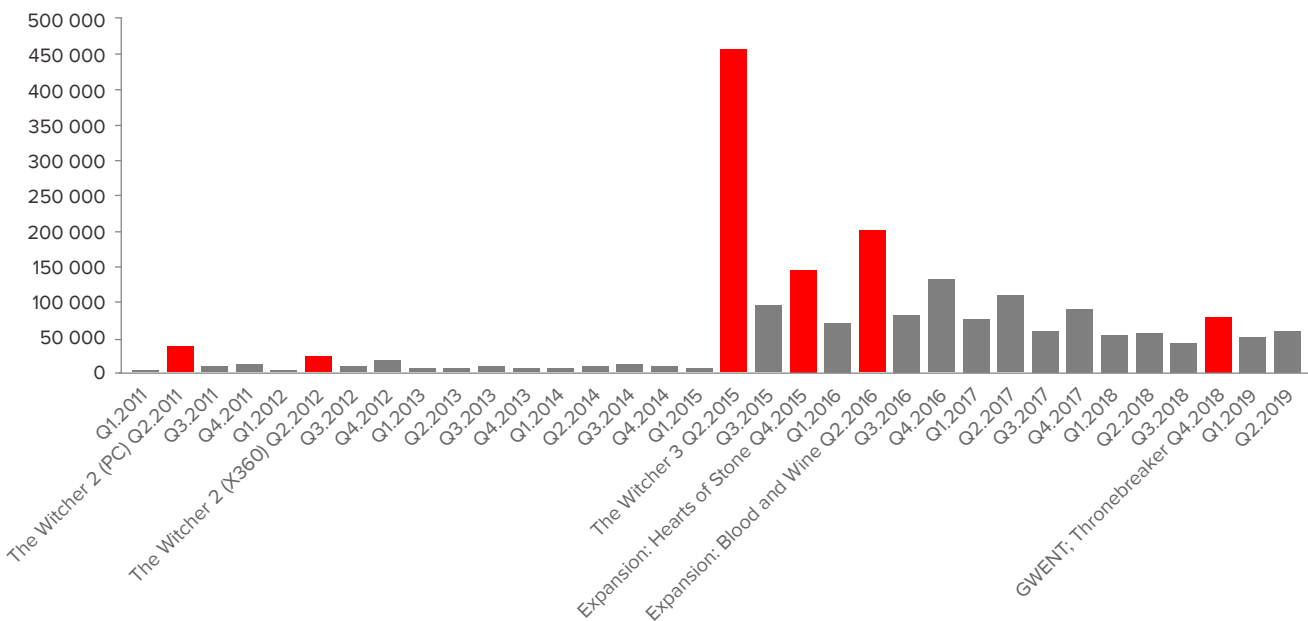
### CD PROJEKT RED

The revenues and financial result of the CD PROJEKT RED segment are strongly affected by the videogame release schedule. CD PROJEKT RED usually takes between 2 and 4 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released.

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

With regard to games which have already been released, their yearly sales distribution is dependent on the schedule of periodic sales campaign. 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.

**Figure 6** CD PROJEKT RED release quarters – sales of products, goods and materials in 2011-2019 (PLN thousands)







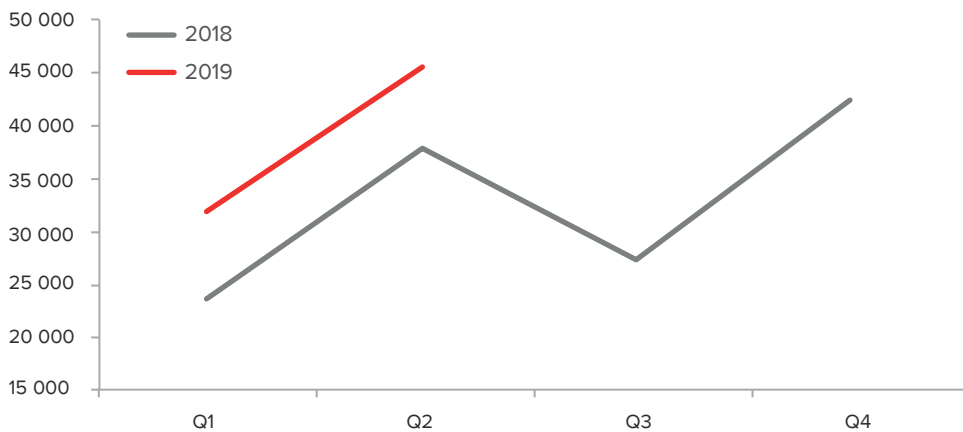
## GOG.com

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

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

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

**Figure 7** Quarterly sales of goods and materials in the GOG.com segment; 2018-2019 (PLN thousands).





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

Future growth of the Company and its Capital Group is critically dependent on the ability to retain world-class creative professionals and experts, and to attract a growing number of specialists, both Polish and foreign, to work on the Group's future releases. Ongoing expansion of the company also calls for effective management of production and publishing activities related to several projects carried out in parallel at the Company HQ in Warsaw and at its branch offices in Kraków, Wrocław, Berlin, Los Angeles, Shanghai and Tokyo. The market performance of each new release is an important aspect of the Studio's reputation as a developer of top-quality, highly sought-after entertainment products. It also underpins the value and recognition of brands such as *The Witcher*, *Cyberpunk* and CD PROJEKT RED, upon which the long-term development strategy of the Company and its Capital Group is founded.

Moreover, the activities of CD PROJEKT Capital Group member companies are affected by external factors such as the global macroeconomic conditions, legal reforms and changes in taxation. In this sense, CD PROJEKT is in a similar position to many other companies conducting business on domestic and international markets.

Key internal and external factors which may, in the Board's opinion, prove detrimental to the Group's activities and growth prospects are listed in the risk assessment section of the Management Board report on CD PROJEKT Capital Group and CD PROJEKT S.A. activities in 2018.

With regard to further quarters of 2019, the CD PROJEKT Capital Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.com, while also pursuing new initiatives in the framework of its subsidiaries – Spokko and CD PROJEKT RED STORE. A description of further growth plans can be found in the Strategy of the CD PROJEKT Capital Group for the years 2016-2021, announced in March 2016. The full text of this document is available on the Company's corporate website at: [cdprojekt.com/en/capital-group/strategy/](https://cdprojekt.com/en/capital-group/strategy/).



### CD PROJEKT RED

Key factors which will guide activities in the CD PROJEKT RED segment include ongoing projects, the scale of development work associated with those projects and their perceived popularity among players. In this context, the most significant factors shaping the current results of the CD PROJEKT Capital Group include the popularity of previously published games set in *The Witcher* universe, as well as – in future periods – the progress of development and market reception of the Company's new releases, including *Cyberpunk 2077* and further products. To-date enthusiastic reception of the Studio's new product by gamers and experts alike suggests strong potential of the brand, both in terms of PR and commercial appeal. Commitment to product quality, maintaining the pace of the *Cyberpunk 2077* marketing campaign, PR activities, hype management and fostering community relations are all important aspects of the game's anticipated market success. In addition, global recognition and popularity of the *Cyberpunk 2077* brand may entice gamers who are not yet familiar with *The Witcher* games to seek access to the Company's earlier products.

Future results of the CD PROJEKT Capital Group will also depend on the popularity and progress of development of *GWENT: The Witcher Card Game*. The *GWENT* team currently focuses on



porting the game to mobile devices, on adding new content, card sets and vanity items as well as organizing regular in-game events with the aim to attract and retain gamers.

*GWENT: The Witcher Card Game* is the first multiplayer game developed by the CD PROJEKT Group in which CD PROJEKT and GOG collaborate to jointly create new technological solutions while extending their knowledge and experience in terms of provisioning online products. These technologies and know-how are strategically important for the Group and its future development and publishing capabilities.

The Company believes that maintaining the observed growth dynamics and expansion of its activity profile will depend on further enhancement of its world-class videogame development skillset and on maintaining effective communication channels with the global gaming community. Managing two separate major franchises (*The Witcher* and *Cyberpunk*), along with several independent development teams, enables the Company to conduct parallel work on several projects and smoothens its long-term release schedule. This migration towards a dual-franchise model supported by several independent product lines also permits optimization of manufacturing and financial activities, mitigates important risk factors and makes it easier for Company employees to seek professional fulfillment.

### GOG.com

In the GOG.com segment, maintaining the current high sales volume should be supported by the customers' increasing tendency to turn to online channels for purchases.

