



CD PROJEKT®

**MANAGEMENT BOARD REPORT ON THE  
ACTIVITIES OF THE CD PROJEKT GROUP  
BETWEEN 1 JANUARY AND 30 JUNE 2020**

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## Key events

A hands-on campaign enabled 120 media representatives from around the world to gain first-hand experience with *Cyberpunk 2077* gameplay

Many positive previews of *Cyberpunk 2077* were published after the close of the hands-on campaign

We launched Night City Wire – a periodic online event dedicated to *Cyberpunk 2077*

1.7 million spectators tuned in live to the first episode of Night City Wire

CD PROJEKT RED announced a new project carried out in collaboration with Netflix and Studio Trigger – the *CYBERPUNK: EDGERUNNERS* anime series, set to launch in 2022

In response to the COVID-19 pandemic, the CD PROJEKT Group switched to remote work starting in March

Spokko announced *The Witcher: Monster Slayer* – an augmented reality mobile game which has since had its soft launch

*GWENT* came to Android devices and was also released on Steam

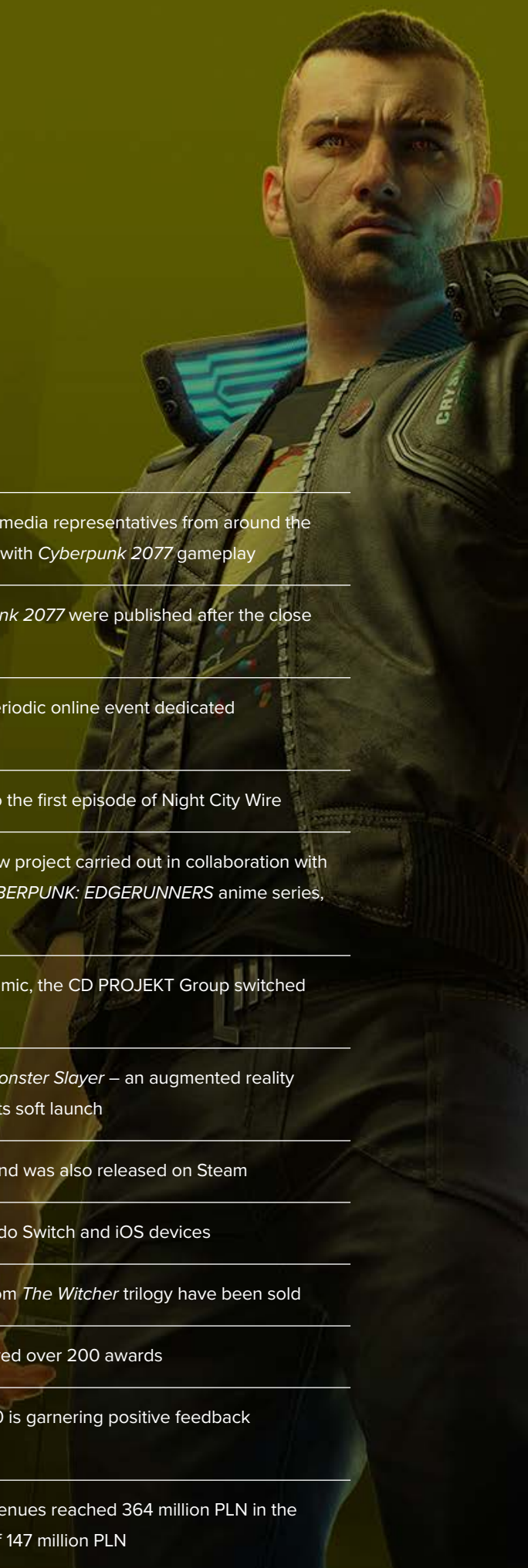
*Thronebreaker* launched on Nintendo Switch and iOS devices

Over 50 million copies of games from *The Witcher* trilogy have been sold

*Cyberpunk 2077* has already received over 200 awards

The open beta of GOG GALAXY 2.0 is garnering positive feedback from gamers

The Group's consolidated sales revenues reached 364 million PLN in the first half of 2020, with a net profit of 147 million PLN





01

**BRIEF DESCRIPTION OF THE  
CD PROJEKT GROUP**

## Activity profile

CD PROJEKT S.A. (also referred to as CD PROJEKT or the Company), headquartered in Warsaw, conducts business activities in the dynamically growing global videogame segment. These activities have been going on for nearly 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). Pivotal moments in the Group's history came in 2002 with the establishment of the CD PROJEKT RED development studio, which initiated work on the Company's first major RPG<sup>1</sup> – *The Witcher*, as well as in 2008, with the launch of the GOG.com platform.



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

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

## CD PROJEKT RED

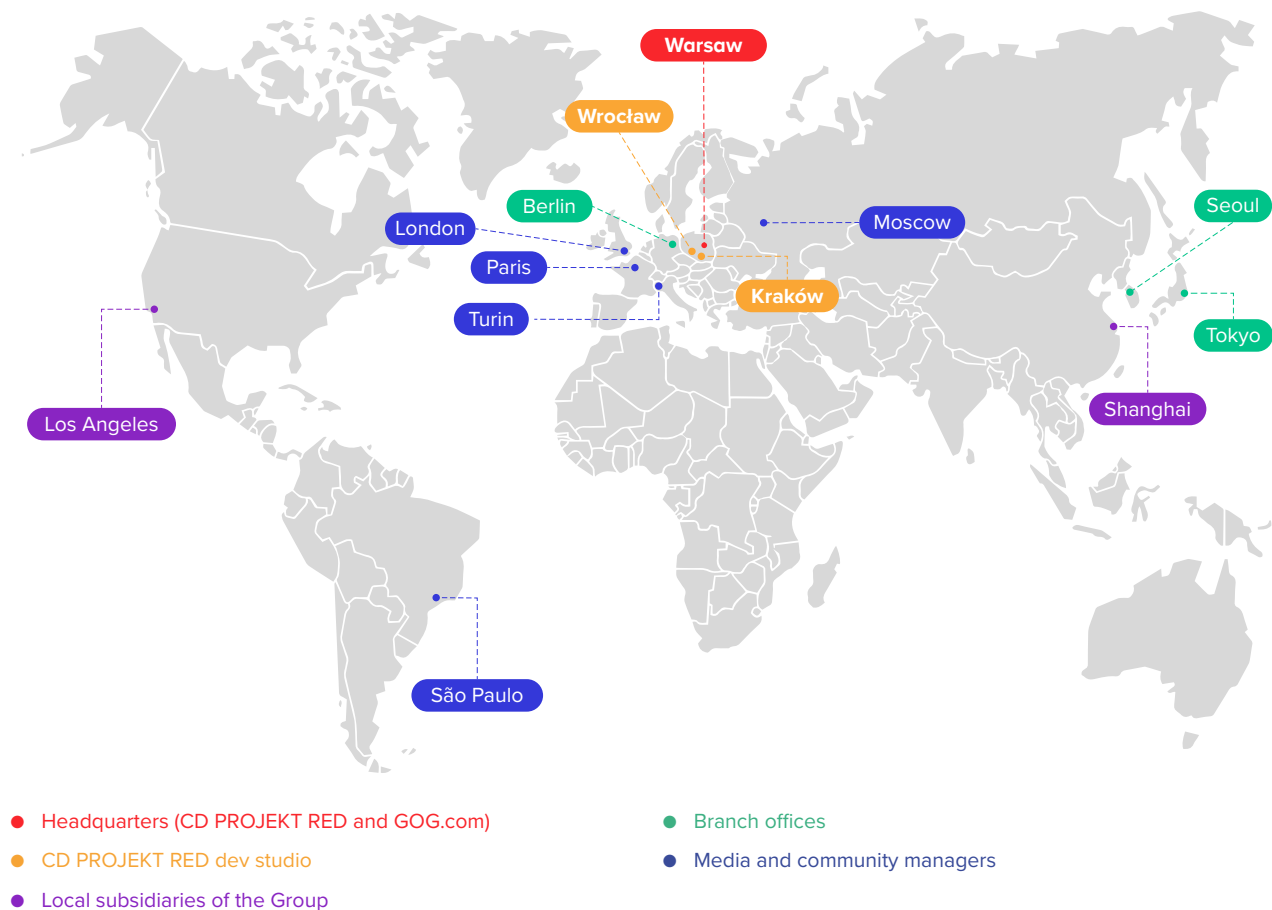
Developing and publishing videogames and tie-in products which exploit the commercial appeal of brands owned by the Company.

## GOG.COM

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

During the reporting periods 96.4% of the CD PROJEKT Group's sales revenues were generated by exports. Throughout the first half of 2020 North America and Europe accounted for 52.0% and 29.8% of the Group's sales respectively.

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



## BUSINESS PHILOSOPHY

The business philosophy of the CD PROJEKT Group rests upon two pillars: uncompromising dedication to quality in the videogame and service development process, and retention of financial and creative independence. The Board regards these 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 community relations. This model is implemented by operating a proprietary digital distribution and online gaming platform – part of a broad user-friendly and player-centric ecosystem.

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



\* Proprietary brands: *The Witcher* and *Cyberpunk*

## EMPLOYMENT

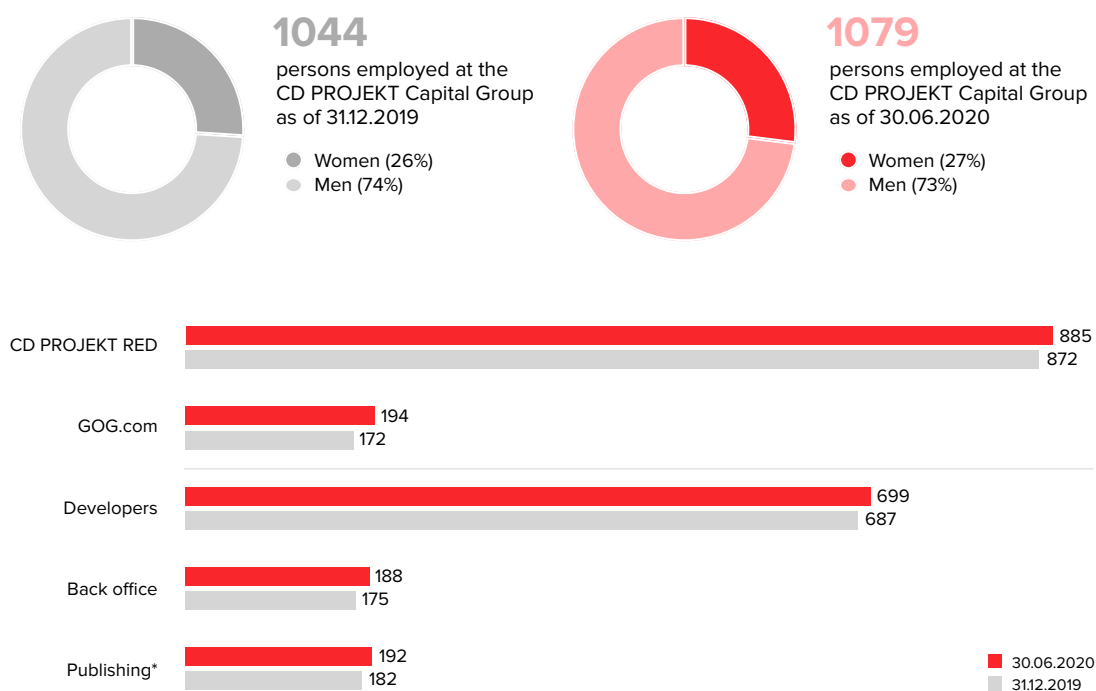
The Group's greatest asset is its team. We employ passionate people, who care about developing cutting-edge products and services. Their talent, involvement and motivation underpin the human capital of the CD PROJEKT Group. They – along with their creative ideas – are the foundation upon which the Company's success is based.