GOG.com growth also depends on seeking additional brand-new products. Accordingly, GOG sp. z o.o. actively communicates with leading global developers and publishers of videogames, continually expanding its list of business partners and products offered. Each new release on GOG.com contributes to the platform's popularity and drives up sales. In addition to adding new products GOG sp. z o.o. also seeks to expand its user base by attracting new players – those who have not yet set up a GOG.com account. The Company has been successful in this regard, owing to its PR activities and synergies resulting from cooperation with CD PROJEKT S.A. The GOG.com customer pool continues to grow at a steady pace.

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

Further growth of activities in the GOG.com segment, including the potential to acquire unique know-how and experience, and to fully leverage the Company's technological expertise, will be influenced by the Company's involvement in the *GWENT* project, where GOG.com is responsible for networking and online sales.

Participation in the *GWENT* project and applying GOG Galaxy in the development of a free-to-play online game marks GOG.com's entry into a new market segment. The resulting technologies and experience will, in the Board's opinion, strongly affect future growth prospects of GOG.com in this heretofore unexplored area of the market.



## Disclosure of factors which, in the issuer's opinion, will affect its financial result during at least the coming quarter

The coming, third quarter of the year, coincides with the vacation season and therefore with a drop-off in sales activities which affect the sales volume of previously released games. The Group's publishing schedule foresees no significant product releases in the third quarter of 2019. At the same time, the Group's financial result will be impacted by costs related to the ramp-up of the *Cyberpunk 2077* promotional campaign, including (among others) participation in gamescom and China Joy. Regarding the fourth quarter of the year, the Group has announced the release of *The Witcher 3: Wild Hunt* for Nintendo Switch and *GWENT* for mobile iOS devices. Both releases are expected to bolster the Group's sales revenues and financial result during this period. The coming year will be dominated by the release of *Cyberpunk 2077*, scheduled for 14 April 2020, along with the associated tie-in events.

## Disclosure of significant agreements<sup>6</sup>

No agreements meeting the significance threshold were concluded by the Company in the reporting period.

<sup>6</sup> An agreement is regarded its significant if the sum of liabilities arising under that agreement exceeds 10% of the Capital Group's consolidated assets.



## Risk management at the Capital Group

The CD PROJEKT Capital Group carries out ongoing assessment and mitigation of risk factors which may affect its financial or material standing. The Group is exposed to common risks typical for commercial entities which carry out economic activities in Poland, export products and maintain subsidiaries (including foreign subsidiaries).

Pursuing complex, innovative projects which call for multiple iterations to ensure that the final product meets the stated requirements involves higher-than-average operating risk. With each new release the Group gains valuable publishing and development experience, enabling it to adapt its practices in the scope of project management, progress monitoring and risk mitigation.

A detailed risk assessment can be found in the Management Board Report on CD PROJEKT Capital Group Activities for 2018, available for download on the Company website at [cdprojekt.com](http://cdprojekt.com).





**Financial statement  
of the CD PROJEKT  
Capital Group**



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

## Condensed interim consolidated profit and loss account

**Table 3** Consolidated profit and loss account – selected highlights (PLN thousands)

	Note	01.01.2019 – 30.06.2019	01.01.2018 – 30.06.2018
<b>Sales revenues</b>		<b>214 407</b>	<b>168 434</b>
Revenues from sales of products	17	109 775	108 772
Revenues from sales of services	17	31 755	25
Revenues from sales of goods and materials	17	72 877	59 637
<b>Cost of products, goods and materials sold</b>		<b>66 168</b>	<b>43 829</b>
Cost of products and services sold	18	14 926	91
Value of goods and materials sold	18	51 242	43 738
<b>Gross profit (loss) from sales</b>		<b>148 239</b>	<b>124 605</b>
Selling costs	18	53 373	46 639
General and administrative costs	18	35 836	16 546
Other operating revenues	19	1 966	632
Other operating expenses	19	1 023	984
(Impairment losses)/reversal of impairment losses of financial instruments		21	233
<b>Operating profit (loss)</b>		<b>59 994</b>	<b>61 301</b>
Financial revenues	20	5 199	5 781
Financial expenses	20	818	492
<b>Profit (loss) before tax</b>		<b>64 375</b>	<b>66 590</b>
Income tax	11	12 695	14 160
<b>Net profit (loss)</b>		<b>51 680</b>	<b>52 430</b>
Net profit (loss) attributable to equity holders of parent entity		51 680	52 430
<b>Net earnings per share (in PLN)</b>			
Basic for the reporting period		0.54	0.55
Diluted for the reporting period		0.51	0.52



## Discussion regarding the condensed interim consolidated profit and loss account of the CD PROJEKT Capital Group

The aggregate **Sales revenues** of the CD PROJEKT Capital Group for the first half of 2019 reached 214 407 thousand PLN, which was 27.3% more than during the reference period in 2018.

The largest contribution to the Group's consolidated revenues (51.2%) in H1 2019 was from **Revenues from sales of products**, comprising mostly:

- ◆ royalties associated with ongoing strong sales of *The Witcher 3: Wild Hunt*, along with its expansion packs (*Hearts of Stone* and *Blood and Wine*),
- ◆ royalties associated with digital distribution of *Thronebreaker: The Witcher Tales* and in-game sales related to *GWENT: The Witcher Card Game*.

The Group's aggregate revenues from sales of products in the first half of 2019 were slightly greater than during the reference period in 2018.

**Revenues from sales of goods and materials** contributed 34% to the Group's aggregate revenues, and were generated mostly through distribution of videogames licensed from external suppliers directly to end users, carried out by GOG.com. The reported increase (by 22.2% compared to the reference period) is a result of the highly successful Summer Sale – the best such event in GOG.com's to-date history – along with strong performance of other new additions to the GOG.com catalogue (particularly *Diablo + Hellfire*, *Warcraft I & II*) as well as the current condition of the currency market, which favors exporters.

An important contribution to the Group's revenues in the past semiannual period was from **Revenues from sales of services** in the CD PROJEKT RED segment – resulting from collaboration with external publishers in the framework of the *Cyberpunk 2077* promotional campaign and joint promotional activities with financial involvement of these external partners.

The **Cost of products, services, goods and materials sold**, which directly accompanies sales, was 66 168 thousand PLN, which is 51% more than during the first half of 2018.

This increase compared to the reference period was mostly associated with ongoing depreciation of development expenses of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, aggregated with the **Cost of products and services sold**. Such costs did not apply during the reference period because prior to the release of both games, which took place in October 2018, their respective development costs were subject to capitalization. In addition, the aforementioned line item also aggregates the costs incurred by the Group in relation to revenues from sales of services.

In line with the accounting policy in force at the Group, development expenses associate with *GWENT* are depreciated on a straight-line basis over three year following finalization and release of the full version of the project. With regard to *Thronebreaker*, development expenses are also reassigned to costs over three years following the release of the game's full version – in this case, based on the expected distribution of future revenues, estimated by referring to the sales performance of past products.

The reported increase (by 17.2%) in the **Value of goods and materials sold**, compared to the reference period, relates to costs incurred in the process of selling goods licensed from external suppliers on GOG.com. This directly corresponds to the segment's increased sales volume during H1 2019.





In the reporting period the CD PROJEKT Capital Group generated 148 239 thousand PLN in **Gross profit from sales**, i.e. 19% more than during the first half of 2018. The Group's gross profitability, i.e. the ratio between its pre-tax profit and sales revenues, was 69.1% during /H1 2019.

The reported **Selling costs** mostly comprise expenses associated with advertising and promotional activities in each of the Group's activity segments.

The bulk of the aforementioned costs were generated in the CD PROJEKT RED segment, particularly in relation to the pre-release marketing of *Cyberpunk 2077* and – to a lesser degree – promotional activities related to *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, along with maintenance costs and remuneration (both fixed and contingent upon the Group's financial result) of staff members comprising the Company's internal publishing departments.

Another important contribution to the Group's selling costs during the reporting period was from the operating costs of the GOG.com platform, including:

- ◆ remuneration of the platform's development and maintenance teams, as well as staff responsible for promoting the platform,
- ◆ transaction charges related to digital sales carried out on the GOG.com platform,
- ◆ costs of marketing activities related to GOG.com,
- ◆ IT infrastructure upkeep costs.

Furthermore, a notable contribution to H1 selling costs was generated by the maintenance, upkeep, promotion and further development of *GWENT: The Witcher Card Game* (including work on the previously announced mobile edition), reported by the consortium consisting of CD PROJEKT RED and GOG.com.

The Group's selling costs also include costs of other bought-in sales support services.

The aggregate value of the Group's **Selling costs** incurred during the reporting period was 53 373 thousand PLN, which is 14.4% more than during the reference period.

**General and administrative costs** amounted to 35 836 thousand PLN, representing an increase by 116.6% compared to the first half of 2018.

This increase was mostly due to a revision in projections concerning the expected attainment of the goals of the incentive program in force at CD PROJEKT RED. Validation of attainment of the program's goals is based solely on annual results; however, in light of the results obtained by the end of the first half of 2019, along with the Company's release schedule for the second half of the year (with regard to entitlements attributable to the CD PROJEKT RED segment), the Board has decided to alter its projections regarding the likely attainment of the program goals for the period between 2016 and 2021. Accordingly, the Board now believes that – with regard to entitlements attributable to the CD PROJEKT RED segment – the goals of the program are likely to be met as defined for the period between 2016 and 2019.

Earlier recognition of the program's costs in relation to past reporting periods (note that the program was instituted in 2016) resulted in a one-time cost item of 15 193 thousand PLN reported in Q2 2019. In subsequent periods costs attributable to the incentive program will be recognized on the basis of updated projections concerning these periods. Note that these costs correspond to actuarial estimates and have no associated cash flows – thus, the reported increase does not affect current or future cash outflows related to the incentive program.



For all entitlements granted under the incentive program, the corresponding costs are aggregated with **General and administrative costs**.

Further information regarding the incentive program and the reported change in projections can be found in the Corporate Governance section of this report.

The remaining components of **General and administrative costs** of the CD PROJEKT Capital Group represent compensation and provisions for compensation contingent upon the Group's financial result at the Group's back office departments, along with costs of bought-in services which qualify for inclusion in this category. Their reported increase compared to the first half of 2018 is due to the upscaling of the Group's activities and recruitment of additional staff over the past 12-month period.

In the first half of 2019 the group reported a surplus of **Financial revenues** over **Financial expenses** in the amount of 4 381 thousand PLN, i.e. 17.2% less than during the reference period. This decrease is mostly due to lower interest on bank deposits and disclosure of interest payments associated with office space lease agreements, as mandated under IFRS 16.

The Group's consolidated **Net profit** for the first half of 2019 was 51 680 thousand PLN, which is comparable to the net profit obtained in the first half of the previous year (52 430 thousand PLN).

The increase in the Group's revenues, including unusual revenues related to agreements concerning collaborative promotion of *Cyberpunk 2077*, also resulted in an increase in costs – particularly the following:

- ◆ increased *GWENT*-related costs incurred during the reporting period (including maintenance, upkeep, promotional activities and further development of the base game, expansion packs and the mobile editions, as well as ongoing depreciation of past development expenses which began in the fourth quarter of 2018) in both of the Group's activity segments,
- ◆ one-time recognition (in Q2 2019) of current costs associated with the incentive program in relation to past reporting periods as a result of a revision in projections concerning likely attainment of the program's goals in the CD PROJEKT RED segment,
- ◆ increased costs associated with the ramp-up of promotional activities involving *Cyberpunk 2077* in the CD PROJEKT RED segment.

The Group's net profitability (ratio between its post-tax profit and sales revenues) for the reporting period was 24.1%.



## Selected items from the segmented profit and loss account of the CD PROJEKT Capital Group between 01.01.2019 and 30.06.2019

**Table 4** Sales revenues, expenses and financial result by activity segment (PLN thousands)

	CD PROJEKT RED	GOG.com	Consolidation eliminations	Total
<b>Sales revenues</b>	<b>138 725</b>	<b>81 108</b>	<b>(5 426)</b>	<b>214 407</b>
Revenues from sales of products	104 460	3 733	1 582	109 775
Revenues from sales of services	33 584	1	(1 830)	31 755
Revenues from sales of goods and materials	681	77 374	(5 178)	72 877
<b>Cost of products, goods and materials sold</b>	<b>12 981</b>	<b>57 413</b>	<b>(4 226)</b>	<b>66 168</b>
Cost of products and services sold	12 319	3 236	(629)	14 926
Value of goods and materials sold	662	54 177	(3 597)	51 242
<b>Gross profit (loss) from sales</b>	<b>125 744</b>	<b>23 695</b>	<b>(1 200)</b>	<b>148 239</b>
Selling costs	34 867	19 611	(1 105)	53 373
General and administrative costs	32 709	3 222	(95)	35 836
Other operating revenues	2 297	123	(454)	1 966
Other operating expenses	1 369	108	(454)	1 023
(Impairment)/reversal of impairment of financial instruments	3	18	-	21
<b>Operating profit (loss)</b>	<b>59 099</b>	<b>895</b>	<b>-</b>	<b>59 994</b>
Financial revenues	4 957	294	(52)	5 199
Financial expenses	427	443	(52)	818
<b>Profit (loss) before taxation</b>	<b>63 629</b>	<b>746</b>	<b>-</b>	<b>64 375</b>
Income tax	12 592	103	-	12 695
<b>Net profit (loss)</b>	<b>51 037</b>	<b>643</b>	<b>-</b>	<b>51 680</b>
<b>Net profit (loss) attributable to equity holders of the parent entity</b>	<b>51 037</b>	<b>643</b>	<b>-</b>	<b>51 680</b>



## Discussion regarding the segmented condensed interim consolidated profit and loss account

### CD PROJEKT RED segment

In the CD PROJEKT RED segment, the greatest contribution to the reported revenues and net profit obtained in H1 2019 was from ongoing strong sales of *The Witcher 3: Wild Hunt* along with its expansion packs. Other important products included *Thronebreaker: The Witcher Tales* and *GWENT: The Witcher Card Game*. Despite another year having passed since the release of the third installment in The Witcher series – which carries on as CD PROJEKT RED's main source of revenue – the Company's products generated similar sales revenues as during the reference period.

Another important source of revenues in the CD PROJEKT RED segment was **Revenues from sales of services**, valued at 33 584 thousand PLN. The bulk of this figure comes from collaborative promotional activities involving *Cyberpunk 2077*, where some of the resulting costs are shouldered by the Company's external publishing partners.

The reported increase in the **Cost of products, services, goods and materials sold** in the CD PROJEKT RED segment is due to commencement of depreciation of development expenses associated with *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, both released in the fourth quarter of 2018, as well as due to recognition of costs offsetting current-period revenues from sales of services.

The CD PROJEKT RED segment generated 125 744 thousand PLN in **Gross profit from sales** during the first half of 2019 – 18.4% more than during the first half of the previous year. The segment's gross profitability (ratio between gross profit from sales and sales revenues) was 90.6%.

**Selling costs** in the CD PROJEKT RED segment amounted to 34 867 thousand PLN, which is 13% more than during the first half of 2018. Main contributions to this figure – both for the current year and for the previous year – include costs related to promoting CD PROJEKT RED products, particularly the intensive promotional campaign accompanying the upcoming release of *Cyberpunk 2077*. The latter includes, among others, preparation of content for the Xbox conference, participation in E3 in Los Angeles and preparation for other fairs – China Joy in Shanghai and gamescom in Cologne. The reported selling costs were also affected by maintenance, upkeep, further development and preparing a mobile edition of *GWENT: The Witcher Card Game* (announced for fall of the current year), where the corresponding costs incurred during the previous year (i.e. before the game's official release) were instead aggregated with **Expenditures of development projects** in the **Fixed assets** category.

**General and administrative costs** in the first half of 2019 were reported at 32 709 thousand PLN – 138.6% more than during the reference period, which is mostly due to the previously described change in projections regarding potential attainment of the incentive program goals in the CD PROJEKT RED segment.

The segment's **Net profit** for the first half of the year reached 51 037 thousand PLN, i.e. 4.8% less than the corresponding H1 2018 result.

Net profitability (ratio between post-tax profit and sales revenues) for the reporting period was 36.8%.



## GOG.com segment

In the GOG.com segment aggregate **Sales revenues** in the first half of 2019 were 81 108 thousand PLN, i.e. 25.6% than during the reference period. The bulk of this figure comes from **Revenues from sales of goods and materials**, i.e. distribution of videogames directly to end clients via the GOG.com platform and the GOG Galaxy application. The reported increase in this category (by 25.5%) is due to excellent results of this year's Summer Sale campaign – the best such event in the Company's history – strong launch performance of new games (particularly *Diablo + Hellfire*, *Warcraft I* and *Warcraft II*) as well as favorable conditions existing on the currency market.