At CD PROJEKT we promote diversity and tolerance as we believe that a work environment built upon such principles fosters openness and mutual trust which, in turn, helps unlock the full potential of our team members and contributes to the depth, innovation and appeal of our creations. We also believe that diversity enriches and strengthens our organizational culture, while full tolerance for various worldviews enables people to inspire one another and freely share ideas. This belief is enshrined in the CD PROJEKT S.A. Diversity Policy, in force at the Company. The Policy specifies basic principles which the Company respects when dealing with its team members, key managers and members of the Management Board and Supervisory Board.



**Chart 2** Employment structure at the CD PROJEKT Group at the end of 2019 and at the end of H1 2020



\* The Publishing team includes, among others, teams responsible for marketing and PR, business development, customer relations and game releases, as well as the CD PROJEKT RED Gear team

At the end of the first half of 2020 the CD PROJEKT Group employed 1079 people. Of this number 82% were employees of the CD PROJEKT RED segment while the GOG.com segment accounted for the remaining 18%. These figures reflect the status of the Group itself, excluding entities which are not subjected to consolidation.

## CD PROJEKT Group growth outlook

The CD PROJEKT Group conducts its business in the global videogame market which is among the fastest growing branches of the global economy. Newzoo – counted among the leading analysts of the videogame and e-sports markets – estimate the volume of the market in 2020 at 159.3 billion USD, which corresponds to a year-over-year increase of 9.3%.<sup>2</sup> According to PWC's "Global Entertainment & Media Outlook 2019-2023"<sup>3</sup> report, the cumulative annual growth rate (CAGR) of the videogame and e-sports markets for the 2018-2023 period is estimated at 6.5%.

<sup>2</sup> Newzoo Global Games Market Report 2020 Light Version, accessed on 20 July 2020; <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2020-light-version/>

<sup>3</sup> Perspectives from the Global Entertainment & Media Outlook 2019-2023, PWC, accessed on 30 January 2020, <https://www.pwc.com/gx/en/entertainment-media/outlook-2019/entertainment-and-media-outlook-perspectives-2019-2023.pdf>

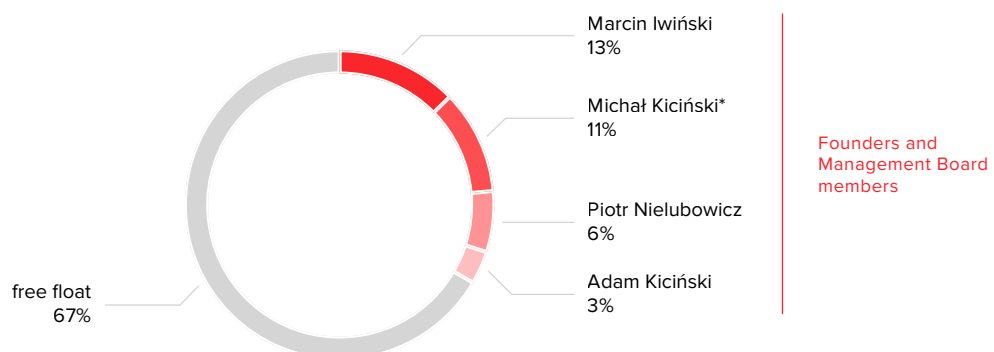
The Group's growth prospects are affected not only by the steady spread in the popularity of videogames as a readily available and broadly appealing form of entertainment, but also by the ongoing evolution of technologies which enable development of ever more sophisticated and immersive videogames, growing availability and affordability of gaming devices, and new ways of attracting potential customers. Newzoo forecasts that by the end of 2023 the global community of gamers will have expanded to 3 billion people.<sup>4</sup>

The COVID-19 pandemic, which caused many countries to introduce mobility restrictions in March of the current year, also brought about increased interest in videogames as a form of entertainment which can be enjoyed at home. Estimates indicate that many individuals who had not previously played videogames took up interest in this pastime. According to sales data compiled by the Interactive Software Federation of Europe (ISFE) and presented at the online State of the Game event organized by GamesIndustry.biz, throughout the eleven-week quarantine period instituted in Western Europe in the latter half of March, customers spent 51% more on videogames than in the corresponding period of 2019.<sup>5</sup>

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

The CD PROJEKT brand has been present on the Warsaw stock exchange since 2010. 96 120 000 Company shares are traded on the WSE Main Market under the continuous trading system. Key shareholders of CD PROJEKT S.A. are its co-founders – Marcin Iwiński and Michał Kiciński. Other major shareholders who are also members of the Company's Management Board are Adam Kiciński – President of the Board, and Piotr Nielubowicz – Vice President and CFO.

**Chart 3** Company shareholding structure as of the publication date of this report



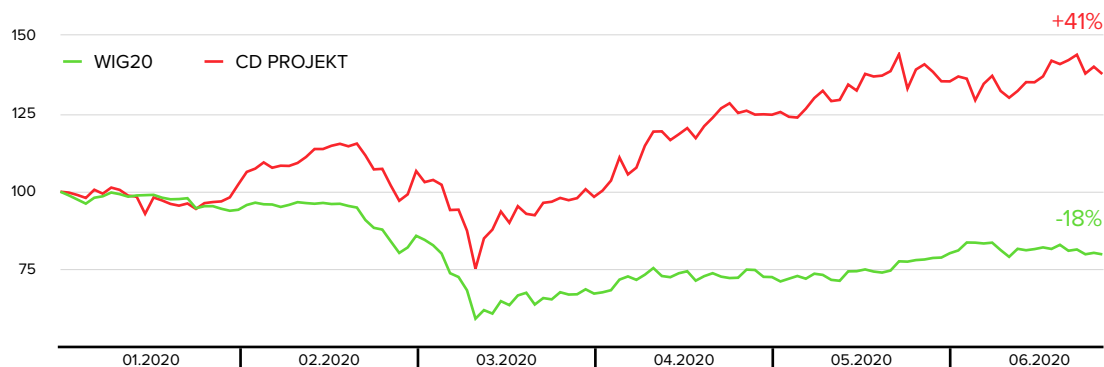
\* according to a notice filed on 6 December 2016

Free float accounts for approximately 66.6% of CD PROJEKT S.A. stock.

<sup>4</sup> Newzoo Global Games Market Report 2020 | Light Version, accessed on 20 July 2020, <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2020-light-version/>

<sup>5</sup> Pandemic, Recession and Video Games – A European analysis, GamesIndustry.biz, accessed on 6 August 2020, [https://youtu.be/bJf\\_blqH4AI](https://youtu.be/bJf_blqH4AI)

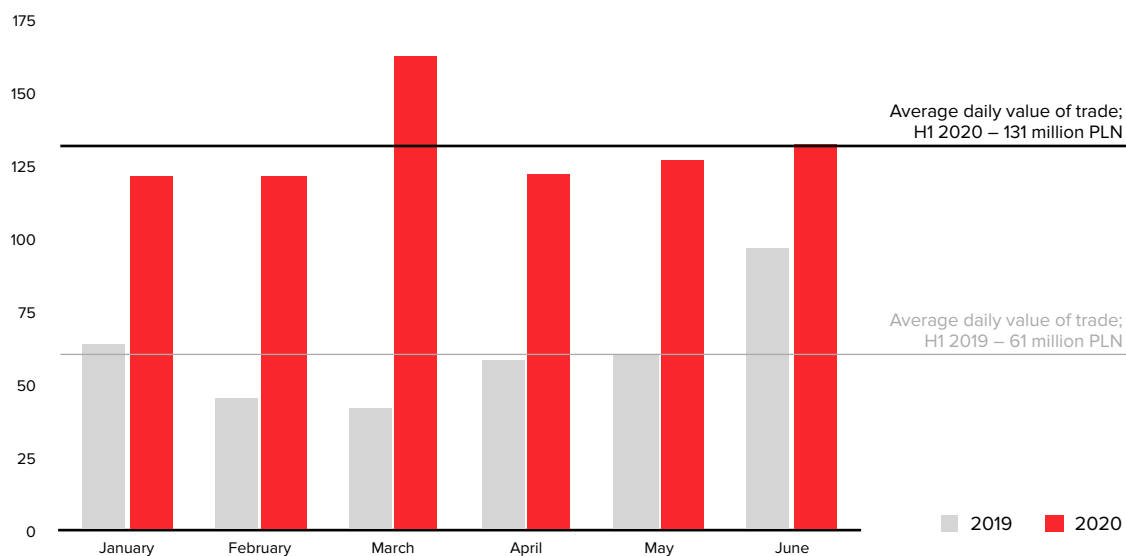
**Chart 4** CD PROJEKT S.A. stock price and the WIG20 index between 1 January and 30 June 2020



Between 1 January and 30 June 2020 the Company stock price fluctuated between 216.10 PLN (12 March 2020) and 413.00 PLN (26 May 2020). During these six months the stock price increased by 41%, to 394.90 PLN at the close of the trading day on 30 June 2020. Over the same period the WIG20 index lost 18% while the main WIG index lost 14%.

As of 30 June 2020 the Company's market capitalization was 38 billion PLN.

**Chart 5** Average daily value of trade in CD PROJEKT S.A. shares (by month) between 1 January and 30 June 2020 (PLN millions)



In 2020 the liquidity of CD PROJEKT S.A. stock, measured in terms of value of trade, again increased substantially. The aggregate value of trade for the first half of 2020 was 16.3 billion PLN, which is 120% more than during the corresponding period in 2019. The average daily value of trade was 131.3 million PLN, compared to 60.6 million PLN the year before. An increase was also observed in the number of transactions per trading day – from 4014 to 7633.

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

	H1 2020	H1 2019	Change
Net earnings per share (PLN)	1.53	0.54	184.7%
Number of listed shares at end of period (thousands)	96 120	96 120	-
Highest closing price (PLN)	413.00	228.50	80.74%
Lowest closing price (PLN)	216.10	148.00	46.01%
Share price at beginning of period (PLN)	279.50	145.60	91.96%
Share price at end of period (PLN)	394.90	215.30	83.42%
Average share price during period (PLN)	327.71	194.81	68.22%
Market capitalization at end of period (PLN thousands)	37 957 788	20 694 636	83.42%
Average number of transactions per trading day	7633	4014	90.16%
Average daily value of trading (PLN thousands)	131 284	60 568	116.75%
Average daily trading volume (shares)	417 663	307 524	35.81%

Since 2019 CD PROJEKT S.A. has been part of newly created WSE indices – WIG.Games, which comprises five of the largest videogame developers traded on the Warsaw Stock Exchange, and WIG-ESG which comprises companies regarded as socially responsible, i.e. those which apply social responsibility principles in the course of their business activities, particularly in environmental, social, economic and corporate governance matters.

As of the publication date of this report 21 brokerage houses, both foreign and domestic, issue recommendations concerning Company stock. The full list of analysts and brokerage houses which issue recommendations concerning Company stock can be found on the CD PROJEKT website at [www.cdprojekt.com/en/investors/analysts](http://www.cdprojekt.com/en/investors/analysts).

In an investor relations survey conducted by Gazeta Giełdy Parkiet and the Chamber of Brokerage Houses in February 2020 individual investors awarded CD PROJEKT with the highest score from among all surveyed WIG30 companies.

In March of the current year CD PROJEKT was again named – for the fifth time in a row – the Stock Exchange Company of the Year (for its performance in 2019) in an annual ranking organized by Puls Biznesu. Additionally, the Company took first place in the following categories: Management Competence, Investor Relations and Product and Service Innovation.

On 24 March, in the annual Bulls and Bears ranking organized by Gazeta Giełdy Parkiet, CD PROJEKT was named WIG20 Company of the Year.



02

CD PROJEKT GROUP ACTIVITY PROFILE

## Organizational structure of the CD PROJEKT Group

As of 30 June 2020 the CD PROJEKT Group consists of the parent entity – CD PROJEKT S.A. – and five subsidiaries: GOG sp. z o.o., CD PROJEKT Inc., CD PROJEKT Co. Ltd., Spokko sp. z o.o. and CD PROJEKT RED STORE sp. z o.o.

**Chart 6** CD PROJEKT Group at the end of the first half of 2020



**Table 2** Basic activity profile of each member company of the CD PROJEKT Group as of 30 June 2020

Company	Scope of activity
CD PROJEKT S.A.	The principal scope of activity of the company, carried out through its CD PROJEKT RED studio, involve development and publishing of videogames, selling the associated distribution rights, as well as manufacturing, selling or licensing tie-in products which exploit the popularity of brands owned by the Group. CD PROJEKT S.A. also serves as the holding company of the CD PROJEKT Capital Group, and coordinates the activities of subsidiaries which comprise the Capital Group.
GOG sp. z o.o.	The company distributes videogames through online channels to customers from around the world, enabling them to purchase games, remit payment and download purchased products to their personal computer. The company also owns the GOG.com proprietary global digital distribution platform and the GOG GALAXY 2.0 technology stack. Additionally, in the framework of a consortium formed with CD PROJEKT S.A., the company participates in development and maintenance of <i>GWENT: The Witcher Card Game</i> , where it is responsible for the game's online and networking features, and for handling sales carried out in the game's PC edition.
CD PROJEKT Inc.	The Company coordinates publishing and promotional activities related to CD PROJEKT RED products and the GOG.com platform, and handles online sales for the CD PROJEKT RED GEAR store throughout North America (with an office in Los Angeles).
CD PROJEKT Co. Ltd.	The main goal of this company is to ensure CD PROJEKT Capital Group's presence on the Chinese market (with an office in Shanghai). It manages a local team which coordinates publishing and promotional activities associated, among others, with promoting <i>GWENT</i> in China.
Spokko sp. z o.o.	Development studio which specializes in mobile releases.
CD PROJEKT RED STORE sp. z o.o.	This company carries out online marketing of merchandise associated with CD PROJEKT RED videogames throughout the EU.

The above member companies of the CD PROJEKT Group, active as of 30 June 2020, were, with exception of CD PROJEKT Co. Ltd. and Spokko sp. z o.o., subject to full consolidation. Detailed information can be found in the Consolidated financial statement of the CD PROJEKT Group for the first half of 2020.

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

In the first half of 2020 the Group conducted business activities in two segments:

- CD PROJEKT RED,
- GOG.com.



### CD PROJEKT RED

#### Target and scope of business activity

Videogame development and the associated publishing activities represent the main focus of the CD PROJEKT RED studio, which is a subunit of CD PROJEKT S.A. (domestic holding company of the CD PROJEKT 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 owned by the Company.



In the scope of its publishing activities the Company 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.

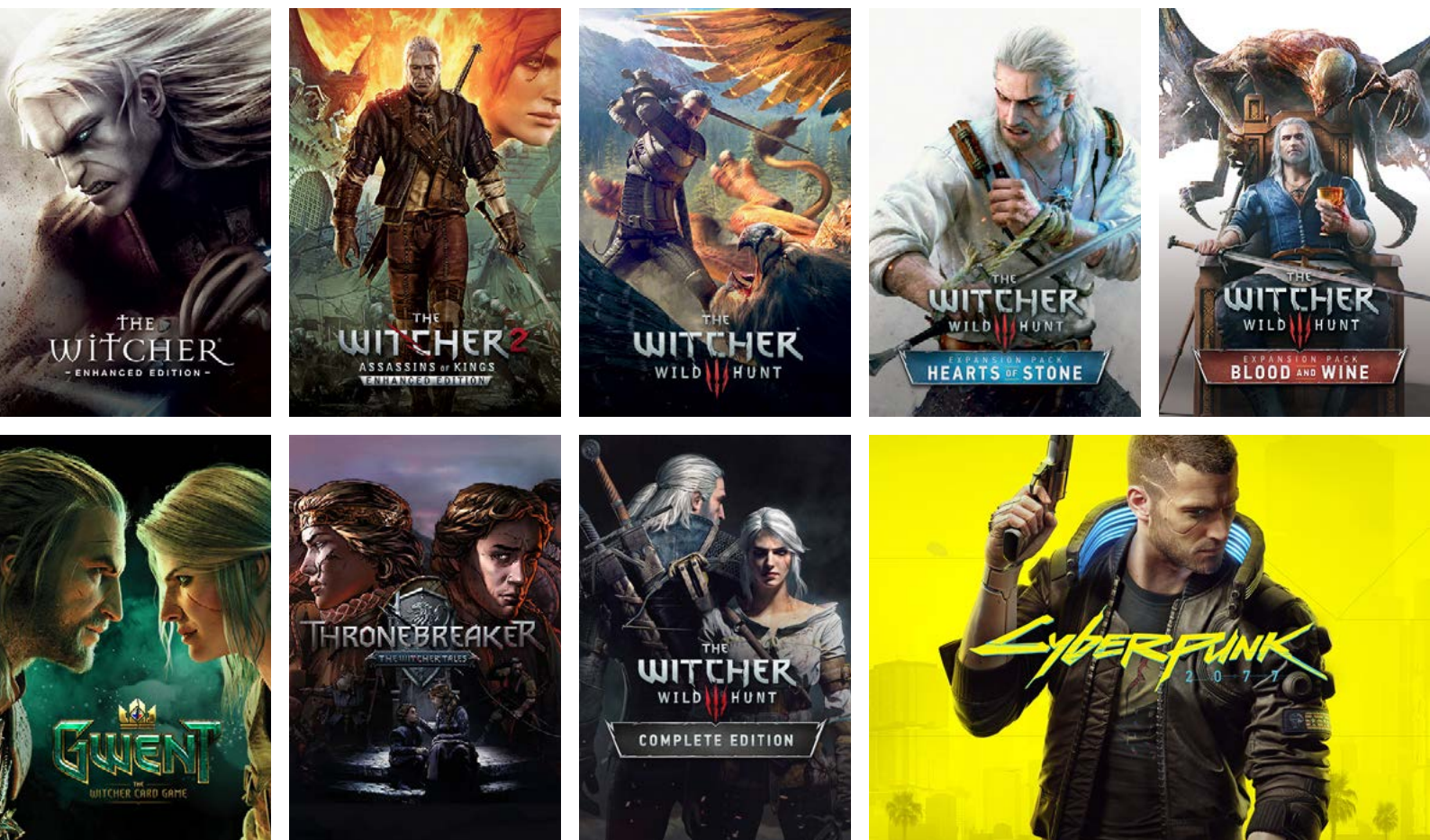
Since 2019 the Group has been operating an online merchandise store dedicated to fans of games developed by CD PROJEKT RED. The store is available at <https://gear.cdprojektred.com>.