The increase in distribution revenues in the GOG.com segment was accompanied by growth in the **Value of goods and materials sold**, which aggregates licensing royalties payable to suppliers of games distributed by GOG.com. In the first half of the year the ratio between the value of goods and materials sold and the corresponding sales revenues was 70.0%, i.e. 2.5% less than during the reference period in 2018. This enabled GOG.com to post better gross profitability in relation to its core business, i.e. distribution of videogames (30.0% in H1 2019 compared to 27.5% in H1 2018).

**Revenues from sales of products** and the corresponding **Cost of products sold** in the GOG.com segment aggregate the portion of revenues from *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* which is attributable to GOG.com under the relevant consortium agreement. These items also aggregate development expenses related to creation of these products.

The total **Gross profit from sales** in the GOG.com segment was 23 695 thousand PLN, which is 19.2% more than during the first half of 2018. The aggregate gross sales profitability was 29.2% compared to 30.8% the year before. The reported decrease was mainly due to commencement of depreciation of development expenses associated with *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* which had not taken place during the reference period.

**Selling costs** in the GOG.com segment reached 19 611 thousand PLN in the first half of 2019 – 14.3% more than during the reference period. This category mainly aggregates costs related to maintenance and upkeep of the GOG.com platform, including:

- ◆ remuneration of staff members responsible for maintaining, developing and promoting the platform,
- ◆ transaction costs proportional to the volume of payments handled by the platform,
- ◆ costs of marketing activities involving GOG.com,
- ◆ IT infrastructure upkeep costs, proportional to the volume of sales.

The reported increase of selling costs during the reporting period is mostly due to an increase in costs related to processing sales on GOG.com, as well as the overall greater sales revenues generated by the platform.

Another important contribution to selling costs in the first half of 2019 was from maintenance, promotional activities and further development of *GWENT: The Witcher Card Game* (including intensive development of its mobile edition, announced for fall of the current year), all conducted in the framework of a consortium together with CD PROJEKT RED.

The segment's **General and administrative costs** reached 3 222 thousand PLN, i.e. 8.4% more than during the reference period.



The **Net profit** of GOG.com for the first half of 2019 was 643 thousand PLN, compared to a loss of 1178 thousand PLN incurred during the first half of 2018.

The above result is mainly due to profit generated in the framework of GOG.com's core business activities, i.e. distribution of videogames via the GOG.com platform and the GOG Galaxy application, as well as surplus of *GWENT*-related costs attributable to GOG.com (including costs incurred in the first half of 2019 in relation to maintenance, upkeep and promotional activities associated with the game, development of further expansions and the game's mobile edition, as well as commencement – in the fourth quarter of 2018 – of depreciation of earlier development expenses) over the corresponding revenues generated by this project in the first half of 2019.

### Condensed interim consolidated statement of financial position of the CD PROJEKT Capital Group

**Table 5** Consolidated statement of financial position – selected highlights (PLN thousands)

	Note	30.06.2019	31.12.2018
<b>FIXED ASSETS</b>		<b>454 783</b>	<b>388 309</b>
Tangible assets	2	31 976	19 241
Intangibles	4	51 547	50 210
Expenditures on development projects	4	291 803	242 816
Investment properties	6	9 640	9 553
Perpetual usufruct of land	7	3 478	3 478
Goodwill	4,5	56 438	56 438
Shares in subsidiaries excluded from consolidation	16	6 757	3 683
Deferred income tax assets	11	2 570	2 320
Other long-term receivables	16	574	570
<b>WORKING ASSETS</b>		<b>681 875</b>	<b>738 529</b>
Inventories	8	731	258
Fixed assets held for sale	3	-	49
Trade receivables	9,16	90 401	37 008
Current income tax receivables		3 765	1 611
Other receivables	9	36 224	19 231
Prepaid expenses	10	21 194	21 502
Cash and cash equivalents	16	68 274	103 878
Bank deposits (maturity beyond 3 months)	16	461 286	554 992
<b>TOTAL ASSETS</b>		<b>1 136 658</b>	<b>1 126 838</b>



	Note	30.06.2019	31.12.2018*
<b>EQUITY</b>		<b>975 330</b>	<b>1 002 864</b>
<b>Equity attributable to equity holders of parent entity</b>		<b>975 330</b>	<b>1 002 864</b>
Share capital	22	96 120	96 120
Supplementary capital		780 951	739 724
Other reserve capital		47 872	26 145
Exchange rate differences		997	1 012
Retained earnings		(2 290)	30 529
Net profit (loss) for the reporting period		51 680	109 334
<b>Minority interest equity</b>		<b>-</b>	<b>-</b>
<b>LONG-TERM LIABILITIES</b>		<b>6 678</b>	<b>6 691</b>
Other financial liabilities	16	6 262	163
Deferred revenues	15	226	6 338
Provisions for employee benefits and similar liabilities	12	190	190
<b>SHORT-TERM LIABILITIES</b>		<b>154 650</b>	<b>117 283</b>
Other financial liabilities	16	5 451	246
Trade liabilities	16	45 327	49 914
Current income tax liabilities		19	-
Other liabilities	14	9 222	17 785
Deferred revenues	15	83 844	26 172
Provisions for employee benefits and similar liabilities	12	2	2
Other provisions	13	10 785	23 164
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 136 658</b>	<b>1 126 838</b>

\* adjusted data



## Discussion regarding the condensed interim consolidated statement of financial position of the CD PROJEKT Capital Group

### Assets

At the end of 2019 the Group's aggregate **Tangible assets** were valued at 31 976 thousand PLN. The reported increase compared to 31 December 2018 was mostly due to recognition – in the **Buildings and structures** category – of assets representing the right to use leased office space, in line with the newly introduced IFRS 16 (along with the simultaneous recognition of financial liabilities arising under office space lease agreements – as **Other financial liabilities**). Aggregated with expenditures on adaptation of office space to suit the Group's current activities, the total value of this line item is 21 368 thousand PLN and represents the largest individual contribution to the Group's tangible assets.

The second key component of the Group's tangible assets was **Machinery and equipment**, valued at 8 522 thousand PLN. This category comprises, among others, computers, servers and other electronic devices utilized by the Group in the course of its daily activities and in the development and distribution of videogames.

Regarding **Intangibles**, the most important contributions to the aggregate value (51 547 thousand PLN as of 30 June 2019) include the CD PROJEKT brand name and The Witcher trademark, jointly valued at 32 199 thousand PLN, as well as copyright held by the Group, whose joint value was reported as 11 318 thousand PLN. Intangibles also cover computer software in use at the Group (net value of 5 847 thousand PLN). During the reporting period the value of the Group's intangibles increased by 1 337 thousand PLN as a result of acquisition of software and licenses by CD PROJEKT S.A. and recruitment of additional staff.

The aggregate value of expenditures on products and technologies developed by Group member companies is represented as **Expenditures on development projects**. At the end of the reporting period the balance of these expenditures reached 291 803 thousand PLN, of which 237 772 thousand PLN represents development projects currently in progress (with the largest contribution being *Cyberpunk 2077*). Following depreciation, the net balance sheet value of completed development projects was 54 031 thousand PLN (the largest completed projects subject to depreciation throughout 2019 are *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*). Past development expenditures associated with earlier CD PROJEKT RED releases (such as *The Witcher*, *The Witcher 2* and *The Witcher 3*, along with its expansions – *Hearts of Stone* and *Blood and Wine*) had already been fully discounted during previous reporting periods. The net value of the Group's expenditures on development projects increased by 48 987 thousand PLN compared to 31 December 2018, mainly as a result of ongoing development work, the bulk of which corresponds to *Cyberpunk 2077* – currently in its final, most intensive phase of development, along with work on smaller-scale projects, such as porting *The Witcher 3: Wild Hunt* to Nintendo Switch or development of GOG Galaxy carried out by GOG.com programmers.

The next important contribution to the Capital Group's total fixed assets was **Goodwill** (56 438 thousand PLN), i.e. the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. The Group's goodwill arises from the merger of its parent entity with the CDP Investment capital group, carried out on 30 April 2010 (46 417 thousand PLN) as well as the purchase (on 18 May 2018) of a Wrocław-based development studio from Strange New Things sp. z o.o. sp. k. (10 021 thousand PLN). The reported goodwill did not change during the first half of 2019.





With regard to **Investment properties** (9 640 thousand PLN) and **Perpetual usufruct of land** (3 478 thousand PLN), they reflect the purchase (carried out at the end of 2018) of a business property located in Warsaw at Jagiellońska 76, directly adjacent to the Group's current headquarters.