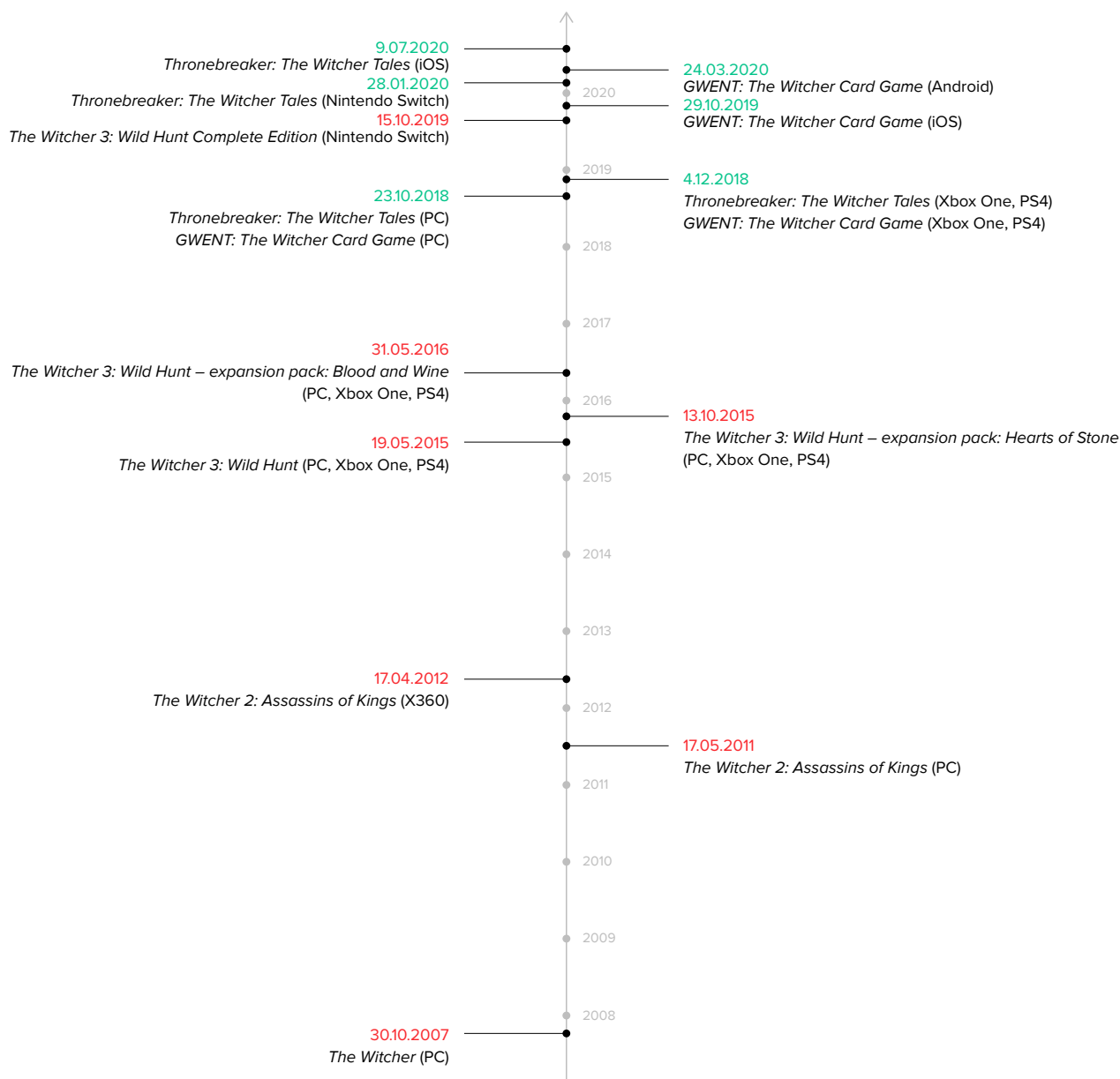
### Key products

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* (PC), *The Witcher 2: Assassins of Kings* (PC, Xbox 360), *The Witcher 3: Wild Hunt*, as well as two expansion packs: *Hearts of Stone* and *Blood and Wine* (PC, Xbox One, PlayStation 4, Nintendo Switch).

Since 2018 the Company, in consortium with GOG sp. z o.o., has been developing *GWENT: The Witcher Card Game* (PC, iOS, Android), along with a single-player game – *Thronebreaker: The Witcher Tales* (PC, iOS, Nintendo Switch, Xbox One, PlayStation 4), built around similar gameplay mechanics.



**Chart 7** CD PROJEKT RED releases; 2007-2020


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

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 Night City: the most crime-ridden metropolis of the future. *Cyberpunk 2077* is based on the *Cyberpunk 2020* pen-and-paper RPG system created by Mike Pondsmith.



THE CITY



THE CITY



### 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
- sales carried out through optional microtransactions in *GWENT: The Witcher Card Game* (incl. kegs, meteorite dust, add-ons and premium passes).

Digital distribution agreements concluded by the Company are typically settled in monthly cycles, while distribution of physical videogame editions follows quarterly reporting cycles. Depending on the specific partner or contract, the Company also collects licensing reports – these are submitted 30, 45 or 60 days following the end of each reporting period (typically each month or quarter).

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

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

### Key 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., Warner Bros. Home Entertainment, Epicsoft Asia PTE LTD, Bandai Namco Entertainment Australia PTY LTD, Spike Chunsoft Co., Ltd., Soft Club LLC), and leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Nintendo, Apple App Store, Google Play, Humble Bundle and Origin, along with its own proprietary GOG.com platform).

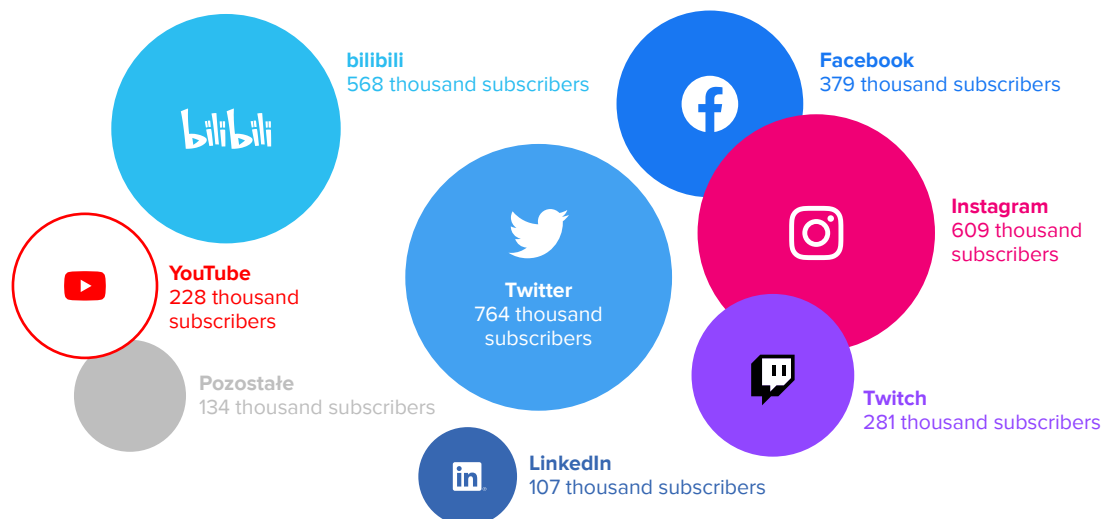
In the first half of 2020 sales to one client exceeded 10% of the Group's consolidated sales revenues and totaled 72 253 thousand PLN (19.8% of the Group's revenues). This client is not affiliated with CD PROJEKT S.A. or any of its subsidiaries. No other client accounted for more than 10% of the Group's 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 Group in the first half of 2020.

## 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).

**Chart 8** Followers and subscribers of CD PROJEKT RED social media profiles as of 7 August 2020



## Key product and marketing events

### Cyberpunk 2077

On 16 January 2020 and, subsequently, on 18 June 2020 the Management Board announced its decision to postpone the release of *Cyberpunk 2077*. The Studio’s newest videogame is scheduled to appear on 19 November 2020. Both delays resulted from the need to secure additional time for the final polish, including testing and bugfixing.

On 20 April 2020 a limited edition of the Xbox One X gaming console, inspired by the world of *Cyberpunk 2077*, was unveiled. The console was designed by CD PROJEKT RED artists in collaboration with Microsoft.

On 16-25 June 2020 CD PROJEKT RED carried out a series of hands-on *Cyberpunk 2077* gameplay sessions, inviting journalists and opinion leaders representing the gaming industry to try their own hand at playing the game for approximately 4 hours – starting at the beginning and selecting one of the three available lifepaths. Altogether, the game was tried out by over 120 invited guests from 15 countries, although – due to the COVID-19 pandemic – in some countries the hands-on campaign was carried out by remote access. During this time Studio representatives also gave over 60 media interviews.





On 25 June 2020 CD PROJEKT RED launched Night City Wire – an online event during which the Studio presented additional details concerning *Cyberpunk 2077* and its in-game universe. The initial 25-minute episode comprised a brand-new trailer (*The Gig*), fresh gameplay footage and a detailed description of one of the game’s mechanics – braindance. Approximately 1.7 million viewers tuned in to the live broadcast.

During the first edition of Night City Wire CD PROJEKT RED also announced a new project, carried out in collaboration with Netflix and Studio Trigger: *CYBERPUNK: EDGERUNNERS*, a 10-episode anime series. CD PROJEKT RED’s original story will be animated by Studio Trigger, which is renowned among anime fans for its unique, highly dynamic style. *CYBERPUNK: EDGERUNNERS* is expected to launch in 2022.



Immediately after the first Night City Wire, journalists and opinion leaders who had previously been offered the opportunity to play *Cyberpunk 2077* during the hands-on campaign published their initial impressions of the game in a series of previews.



**“Cyberpunk 2077 is a sprawling, gross metropolis and I want to explore every inch of it.”** [IGN \(US\)](#)

**“More erpegish than the very king of RPGs.”** [Gry-Online \(PL\)](#)

**“Night City is a place I can’t wait to return to.”** [PCGamesN \(UK\)](#)

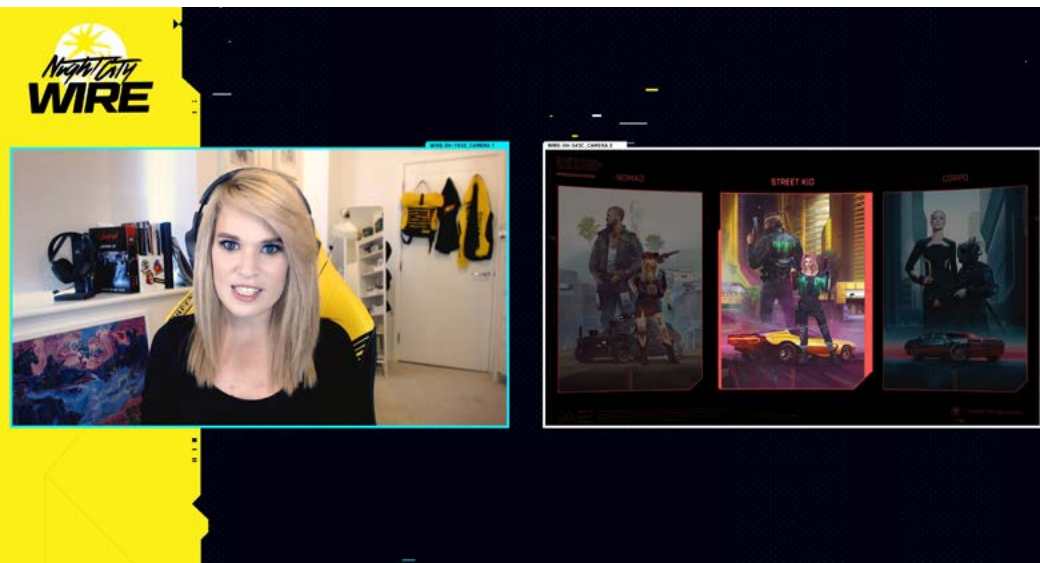
**“Beyond expectations!”** [Game\\*Spark \(JP\)](#)

**“An incredibly immersive universe.”** [jeuxvideo.com \(FR\)](#)

Following the launch of Night City Wire and release of initial previews over 1800 *Cyberpunk*-related articles have been published by global media. Over the following days and weeks the game was featured on the covers of many of the world’s most prominent gaming magazines.

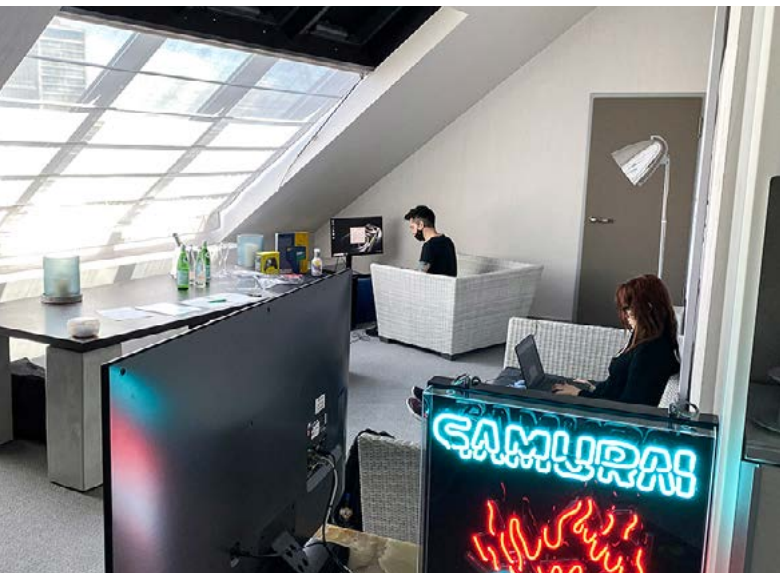
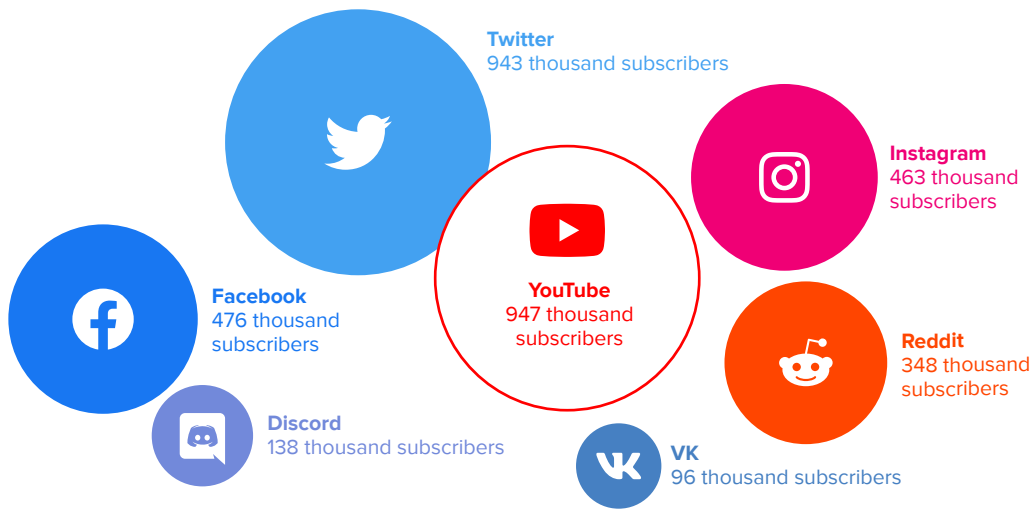


The second edition of Night City Wire took place on 10 August 2020. CD PROJEKT RED team members discussed, among others, the lifepaths available to *Cyberpunk 2077* players: Nomad, Street Kid and Corpo. Fans of the universe were also provided with an overview of the types of weapons available in the game, and the story behind the formation of the SAMURAI band.





**Chart 9** Followers and subscribers of *Cyberpunk 2077* social media profiles as of 7 August 2020



## GWENT

On 24 March *GWENT: The Witcher Card Game* was released for the Android OS, providing games with cross-play capabilities across all supported platforms: PC, iOS and Android devices.

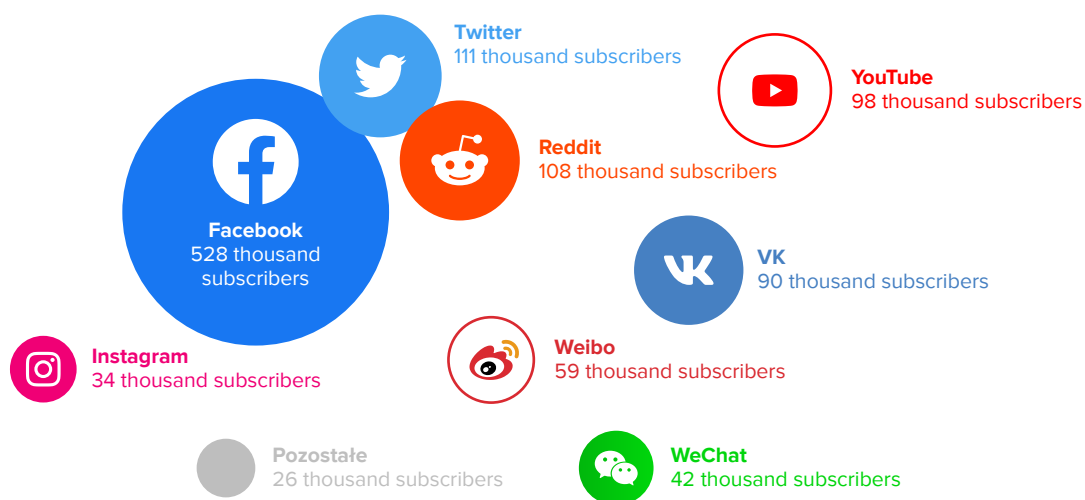
On 19 May 2020 *GWENT: The Witcher Card Game* was released on Steam, marking the game's debut on the second platform dedicated to PC gamers (following GOG.com). The Steam edition fully supports cross-play and synchronization with other editions, enabling players to compete with users of iOS, Android and GOG.com releases, and transfer their games' content and progress across platforms.

On 3 June 2020 the Studio began taking preorders of the fifth expansion of *GWENT* called *Master Mirror*. The expansion was published on 30 June, with over 70 new cards themed after a familiar character appearing in *The Witcher 3: Wild Hunt* and *Hearts of Stone*: Gaunter O'Dimm.



On 4 August 2020 CD PROJEKT RED announced the launch of a new edition of *Journey*: an in-game progression system for *GWENT*, offering over 100 levels and various prizes which can be earned by gamers. The new *Journey* involves weekly updates (released over the span of three months) comprising a unique storyline which focuses on Ciri, along with the associated quests.

**Chart 10** Followers and subscribers of GWENT social media profiles as of 7 August 2020



### Other events related to The Witcher videogame series

On 28 January 2020 *Thronebreaker: The Witcher Tales* was released for Nintendo Switch. The game is available as a digital download in the Nintendo eShop.

On 18 February *The Witcher 3: Wild Hunt* for Nintendo Switch received an update enabling saved games to be imported from the PC version on Steam and GOG. Owing to this feature, Switch users who have purchased *The Witcher 3: Wild Hunt* for this platform may now use Nintendo's portable console to continue adventures started on the PC version.

On 28 May – the publication date of the financial statement for the first quarter of 2020 – the Company announced that over 50 million copies of games from the Witcher series had been sold.

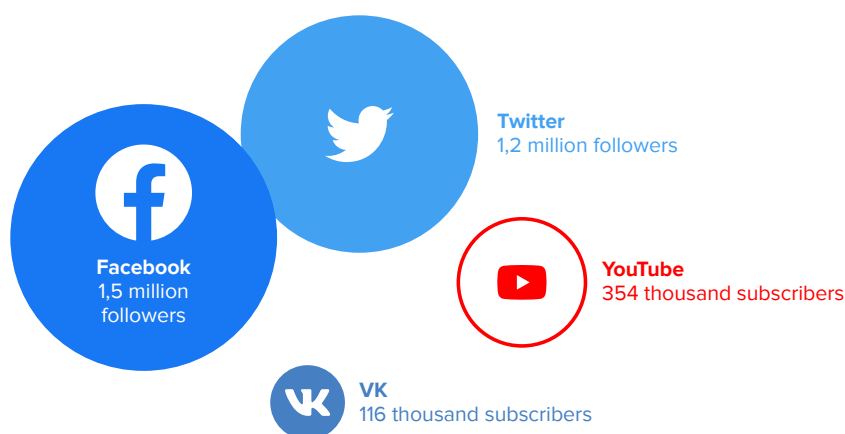
On 10 June the Company announced that *Thronebreaker: The Witcher Tales* for Xbox One would become part of the Xbox Game Pass starting on 18 June 2020. Xbox Game Pass and Ultimate subscribers may download and play the game on Xbox One at no extra cost.

On 9 July *Thronebreaker: The Witcher Tales* was released for iOS devices.

On 26 August Spokko and CD PROJEKT RED jointly announced *The Witcher: Monster Slayer* – an augmented reality role-playing game set in *The Witcher* universe. The game will be published in the free-to-play model for iOS and Android devices. Currently, the game is in the soft launch phase in New Zealand.



**Chart 11** Number of followers and subscribers of *The Witcher* social media profiles as of 7 August 2020



On 23 June the Company announced that CD PROJEKT RED STORE would be rebranded as CD PROJEKT RED GEAR.