**Shares in subsidiaries excluded from consolidation** increased in value by 3 074 thousand PLN, to 6 757 thousand PLN. This increase was mainly due to fulfillment of the foundation agreement of Spokko Sp. z o.o. which foresaw capital contributions to this company in order to provide financing for the mobile videogame development project which Spokko is currently implementing.

Regarding **Working assets**, the group's consolidated **Trade receivables** were valued at 90 401 as of 30 June 2019, having increased by 53 393 thousand PLN since the end of the previous year. The bulk of this figure represents the CD PROJEKT RED segment. At the end of H1 2019, CD PROJEKT RED reported 95 234 thousand PLN in trade receivables, including 66 244 thousand PLN in trade receivables (also including receivables from GOG.com, subject to consolidation eliminations) associated with licensing reports covering the second quarter of 2019 and received after the close of the reporting period. This line item includes, among others, trade receivables associated with the launch of the *Cyberpunk 2077* digital preorder campaign for the PC, arising before the end of June and reported to the Company by its distribution partners following the balance sheet date but prior to the publication of this report. Another contribution was from settlements with clients, related to trade transactions carried out by the end of the reporting period.

The Group's **Other receivables** were reported at 36 224 thousand PLN, having increased by 16 993 thousand PLN since the end of 2018. The bulk of this figure corresponds to advance payments paid by CD PROJEKT RED for future deliveries of goods and services. The second most important contribution to this line item are receivables associated with withholding tax deducted by foreign recipients of CD PROJEKT licenses and reportable by the Company in its annual financial statement. Other receivables furthermore include VAT settlements due in future reporting periods.

The reported value of **Prepaid expenses** (21 194 thousand PLN) is mainly affected by the so-called minimum guarantees, which have not been entered in the profit and loss account as of the balance sheet date. Minimum guarantees are prepayments remitted by GOG.com to its suppliers in lieu of future royalties associated with distribution of videogames on the GOG.com platform. The aggregate value of the Group's prepaid expenses did not undergo appreciable changes since the end of the previous year.

**Cash and cash equivalents**, together with **Bank deposits (maturity beyond 3 months)**, were jointly valued at 529 560 thousand PLN as of 30 June 2019. This is 129 310 thousand PLN less than at the end of 2018. The main factors which drove this change included the payment – on 13 June 2019 – of a dividend to CD PROJEKT S.A. shareholders, representing a portion of the profit obtained in 2018 (100 926 thousand PLN), ongoing expenditures on development projects (59 770 thousand PLN during the reporting period) and payment of compensation contingent upon the Group's financial result in 2018 (consumption of provisions valued at 21 379 thousand PLN), along with positive cash flows generated by the Group's other activities.

Over the first half of 2019 the value of the CD PROJEKT Capital Group's **Fixed assets** increased by 66 474 thousand PLN (17.1%), chiefly as a result of ongoing expenditures on development projects related to work carried out at CD PROJEKT S.A. and GOG sp. z o.o. Compared to the end of 2018, the Group's Working assets shrank by 56 654 thousand PLN (7.7%), mostly due to the reported reduction in cash assets and bank deposits. At the end of the reporting period fixed assets represented 40% of the Group's total assets, while working assets made up the remainder (60%).



## Equity and liabilities

As of 30 June 2019, the CD PROJEKT Capital Group's total equity was 975 330 thousand PLN, i.e. 27 534 thousand PLN less than at the end of 2018. This is due to the remittance of a dividend to CD PROJEKT S.A. shareholders (100 926 thousand PLN), whose value was greater than capital gains obtained in the first half of 2019.

**Long-term liabilities**, valued at 6 678 thousand PLN, did not change substantially throughout the reporting period.

With regard to **Short-term liabilities**, the reported value of 154 650 thousand PLN marks an increase by 37 367 thousand PLN (31.9%) compared to 31 December 2018. The main contribution to this figure was from deferred revenues (83 844 thousand PLN), which – following presentation adjustments – comprise mostly the following:

- ◆ CD PROJEKT RED – the so-called minimum guarantees, i.e. advance payments for licensing royalties received or receivable from distribution and publishing partners in association with future releases of videogames;
- ◆ CD PROJEKT RED – licensing royalties received or receivable in association with digital preorders of PC videogames which are scheduled for future release;
- ◆ GOG.com – aggregate value of preorders of videogames which are scheduled for future release;
- ◆ CD PROJEKT RED and GOG.com – deferred revenues related to subsidies;
- ◆ GOG.com – deferred revenues associated with settlements with the company's clients (including Store Credit and Wallet).

At the end of the reporting period the Group's **Deferred revenues** concerned mostly *Cyberpunk 2077* and – to a lesser degree – *The Witcher 3: Wild Hunt* for Nintendo Switch, as well as settlements of subsidies. The aggregate figure increased by 57 672 thousand PLN (220.4%) since the end of 2018, mostly due to very strong initial performance of the *Cyberpunk 2077* PC preorder campaign.

The second most important contribution to the Group's liabilities was from **Trade liabilities**, jointly valued at 45 327, which represents a decrease by 9.2% compared to the end of the previous year.

**Other financial liabilities**, both short- and long-term, increased in comparison with 31 December 2018, mainly due to initial application of IFRS 16, which mandates disclosure of liabilities arising under office space rental agreements (in parallel with disclosure of the corresponding assets, which represent the right to use the leased space, and are aggregated with **Tangible assets**).

**Other liabilities** were reported at 9 222 thousand PLN as of 30 June 2019 – this represents a decrease by 8 563 thousand PLN and is mostly due to successful purchase of the business property adjacent to CD PROJEKT S.A.'s current headquarters, with the attendant discharge of liabilities arising under the preliminary purchase agreement. At the end of the reporting period the Group's other liabilities comprised mainly tax liabilities (VAT, PIT) and social security liabilities. Relative to the beginning of the year, other liabilities shrank by 12 379 thousand PLN (53.4%) mostly due to remittance of compensation contingent upon the Group's financial result in 2018. The balance shown for 30 June 2019 comprises mainly provisions for compensation contingent upon current-period results and provisions for other liabilities in both activity segments.

As of 30 June 2019, equity accounted for 85.8% of the CD PROJEKT Capital Group's total equity and liabilities, with short- and long-term liabilities making up the remaining 14.2%.



The Group's segmented consolidated statement of financial position can be found in the condensed interim consolidated financial statement of the CD PROJEKT Capital Group for the period between 1 January and 30 June 2019.

### Description of the structure of the Group's consolidated balance of assets, equity and liabilities from the point of view of liquidity

Excellent financial results posted in the past years as well as in the first half of 2019 have enabled the CD PROJEKT Capital Group to amass assets with a total balance sheet value of 1.137 billion PLN. The Group's consolidated equity, which – despite two dividends paid out in the recent years – remains close to 1 billion PLN, corresponds to 85.8% of the value of its assets.

At the end of the reporting period the Group held cash reserves, mostly in the form of bank deposits, and had no outstanding external debt under any credit or loan agreement.

Regarding the Group's asset structure, the majority (60%) consists of working assets, the bulk of which is made up of cash and bank deposits with maturity periods longer than 3 months (total value of 529 560 thousand PLN, i.e. 47% of all assets). The Group's cash assets secure the financing of its further dynamic growth, including future videogame and technology development, promotional activities accompanying future releases, securing other investment opportunities and ensuring that substantial reserves are maintained to deal with unforeseen circumstances and emerging opportunities.

With regard to fixed assets (which comprise 40% of the Group's total assets), the largest contribution comes from expenditures on development projects, at 291 803 thousand PLN (26% of all assets), most of which corresponds to ongoing development of *Cyberpunk 2077* and the yet-to-be depreciated portion of development expenses related to *GWENT* and *Thronebreaker*.

The Group also invests in infrastructure required to support and further expand its activities. Tangible fixed assets, intangibles and investment properties (together with perpetual usufruct of land) together accounted for 8.5% of the Group's consolidated assets, with an aggregate value of 96 641 thousand PLN.

Minimum guaranteed paid out in the GOG.com segment to suppliers of videogame distribution licenses represent another important source of expenditures, comprising the bulk of the Group's prepaid expenses, at 21 194 thousand PLN (1.9% of the Group's consolidated assets).

The Group's goodwill, resulting from business combinations, together with shares in subsidiaries excluded from consolidation, accounts for 5.6% of its consolidated assets, at 63 195 thousand PLN.

The four asset categories described above, with an aggregate value of 472 833 thousand PLN, represented 41.6% of the Group's consolidated assets. During the first half of 2019 this figure increased by 65 912 thousand PLN (16.2%), representing the main scope of investments carried out by CD PROJEKT, fully secured by its own equity.