## GOG.COM

### Target and scope of business activity

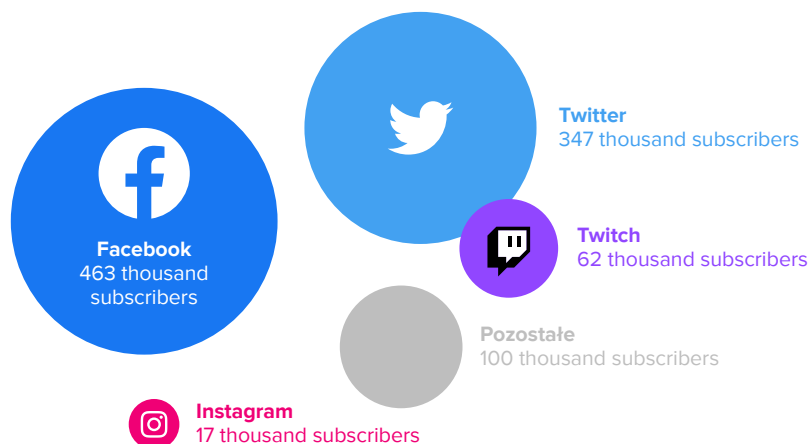
The GOG.com platform was launched in August 2008. Its initial mission was to revitalize major PC cult classics and offer them for sale to international customers with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. The platform is now offered 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. 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 established 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 of *GWENT*, and for delivering the required IT infrastructure and implementing networking features in the PC, iOS and Android editions.

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.

**Chart 12** Number of followers and subscribers of GOG.com social media profiles as of 7 August 2020



### Key products

As of the publication date of this report, the GOG.com catalogue comprises over 4100 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, macOS and popular distributions of Linux, and provides technical support in case of installation problems.

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*. Since the announcement of the *Cyberpunk 2077* release date, the game can also be preordered on GOG.com. 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.

The GOG.com team is currently developing GOG GALAXY 2.0, which will enable gamers to combine all their game shelves into a single library while communicating with friends and tracking their progress regardless of their preferred gaming platforms. The application is currently in open beta phase.

### 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 by the consortium agreement,
- the GOG sp. z o.o. share of revenues from in-game sales handled by external partners (including the Chinese partner), as stipulated by the consortium agreement.

### Key product and marketing events

#### GOG GALAXY 2.0

For GOG GALAXY 2.0 the first half of 2020 was marked by collection and analysis of feedback received from users of the application's open beta, launched in December 2019, as well as by work on additional features and updates.

The fifth iteration of the application, released on 27 April, incorporated new functionality, enabling – among others – browsing and installing games to which users have access under existing subscription schemes such as Xbox Game Pass and Origin Access, as well as support for mods and nonstandard settings (facilitated by the option to import custom executables and modify game parameters).

Between 16 and 23 June, as part of the “Claim *The Witcher 3*” promotion on GOG GALAXY, users who have purchased *The Witcher 3: Wild Hunt* for platforms other than GOG.com (including consoles) may – having combined these platforms in the framework of GOG GALAXY – receive the GOG.com edition of the game free of charge.

On 20 July 2020 GOG GALAXY 2.0 was officially integrated with Epic Games Store, providing convenient and stable support for that platform's game shelves within GOG GALAXY 2.0.

#### New games in the GOG.com catalogue

As of the publication date of this report, the GOG.com catalogue of products numbers over 4100 items.

In the first half of the year the GOG.com catalogue was expanded, among others, with *The Surge 2*, the *Styx* and *Dishonored* series, *The Evil Within*, *Deus Ex: Mankind Divided* and *Observation*. The platform also premiered independent games, including *Beautiful Desolation*, *Legend of Keepers* and *The Legend of Heroes: Trails of Cold Steel III*.

During this period the GOG.com team was able to revitalize several classics, previously unavailable in digital distribution, including the long-awaited *Warhammer: Mark of Chaos* and *Mortal Kombat 4*.

The first half of 2020 culminated with a promotional campaign lasting between 24 June and 4 July, where gamers could obtain free digital gadgets themed after *Cyberpunk 2077*. The event was also marked by a special offer on Ultimate RED Collection, comprising all games from *The Witcher* universe along with a preorder of *Cyberpunk 2077*.

### 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 Spring Sale, carried out in the second half of March, was the biggest spring event in the platform's history with regard to the number of discounted products on offer, the number of active visitors and the total volume of sales. This year's Spring Sale actively supported the "stay at home" initiative by handing out free-of-charge copies of games, artbooks and soundtracks, while also reminding gamers of the availability of free content in the catalogue. Over the last two weeks of March more than 9 million free downloads were served by GOG.com.

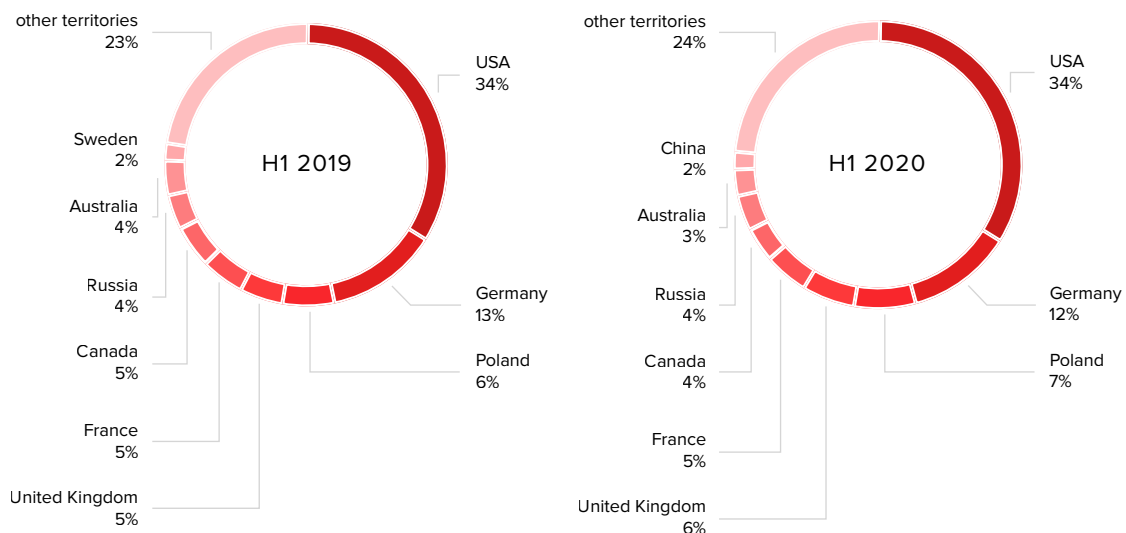
The GOG.com marketing highlight of the second quarter was the Summer Sale campaign, held between 27 May and 15 June. This again proved to be the largest such event in GOG.com's history, as measured – among others – by the number of participants, range of bargains (over 3 thousand products discounted) and media interest (over 560 publications). The campaign was further bolstered by a competition which nearly 25 thousand gamers entered for a chance to win a *Cyberpunk 2077*-themed edition of the GTX 2080ti graphics card.

A number of smaller promotional activities were also organized on GOG.com in the first half of 2020, generating significant interest among gamers. These included (among others) the 4th Star Wars Sale, the Zombie GOGalypse Sale, the Dungeons & Dragons Sale and a special sale celebrating the fifth anniversary of *The Witcher 3*.

### Key suppliers and clients

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

**Chart 13** Sales of products and goods by GOG.com in the first half of 2019 and the first half of 2020 by territory



The first half of 2020 gamers residing in the USA represented the largest group of GOG.com clients (34% of sales), followed by Germany (12%), Poland (7%) and the United Kingdom (6%).

## **KEY CORPORATE EVENTS**

On 24 January 2020 CD PROJEKT received a crucial individual interpretation of tax law. In the interpretation the Director of the National Revenue Administration Information Center fully concurred with the Company's position, expressed in its filing, that video games developed by the Company may, for the purposes of the IP BOX preference, be regarded as eligible intellectual property consistent with the definition of computer software under the corporate income tax law. In light of the foregoing, eligible revenues obtained by the Company from commercializing copyright to its video games may, as a rule, be subject to preferential taxation with an income tax rate of 5% (subject to any additional restrictions and exclusions expressed in the relevant legislation). The material effect of this interpretation was accounted for in the Company's annual fiscal settlement for 2019, as well as in this report.

On 6 May 2020 the Management Board of the Company announced its plans to diversify the allocation of surplus cash by earmarking up to 300 million PLN for purchase of domestic and foreign treasury bonds regarded as low-risk financial instruments. At the same time the Board decided to mitigate exchange rate risks associated with foreign bonds by carrying out, within the limits offered by the financial institutions cooperating with the Company, symmetric purchases of derivative instruments, particularly forward sale contracts involving foreign currencies.

## **ACTIVITIES RELATED TO THE COVID-19 PANDEMIC**

In March 2020, in light of the increasing threat posed by the coronavirus (COVID-19) pandemic, the Company took preventative action to mitigate the risk of the emergence of an infection cluster within the Group's organizational structure. The Company moved to invest in additional technical infrastructure and supporting software, securing its potential future needs with regard to network bandwidth, hardware performance and security concerns, with a view towards facilitating remote work for all of its office staff.

Faced with the increasing epidemiological threat, and having secured the necessary technical resources, the Management Board of the Company decided and thereafter successfully enacted a comprehensive shift to the Home Office model, beginning on 16 March 2020, for all employees of the CD PROJEKT Group (except for a skeleton staff performing critical duties at the Group's offices).

A detailed description of the preparatory and mitigatory actions undertaken by the Company in light of the ongoing pandemic can be found in the [Management Board report on CD PROJEKT Group and CD PROJEKT S.A. activities in 2019](#).

On 25 March CD PROJEKT announced that it would be providing financial support to the fight against the coronavirus pandemic. A total of 4 million PLN was turned over to the Great Orchestra of Christmas Charity Foundation which, drawing upon its organizational skill and longstanding experience, ensured efficient allocation of these funds. Half of this amount was donated directly by CD PROJEKT S.A. while the remainder came from



private contributions made by Company shareholders and Management Board members.

The Company monitors the circumstances surrounding the COVID-19 pandemic on an ongoing basis. As of the publication date of this report, the CD PROJEKT team continues to work remotely, and the Company recommends remaining in this mode until the end of 2020. In parallel, the Company provides some of its employees with the ability to work from their offices, as long as they comply with elevated safety precautions and obey maximum occupancy limits for the whole building and for each office separately.

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

### **Product-related events**

On 9 July 2020 *Thronebreaker: The Witcher Tales* debuted on iOS devices.

On 26 August Spokko and CD PROJEKT RED jointly announced *The Witcher: Monster Slayer* – an augmented reality role-playing game set in *The Witcher* universe. The game will be published as a free-to-play title for iOS and Android devices. Currently, the game is in the soft launch phase in New Zealand.

### **Corporate events**

An Ordinary General Meeting of CD PROJEKT S.A. was held on 28 July 2020. The General Meeting adopted, among others, resolutions instituting a remuneration policy for members of the Company's Management Board and Supervisory Board, authorizing the Management Board to carry out buy-back of shares and creating a reserve capital to finance said buy-back in the framework of implementing the incentive program active in the years 2016-2019, as well as instituting a new incentive program covering the years 2020-2025. However, the attendant resolution concerning issue of subscription warrants with exclusion of subscription rights for existing shareholders in order to enable implementation of the Incentive Program for 2020-2025 failed to obtain the required four-fifths supermajority of votes, as required under the Commercial Companies Code. The full list of resolutions submitted to the Ordinary General Meeting of CD PROJEKT S.A. on 27 July 2020 can be found in the [appendix to Current Report no. 10/2020](#).

Acting in compliance with Resolution no. 21 of the aforementioned Ordinary General Meeting, between 30 July and 17 August the Company carried out a buy-back of Company shares. Shares were purchased on the regulated market of the Warsaw Stock Exchange. Altogether, the Company purchased 516 700 shares expending 214 151 thousand PLN. The goal of the buy-back program was to offer the acquired shares to entitled participants of the Incentive Program which remained in force between 2016 and 2019.

On 27 August of the current year the Management Board of the Company convened an Extraordinary General Meeting to take place on 22 September 2020, in order to vote on the following:

- resolution amending the regulations of the Group's new Incentive Program covering the years 2020-2025,
- resolution concerning issue of subscription warrants and conditional increase in the Company share capital with exclusion of subscription rights for existing shareholders, in order to enable implementation of the Incentive Program.

The proposals expressed in the above draft resolutions serve to align the conditions of the Group's Incentive Program for 2020-2025, instituted by the Ordinary General Meeting of 28 July 2020, with the expectations voiced by the Company's minority shareholders.

On 1 September 2020, in Current Report no. 28 the Company provided an update regarding the exercise of entitlements assigned under the Incentive Program which was in force at CD PROJEKT S.A. between 2016 and 2019, as well as projections regarding the sale of shares by entitled parties. Further information can be found in the section titled [Disclosure of completed and ongoing incentive programs](#).

## DISCLOSURE OF SEASONAL OR CYCLICAL ACTIVITIES

### CD PROJEKT RED

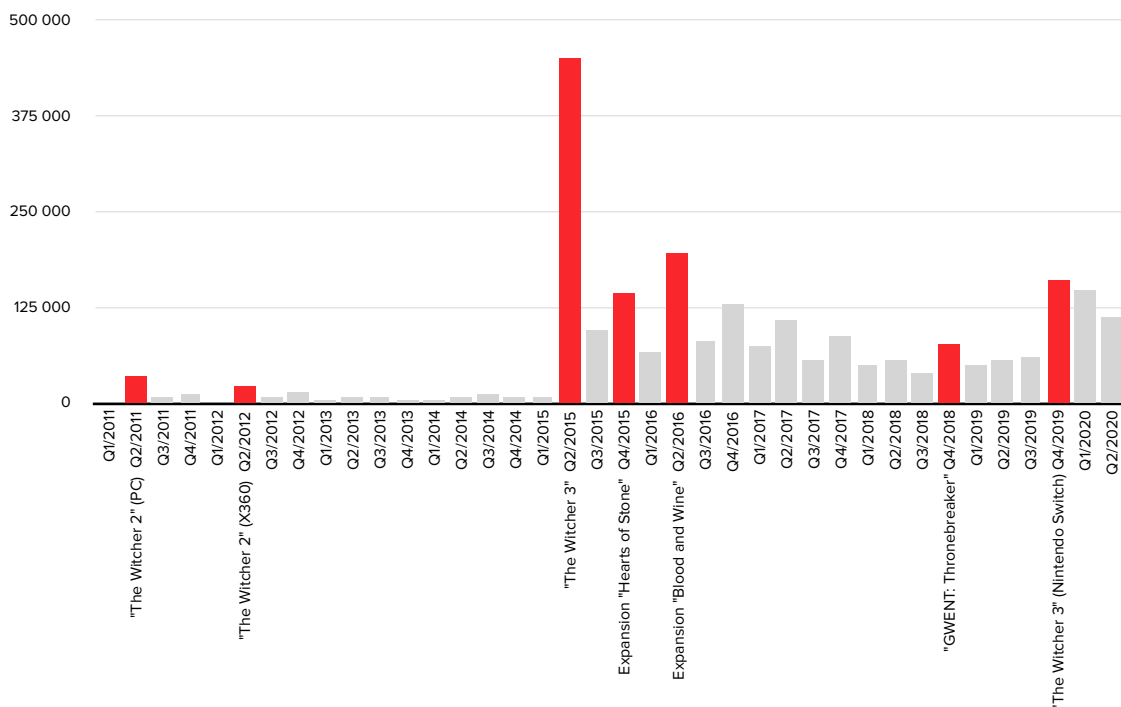
The revenues and financial result of the CD PROJEKT RED segment are strongly affected by the videogame release schedule. CD PROJEKT RED usually takes between 2 and 4 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released.

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 breakdown is dependent on the schedule of periodic sale campaigns. In most cases, strong sales are reported in the second and fourth quarter, while the first and the third quarter (the latter of which overlaps with the summer vacation season) see weaker sales.

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

**Chart 14** Effect of new releases on the quarterly revenues from sales of products, goods and materials by CD PROJEKT RED (PLN thousands)

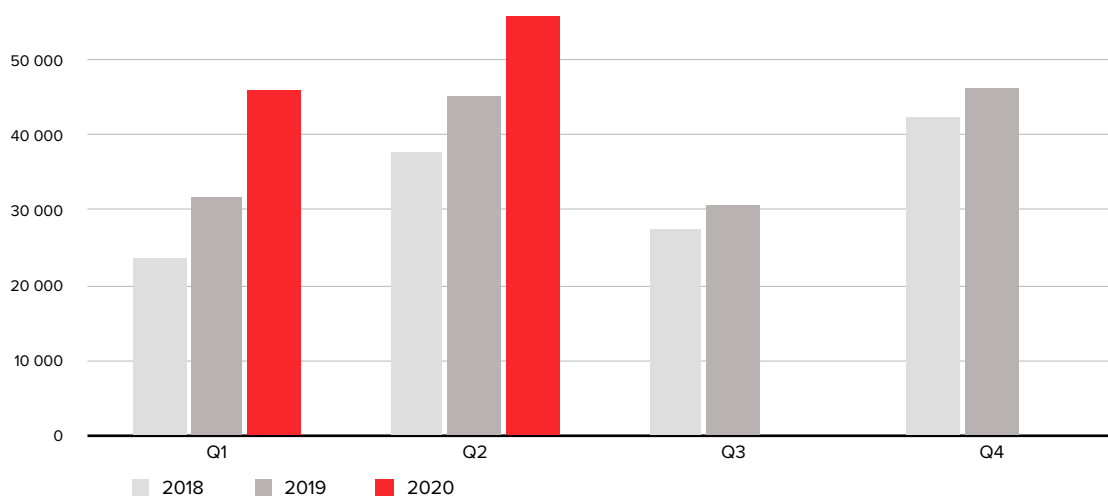


### GOG.com

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 videogame releases in each reporting period.

**Chart 15** Quarterly revenues from sales of goods and materials at GOG.com; 2018-2020 (PLN thousands)



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.

### EFFECT OF THE COVID-19 PANDEMIC ON SALES DURING THE REPORTING PERIOD

The free movement restrictions and stay-at-home orders introduced in many countries in March 2020 evidently increased the popularity of videogames and helped their sales, particularly in the context of digital distribution. Nevertheless, given the multitude of factors which may have had a positive effect on the Group's factors in the recent three quarters (including marketing campaigns, releases of new products – *The Witcher 3: Wild Hunt* for Nintendo Switch, *GWENT: The Witcher Card Game* for iOS and Android devices, along with the Steam version, and *Thronebreaker: The Witcher Tales* for Nintendo Switch, debut of *The Witcher* series on Netflix and the increased time customers spend at their homes due to the pandemic) makes it difficult to gauge the effect of each of these circumstances upon the Group's sales. Taken together, the aforementioned factors, coupled with the Group's other business activities and the weakening of PLN against foreign currencies (observed between mid-March and mid-May 2020) resulted in a large increase in H1 2020 sales revenues compared to H1 2019 results, both at CD PROJEKT RED (86.7% increase) and at GOG.com (35.4% increase).

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

Future growth of the Company and its Group is critically dependent on the ability to retain world-class creative professionals and experts, and to attract a growing number of specialists, both Polish and foreign, to work on the Group's future releases. 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, Seoul and Tokyo. The market performance of each new release is an important aspect of the Studio's reputation as a developer of top-quality, highly sought-after entertainment products. It also underpins the value and recognition of brands such as *The Witcher*, *Cyberpunk* and CD PROJEKT RED, upon which the long-term development strategy of the Company and its Group is founded. Moreover, the activities of CD PROJEKT Group member companies are affected by external factors such as the 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 Group and CD PROJEKT S.A. activities in 2019](#).

With regard to the third quarter of 2020 and to subsequent quarters, the CD PROJEKT Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.com, as well as in the framework of Spokko.

### 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 Group include the popularity of previously published games set in *The Witcher* universe, as well as – in future periods – events surrounding the release of *Cyberpunk 2077*, scheduled for 19 November 2020, including the ramp-up in promotional expenditures incurred by the Company in the pre-release period (recognized as current period costs), progress of development work and eventual market reception of the Company's upcoming product. To-date enthusiastic reception of the new game 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.

*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, particularly in the context of the previously announced work on the multiplayer edition of *Cyberpunk 2077*.

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

## GOG.COM

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, as observed in recent years. It should also be noted that in the past months circumstances surrounding the COVID-19 pandemic have had a positive effect on digital sales.

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. During the recent years the Company has been successful in this regard, owing to its PR activities and synergies resulting from cooperation with CD PROJEKT S.A. The GOG.com customer pool continues to grow at a steady pace.