## Condensed interim consolidated statement of cash flows

**Table 6** Consolidated statement of cash flows – selected highlights

	Note	01.01.2019 – 30.06.2019	01.01.2018 – 30.06.2018*
<b>OPERATING ACTIVITIES</b>			
<b>Net profit (loss)</b>		<b>51 680</b>	<b>52 430</b>
<b>Total adjustments:</b>	<b>30</b>	<b>(4 352)</b>	<b>(22 766)</b>
Depreciation of fixed assets, intangibles and expenditures on development projects		3 952	2 350
Depreciation of expenditures on development projects recognized as cost of products and services sold		13 191	-
Interest and profit sharing (dividends)		(4 867)	(5 771)
Profit (loss) from investment activities		(821)	299
Change in provisions		(10 111)	(36 734)
Change in inventories		(473)	71
Change in receivables		(72 051)	9 200
Change in liabilities excluding credits and loans		(6 093)	512
Change in other assets and liabilities		51 868	2 756
Other adjustments		21 053	4 551
<b>Cash flows from operating activities</b>		<b>47 328</b>	<b>29 664</b>
Income tax on pre-tax profit (loss)		12 695	14 160
Income tax (paid)/collected		(15 092)	(19 835)
<b>Net cash flows from operating activities</b>		<b>44 931</b>	<b>23 989</b>

\* *adjusted data*

**INVESTMENT ACTIVITIES**

<b>Inflows</b>	<b>567 839</b>	<b>633 772</b>
Reimbursement of advance payment for investment properties and perpetual usufruct of land	1 667	-
Sale of intangibles and fixed assets	130	41
Cash assets gained in acquisition of enterprise	-	26
Closing bank deposits (maturity beyond 3 months)	560 839	627 929
Other inflows from investment activities	5 203	5 776
<b>Outflows</b>	<b>544 023</b>	<b>592 009</b>
Purchases of intangibles and fixed assets	5 766	10 917
Expenditures on development projects	59 770	47 015
Purchase of investment properties and perpetual usufruct of land	9 054	-
Capital contributions to subsidiary	2 300	-
Advance payment for investment properties and perpetual usufruct of land	-	727
Acquisition of enterprise	-	10 550
Opening bank deposits (maturity beyond 3 months)	467 133	522 800
<b>Net cash flows from investment activities</b>	<b>23 816</b>	<b>41 763</b>

**FINANCIAL ACTIVITIES**

<b>Inflows</b>	<b>18</b>	<b>-</b>
Collection of receivables arising from financial lease agreements	17	-
Interest payments	1	-
<b>Outflows</b>	<b>104 369</b>	<b>242</b>
Dividends and other payments to equity holders	100 926	-
Payment of liabilities arising from lease agreements	3 113	237
Interest payments	330	5
<b>Net cash flows from financial activities</b>	<b>(104 351)</b>	<b>(242)</b>
<b>Total net cash flows</b>	<b>(35 604)</b>	<b>65 510</b>
<b>Balance of changes in cash and cash equivalents</b>	<b>(35 604)</b>	<b>65 510</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>103 878</b>	<b>66 987</b>
<b>Cash and cash equivalents at end of period</b>	<b>68 274</b>	<b>132 497</b>



## Discussion regarding the condensed interim consolidated statement of cash flows of the CD PROJEKT Capital Group

In the scope of its **Operating activities** during the first half of 2019 the CD PROJEKT Capital Group posted 44 931 thousand PLN in net positive cash flows – 20 942 thousand PLN (87.3%) more than during the reference period.

The continuing strong sales performance of The Witcher videogame series, along with GOG.com's best-ever sale campaign (the Summer Sale), resulted in a net profit of 51 680 thousand PLN, providing a good basis for a positive balance of operating cash flows. The result was subsequently adjusted by the following:

- ◆ non-cash items – **Depreciation and other adjustments** related to the costs of the incentive program and the reported change in projections regarding the likely attainment of its goals;
- ◆ **Interest and profit sharing** (reported elsewhere in the cash flow statement);
- ◆ **Changes in provisions**, mainly due to remittance of compensation contingent upon the Group's financial result in 2018;
- ◆ **Changes in receivables** (mainly trade receivables) and **Changes in other assets and liabilities** (mainly deferred revenues), most of which is attributable to the launch of a successful *Cyberpunk* preorder campaign, where most of the associated royalties had not been collected by the Group by the end of the reporting period, thus increasing its balance of trade receivables.

In the first half of 2019 the Group also posted a positive net balance of cash flows from **Investment activities**, at 23 816 thousand PLN, compared to 41 763 thousand PLN in the reference period. Investments concerned mainly the following:

- ◆ development work (59 770 thousand PLN), mostly involving *Cyberpunk 2077*, which is currently in its final, most cost-intensive development phase;
- ◆ purchase of intangibles and tangible assets (5 766 thousand PLN);
- ◆ purchase of investment property at Jagiellońska 76 (9 054 thousand PLN);
- ◆ capital contributions to Spokko sp. z o.o. (2 300 thousand PLN).

The above investment activities resulted in outflows totaling 76 890 thousand PLN, which was compensated mostly by the reduction in the balance of bank deposits (93 706 thousand PLN) and the associated accrued interest (reported as other inflows from investment activities and jointly valued at 5 203 thousand PLN).

In the first half of 2019 the Group generated negative **Net cash flows from financial activities** at 104 351 thousand PLN (compared to 242 thousand PLN in negative cash flows during the reference period). These comprised:

- ◆ payment of a dividend to CD PROJEKT S.A. shareholders in the amount of 100 926 thousand PLN;
- ◆ Increase in payments of liabilities associated with lease agreements, mostly due to initial application of IFRS 16 which requires recognition of liabilities arising under office space lease agreements.

Altogether, during the reporting period the Group generated negative **Net cash flows** in the amount of 35 604 thousand PLN, compared to 65 510 in positive net cash flows during the reference period.

The balance of the CD PROJEKT Capital Group's monetary assets (excluding bank deposits with maturity in excess of 3 months) was reduced by 35 604 thousand PLN, while the balance of bank deposits with maturity in excess of 3 months decreased by 93 706 thousand PLN. Consequently, the aggregate balance of cash and bank deposits decreased by 129 310 thousand PLN during the first half of 2019.



As of 30 June 2019 the CD PROJEKT Capital Group held cash and bank deposits with an aggregate value of 529 560 thousand PLN.

### Disclosure of credits and loans taken out in the first half of 2019

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

### Disclosure of credits and loans granted in the first half of 2019

In the first half of 2019 no member company of the CD PRJEKT Capital Group granted any loans to parties external to the Group. CD PROJEKT Inc. and GOG sp. z o.o. had access to financing in the form of a loan granted by CD PROJEKT S.A.

### Disclosure of guarantees and sureties granted in 2018, and other significant off-balance sheet items

Information regarding guarantees, sureties and other significant off-balance sheet items can be found in the condensed interim consolidated financial statement of the CD PROJEKT Capital Group for the period between 1 January and 30 June 2019.

### Disclosure of transactions with affiliates

In the first half of 2019 the CD PROJEKT Capital Group engaged mainly in the following types of transactions with affiliates:

- ◆ sales of licenses between CD PROJEKT S.A. and GOG sp. z o.o., as required by these companies' respective business profiles,
- ◆ procurement of accounting, HR, legal, financial, administrative and managerial services from CD PROJEKT S.A. by its subsidiaries,
- ◆ subletting of office space,
- ◆ procurement of CD PROJEKT Inc. services by CD PROJEKT S.A. and GOG sp. z o.o. in the scope of coordinating promotional and publishing activities in North America,
- ◆ procurement of CD PROJEKT Co., Ltd. services by CD PROJEKT S.A. and GOG sp. z o.o. in the scope of coordinating promotional and publishing activities in China,
- ◆ loans granted to CD PROJEKT Inc. and GOG sp. z o.o. by CD PROJEKT S.A.,
- ◆ collaboration in the scope of operating an online store; licensing and developing products offered for sale in the store, involving CD PROJEKT S.A. (videogame developer and IPR holder), CD PROJEKT RED Store sp. z o.o. and CD PROJEKT Inc. (operators of the online store in respective territories),
- ◆ other minor transactions associated with day-to-day activities (e.g. re invoicing joint expenses).

Transactions between affiliates are concluded on market terms as required by the business profiles of each member of the CD PROJEKT Capital Group. A detailed description of procedures which govern transactions between affiliates is included in the consolidated financial statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2018.



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

### **Disclosure of differences between the financial results reported in the semiannual financial statement and earlier projections covering the given year**

The CD PROJEKT Capital Group had not published any financial projections concerning 2019. Accordingly, no description of the differences between the Group's actual results and earlier projections is provided.



The background features several overlapping geometric shapes. A large, light pink shape occupies the left and top-left areas, with several sharp, triangular points extending towards the right. A grey shape is located at the bottom left, partially overlapping the pink shape. The rest of the background is white.

# **Corporate governance**



## Entity contracted to audit financial statements

On 14 June 2018 the Supervisory Board of CD PROJEKT S.A. selected Grant Thornton Polska sp. z o.o. sp. k. with a registered office in Poznań as the entity contracted to conduct a review of the semiannual financial statement and audit the annual financial statement of the Company and its Capital Group for 2018 and 2019. Grant Thornton Polska sp. z o.o. sp. k. has also been contracted to audit the financial statement of GOG sp. z o.o.

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

The Company's share capital amounts to 96 120 000 PLN, divided into 96 120 000 shares with a nominal value of 1 PLN per share. The shareholder structure is determined on the basis of formal notices issued by shareholders who control at least 5% of the total number of votes at the General Meeting of Shareholders.

**Table 7** Shareholders controlling at least 5% of the vote at the General Meeting as of the publication date of this report.

	Qty. of shares	Percentage share in share capital	Qty. of votes at the GM	Percentage share of votes at the GM
Marcin Iwiński	12 150 000	12.64%	12 150 000	12.64%
Michał Kiciński*	10 486 106	10.91%	10 486 106	10.91%
Piotr Nielubowicz	6 135 197	6.38%	6 135 197	6.38%
Free float	67 348 697	70.07%	67 348 697	70.07%

 \* As disclosed in Current Report no. 49/2016 of 6 September 2016

The percentage share in the Company's share capital and in the total number of votes at the General Meeting is calculated on the basis of the most recent notices received from Company shareholders as of the publication date of this report.



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

### 2016–2021 incentive program

On 24 May 2016 the General Meeting adopted resolution no. 20<sup>1</sup>, which institutes an incentive program covering the 2016-2021 period. The program covers a 6-year period. A maximum of 6 million individual entitlements may be assigned under the program. As of the publication date of this report 5 655 000 entitlements have been assigned. The resolution sets forth two types of goals: result goals and market goals.



### Result goal – 80% of entitlements

Attainment of the result goal will enable entitled parties to claim 80% of the total number of entitlements issued under the program. The program sets forth specific goals which must be attained, in terms of the minimum aggregate consolidated net profit of the Capital Group as well as the minimum aggregate consolidated earnings per share for each period. As a result of additional stock having been issued under the previous incentive program (covering the years 2012-2015), the goals of the current program (with regard to the minimum earnings per share) are more ambitious.

The minimum required net earnings per share are as follows:

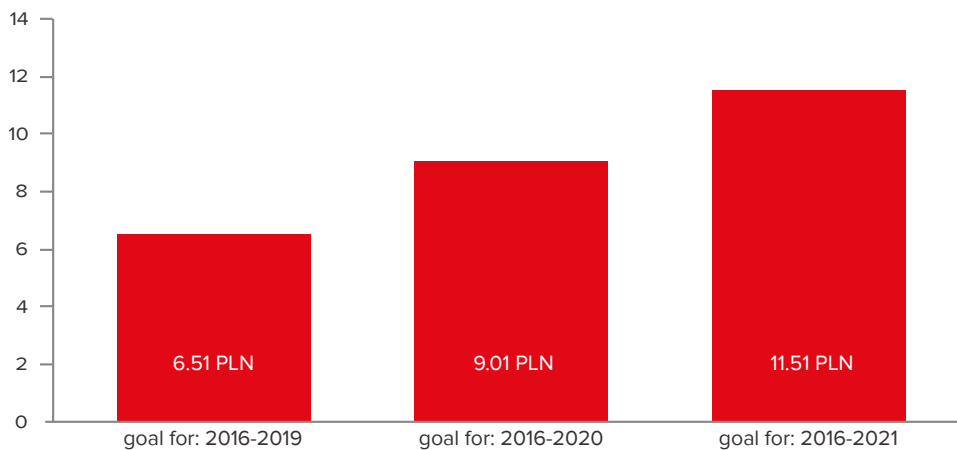
- ◆ For the years 2016-2019 – aggregate consolidated basic net earnings per share from continuing operations of at least 6.51 PLN, or
- ◆ For the years 2016-2020 – aggregate consolidated basic net earnings per share from continuing operations of at least 9.01 PLN, or
- ◆ For the years 2016-2021 – aggregate consolidated basic net earnings per share from continuing operations of at least 11.51 PLN.

<sup>1</sup> Full text available in Current Report no. [18/2016](#)



In relation to participants who represent the GOG.com segment, assignment of entitlements requires fulfillment of certain additional goals defined for that segment, in addition to the above-mentioned result goals defined for the CD PROJEKT Capital Group as a whole.

**Figure 8** Goals of the incentive program – consolidated basic net earnings per share from continuing operations



### Market goal – 20% of entitlements

The market goal (which is validated for the year during which the result goal is met, or at the end of the incentive program, whichever comes first) stipulates that the price change of CD PROJEKT S.A. stock on the Warsaw Stock Exchange must outperform the corresponding change in the WIG index by at least 100% during the period covered by the program. Attainment of this goal will enable parties involved in the incentive program to claim 20% of the total number of entitlements issued under the program.

The incentive program covers the years 2016-2021, but entitlements may be assigned before the end of this period should the result and market goals be met ahead of schedule. Attainment of the result goals is assessed on the basis of the Group's consolidated annual results and requires that any of the abovementioned goals be met. Attainment of the market goals is assessed following attainment of the result goals or at the end of the program, whichever comes first.

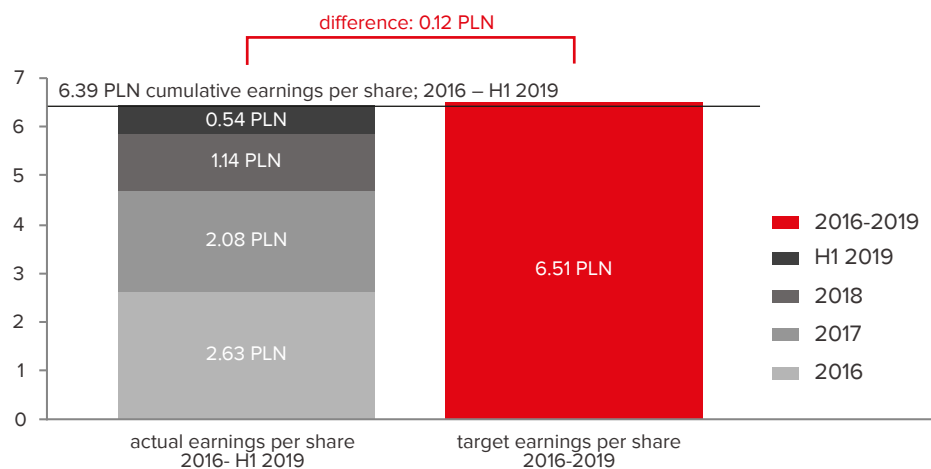
### Attainment of goals as of the end of H1 2019

#### Result goals

For the period between 1 January 2016 and 30 June 2019 the CD PROJEKT Capital Group's aggregate consolidated basic net earnings per share from continuing operations were 6.39 PLN, i.e. 0.12 PLN below the threshold set for the years 2016-2019. Given the Company's current stock volume, this corresponds to a difference of 11 534 thousand PLN in the Group's consolidated net profit from continuing operations. Validation of attainment of the program's goals is based solely on annual results; however, in light of the results obtained by the end of the first half of 2019, along with the Company's release schedule for the second half of the year (with regard to entitlements attributable to the CD PROJEKT RED segment), the Board has decided to alter its projections regarding the likely attainment of the program goals during the 2016-2021 period. Accordingly, the Board now believes that – with regard to entitlements attributable to the CD PROJEKT RED segment – the goals of the program are likely to be met as defined for the period between 2016 and 2019.



**Figure 9** Result goal for 2016-2019 – consolidated basic net earnings per share from continuing operations – 80% of entitlements; status update



The GOG.com segment follows additional goals related specifically to the activities of that segment. In this scope, the Management Board has decided not to change its projections regarding the attainment of the goals of the incentive program during the 2016-2021 period.

#### Market goal

Between 30 December 2015 and 28 June 2019, the Company stock price increased by 886% while the WIG index gained 29.5%.

#### Disclosure of the purchase of own shares

No own shares were purchased by the Company during the reporting period.

#### Information regarding the control system of employee share programs

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



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

**Table 8** Quantity of shares held by members of the Company's managerial and supervisory bodies

Name	Position	as of 29.08.2019	as of 30.06.2019	as of 31.12.2018
Adam Kiciński	President of the Board	3 322 481	3 322 481	3 322 481
Marcin Iwiński	Vice President of the Board	12 150 000	12 150 000	12 150 000
Piotr Nielubowicz	Vice President of the Board	6 135 197	6 135 197	6 135 197
Adam Badowski	Board Member	150 000	150 000	150 000
Michał Nowakowski	Board Member	37 650	37 650	37 650
Piotr Karwowski	Board Member	8 000	8 000	8 000
Katarzyna Szwarz	Chairwoman of the Supervisory Board	10	10	10
Maciej Nielubowicz	Supervisory Board Member	51	51	51

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



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



### **Adam Kiciński**

President of the Board

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



### **Marcin Iwiński**

Vice President for International Affairs

Coordinates the Company's international activities and the corresponding policies. Takes part in supervising and managing the Company's foreign subsidiaries.



### **Piotr Nielubowicz**

Vice President and CFO

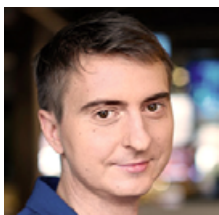
Coordinates the Company's financial and accounting branches; ensures that the Company meets its financial reporting obligations. Participates in investor relations.



### **Adam Badowski**

Board Member

Heads the CD PROJEKT RED development studio which is owned by the Company, Coordinates the Company's game development activities.



### **Michał Nowakowski**

Board Member

Oversees formulation and implementation of the Company's sales policies.



### **Piotr Karwowski**

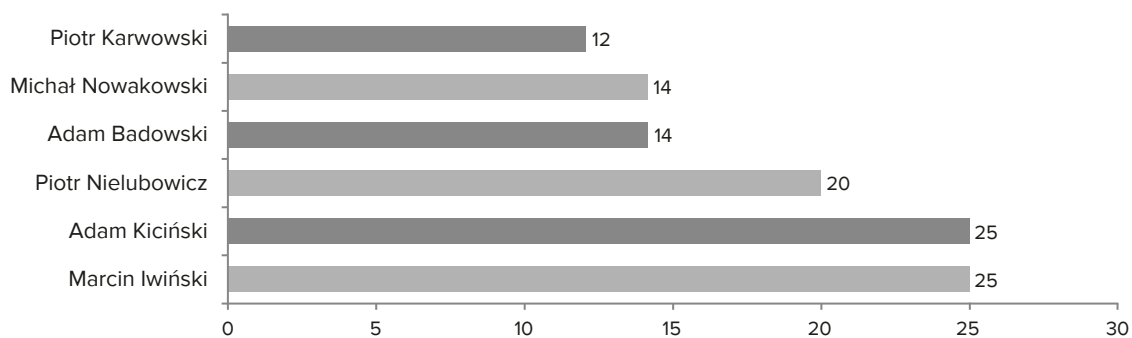
Board Member

Co-manages the GOG.com segment, assuming responsibility for design and development of the GOG.com platform and of the GOG Galaxy technology stack. Oversees the Group's online services and its network presence. Since the fourth quarter of 2018 – responsible for operation and development of *GWENT*.



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

**Figure 10** Tenure of current members of the Management Board as holders of managerial positions within the CD PROJEKT Capital Group (in years)



## Changes in Management Board composition

On 23 May 2019 – the date of the Ordinary General Meeting – Mr. Oleg Klapovskiy officially ceased to be a member of the Management Board of CD PROJEKT S.A.





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

Katarzyna Szwarc	<i>Chairwoman of the Supervisory Board and of the Audit Committee</i>
Piotr Pągowski	<i>Deputy Chairman of the Supervisory Board; Audit Committee Member</i>
Maciej Nielubowicz	<i>Secretary of the Supervisory Board; Audit Committee Member</i>
Krzysztof Kilian	<i>Supervisory Board Member; Audit Committee Member</i>
Michał Bień	<i>Supervisory Board Member; Audit Committee Member</i>

## Changes in Supervisory Board composition

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

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

As of 30 June 2019 the Company had no such liabilities.

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

As of 30 June 2019 and as of the preparation date of this report all members of the Company's managing and supervisory bodies discharged their duties on the basis of General Meeting appointments and there were no provisions in force regulating compensation in the event of their resignation or dismissal.

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

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



## Corporate governance policies

CD PROJEKT S.A. follows the corporate governance policies listed in the “Best Practice for WSE Listed Companies 2016” document, published as an attachment to Resolution no. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2018 can be found on the Company website at: [cdprojekt.com/en/wp-content/uploads-en/2019/03/statement-regarding-the-implementation-of-corporate-governance-rules-at-cd-projekt-s-a-in-2018-1.pdf](https://cdprojekt.com/en/wp-content/uploads-en/2019/03/statement-regarding-the-implementation-of-corporate-governance-rules-at-cd-projekt-s-a-in-2018-1.pdf).

## Disclosure of significant legal proceedings

The following legal proceedings took place during the reporting period (the presented status is valid for the publication date of this report):

### Litigation in which CD PROJEKT S.A. is the plaintiff or claimant

#### CD PROJEKT S.A. (formerly Optimus S.A.) vs. State Treasury

On 15 February 2006 the Management Board of Optimus S.A. filed a complaint in the District Court for the City of Kraków, 1st Civil Department seeking monetary damages from the State Treasury in the amount of 35 650.6 thousand PLN in relation to decisions issued by the Inspector of Treasury Control concerning VAT liabilities allegedly incurred by the Company’s legal predecessor. On 24 November 2003 the Supreme Administrative Court in Warsaw vacated these decisions as unlawful.

On 9 December 2008 the District Court for the City of Kraków issued an interlocutory judgment holding the Optimus claim valid in rem. This judgment concerned the validity of the Company’s claim for monetary damages. On 19 May 2009 this judgment was vacated by the Appellate Court for the City of Kraków, 1st Civil Department, which remanded the case to the District Court for further proceedings.

On 1 August 2014 the District Court for the City of Kraków issued a final judgment closing the proceedings in the court of first instance. The District Court’s judgment awarded the Company 1 090.5 thousand PLN plus statutory interest for the period between 15 November 2005 and the remittance date, dismissing the lawsuit on all other counts.

On 9 October 2014 the Company filed an appeal against the District Court’s judgment with regard to those sections in which the District Court dismissed the Company’s claims, and also the section concerning the cost of legal proceedings associated with the case. A parallel appeal against the section in which the District Court affirms the Company’s claims was filed by the State Treasury. On 21 December 2019 the Appellate Court altered the judgment of the court of first instance by dismissing the Company’s lawsuit in its entirety.



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

## **Criminal proceedings in which CD PROJEKT S.A. is recognized as the victim**

### **Case against Michał Lorenc, Piotr Lewandowski and Michał Dębski**

In case no. XVIII K 126/09, following indictment filed by the District Attorney in the District Court for the City of Warsaw, on 27 October 2016 the District Court convicted Mr. Michał Lorenc, Mr. Piotr Lewandowski and Mr. Michał Dębski of violating sections 296 §1, 296 §3 and others of the Penal Code. The Company acted as an auxiliary prosecutor in the court of first instance and will retain this status until the trial has concluded. Having found the defendants guilty, the Court awarded the Company 210 thousand PLN in damages under Art. 46 of the Penal Code. According to the operative part of the judgement total losses sustained by the Company as a result of the defendants' actions were estimated at not less than 16 million PLN (this figure follows from standard regulations applicable to criminal trials). The Company subsequently filed an appeal against the judgment, contesting, among others, the amount of damages awarded to the Company. On 26 October 2017 the Appellate Court vacated the judgment of the court of first instance and remanded the case to be retried in full. The parent company continues to act in the capacity of an auxiliary prosecutor.

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

**Adam Kiciński**  
President  
of the Board

**Marcin Iwiński**  
Vice President  
of the Board

**Piotr Nielubowicz**  
Vice President  
of the Board

**Adam Badowski**  
Board Member

**Michał Nowakowski**  
Board Member

**Piotr Karwowski**  
Board Member



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