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 open beta and has been garnering positive reviews from the gamer community.

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.

## Disclosure of factors which, in the issuer's opinion, may have an effect on its earnings during at least the coming quarter

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The upcoming third quarter coincides with the vacation season and consequently sees a lull in marketing activities, which may affect sales. No significant new releases are scheduled by the Company for the remainder of Q3 2020 (although note that the iOS edition of *Thronebreaker: The Witcher Tales* debuted in July 2020). Additionally, the Group's earnings may be impacted by costs associated with the promotional campaign and preparations for the release of *Cyberpunk 2077*.

The release of *Cyberpunk 2077* and the final phase of the attendant marketing campaign are both scheduled for the fourth quarter of the year. These events are expected to have a positive effect on the Group's sales revenues, as well as its net earnings during the corresponding period.

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

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No significant agreements were concluded by the Company during the reporting period.

## Risk management at the Group

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The CD PROJEKT 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 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.

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<sup>6</sup> An agreement is regarded as significant if the projected total value of liabilities arising under the agreement exceeds 10% of the Group's consolidated assets.

## DIVERSIFICATION OF CREDIT RISK FOR FINANCIAL RESERVES INITIATED IN THE FIRST HALF OF 2020

In line with its adopted philosophy, the CD PROJEKT Group maintains financial reserves which secure the autonomy and stability of its operations, enable further dynamic growth, provide funding for development of new videogames and technologies along with promotional activities carried out in support of anticipated releases, permit further investments and constitute a buffer which enables the Group to react to unforeseen circumstances or exploit emerging opportunities. Group member companies allocate their monetary assets in a way which acknowledges existing and planned funding requirements while mitigating credit risk and maximizing revenue from interest. At the end of December 2019 the Group held 482 301 thousand in monetary assets. Throughout the first quarter of 2020 this figure further increased to 610 320 thousand PLN.

Most of the Group's financial resources are held by CD PROJEKT S.A.

In the Management Board's opinion, up until the end of the first quarter the credit risk associated with the financial resources held by the Group had been adequately mitigated by diversifying allocation to include domestic and foreign banks whose credit ratings are not worse than BBB- according to S&P and Fitch, or Baa3 according to Moody's. Following the outbreak of the COVID-19 pandemic, which brought about increased uncertainty concerning the future state of the global economy and its potential effect on the banking sector, the Management Board of the Company undertook the decision to further diversify allocation of financial resources by including banks (in line with existing criteria) along with a limited number of issuers of treasury bonds (Germany, Switzerland, USA) whose credit rating is not worse than A-according to S&P and Fitch, or A3 according to Moody's

### Implementation

On 5 May 2020 the Management Board of CD PROJEKT S.A. decided to earmark up to 300 000 thousand PLN in surplus cash for the purchase of treasury bonds, as follows:

- up to 150 000 thousand PLN in domestic treasury bonds issued by the Polish State Treasury,
- up to 150 000 thousand PLN in foreign treasury bonds issued by USA, Germany and Switzerland, denominated in the respective currencies of their issuers,

The Board also limited the redemption period of any purchased bonds to 3 years (5 years for part of the US treasury bond portfolio).

At the same time, the Board decided to mitigate exchange rate risks associated with purchasing foreign bonds denominated in the currencies of their issuers by moving to conclude symmetric purchases of derivative instruments, i.e. forward sale contracts.

Treasury bonds held on 30.06.2020	S&P	Fitch	Moody's	
Polish State Treasury bonds (denominated in PLN)	A-	A-	A2	49 456
US Treasury bonds (denominated in USD)	AA+	AAA	AAA	46 807
Swiss Treasury bonds (denominated in CHF)	AAA	AAA	AAA	41 458
German treasury bonds (denominated in EUR)	AAA	AAA	AAA	20 157
<b>Total treasury bonds purchased</b>				<b>157 878</b>

The following table presents the concentration of financial assets, deposits and treasury bonds weighted by the total value of each category of diversified assets, with regard to the credit rating of financial institutions and issuers of treasury bonds.

Credit rating of financial institution / issuer of treasury bonds		As of 30.06.2020	As of 31.12.2019
Highest	AAA to AA- acc. to S&P and Fitch; Aaa to Aa3 acc. to Moody's	18.52%	0.00%
Medium-high	A+ to A- acc. to S&P and Fitch; A1 to A3 acc. to Moody's	23.47%	26.99%
Medium	BBB+ to BBB- acc. to S&P and Fitch; Baa1 to Baa3 acc. to Moody's	58.00%	73.01%

Purchases of domestic treasury bonds were carried out by directly issuing purchase orders via the PKO BP Brokerage House.

Purchases of foreign treasury bonds were carried out in the framework of a debt instrument portfolio management contract concluded with Credit Suisse AG. The bank manages investment accounts denominated in currencies which correspond to the currencies in which the Company has decided to purchase debt instruments. A dedicated Asset Manager, employed by the bank, manages the investment portfolio in accordance with the profile specified by the Company.

#### Assessment of the business model concerning purchase of bonds

In line with the requirements of IFRS 9 Financial Instruments the Company has carried out an analysis of the business model concerning management of financial assets and of the characteristics of contractual cash flows for each component of the bond portfolio. This led the Company to conclude the following:

- The purpose of the effected investments in domestic and foreign treasury bonds is to hold to maturity and collect the associated contractual cash flows.
- The investment mandates granted to Credit Suisse also permits sale of bonds prior to the expiration of their respective redemption periods in the framework of the adopted portfolio management strategy.
- All purchased bonds pass the SPPI test.



As a result of the presented analysis, the purchased bonds were assigned to two distinct financial asset management models identified by the entity which manages the bond portfolio. Polish State Treasury bonds – given the intent to hold them to maturity and collect the associated contractual cash flows – were estimated at amortized cost. Foreign treasury bonds – given the investment mandate which permits management of portfolio by the Asset Manager – were estimated at fair value through other comprehensive income.

Treasury bonds estimated at fair value through other comprehensive income (portfolio managed by Credit Suisse) – PLN thousands	108 422
Swiss Treasury bonds – CHF	41 458
German Treasury bonds – EUR	20 157
US Treasury bonds – USD	46 807
Treasury bonds estimated at amortized cost (transactions carried out directly by CD PROJEKT S.A.) – PLN thousands	49 456
Polish State Treasury bonds – PLN	49 456

#### Mitigation of exchange rate risks associated with purchasing and holding bonds denominated in foreign currencies

In order to mitigate the exchange rate risks associated with holding assets denominated in foreign currencies, for each foreign currency contribution to its investment account the Company concluded a symmetric forward sale contract involving the given currency. The following table summarizes the forward contracts concluded in the first half of 2020 for each currency.

Forward contract currency	Value of forward contracts (foreign currency units)	Value of forward contracts (PLN equivalent, according to forward exchange rates)	Estimated fair value of forward contracts as of 30 June 2020 (PLN)
CHF	11 380	49 911	1 980
EUR	6 930	31 596	478
USD	11 830	49 685	2 785
Total		131 192	5 243

In line with its adopted policy, the Company mitigates exchange rate risks in proportion to the total balance of its foreign currency investment accounts and not to the value of bonds held. Consequently, the total value of forward contracts may exceed the total value of bonds held. The resulting surplus serves to secure unused financial resources which remain in the respective investment accounts.

The Management Board of the Company has decided not to engage in hedge accounting with regard to forward contracts which secure foreign-currency assets held in the aforementioned investment accounts (cash, treasury bonds).

### Interest rate risks associated with purchase of bonds

The Company does not have an active interest rate risk mitigation policy with regard to the purchased bonds. In order to minimize this risk – which might affect the fair value of bonds during the investment period – the Company restricts itself to purchasing domestic treasury bonds as well as treasury bonds issued by foreign entities with strong credit ratings (Switzerland, Germany, USA), with redemption periods not longer than 3 years (5 years in the case of selected US bonds). The Company's intent is to hold the acquired bonds until they are redeemed.

#### Redemption periods for treasury bonds purchased as of 30 June 2020

Q3 2020	29%
Q4 2020	7%
H1 2021	15%
H2 2021	4%
2022	35%
2023	4%
2024	7%
Weighted treasury bond portfolio	100%

A detailed description of risks encountered by the Group can be found in the [Management Board report on CD PROJEKT Group and CD PROJEKT S.A. activities in 2019](#).



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03

FINANCIAL RESULTS OF THE  
CD PROJEKT 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 of the Group and by activity segment – selected highlights (PLN thousands)

	2020.01.01- -2020.06.30	2019.01.01- -2019.06.30	2020.01.01- -2020.06.30	2019.01.01- -2019.06.30	2020.01.01- -2020.06.30	2019.01.01- -2019.06.30	2020.01.01- -2020.06.30	2019.01.01- -2019.06.30
	CD PROJEKT GROUP		CD PROJEKT RED segment		GOG.com segment		Consolidation eliminations	
<b>Sales revenues</b>	<b>363 998</b>	<b>215 102</b>	<b>260 355</b>	<b>139 420</b>	<b>109 794</b>	<b>81 108</b>	<b>-6 151</b>	<b>-5 426</b>
Revenues from sales of products	237 665	109 775	228 099	104 460	7 645	3 733	1 921	1 582
Revenues from sales of services	774	31 859	2 504	33 688	1	1	-1 731	-1 830
Revenues from sales of goods and materials	125 559	73 468	29 752	1 272	102 148	77 374	-6 341	-5 178
<b>Cost of products, services, goods and materials sold</b>	<b>107 402</b>	<b>66 619</b>	<b>36 815</b>	<b>13 989</b>	<b>75 596</b>	<b>57 413</b>	<b>-5 009</b>	<b>-4 783</b>
Cost of products and services sold	14 980	15 064	12 600	13 014	2 969	3 236	-589	-1 186
Cost of goods and materials sold	92 422	51 555	24 215	975	72 627	54 177	-4 420	-3 597
<b>Gross profit (loss) from sales</b>	<b>256 596</b>	<b>148 483</b>	<b>223 540</b>	<b>125 431</b>	<b>34 198</b>	<b>23 695</b>	<b>-1 142</b>	<b>-643</b>
Selling costs	72 147	55 171	49 432	36 108	23 818	19 611	-1 103	-548
General and administrative costs	25 860	34 390	22 930	31 263	3 029	3 222	-99	-95
Other operating revenues	4 015	1 872	4 430	2 203	300	123	-715	-454
Other operating expenses	6 445	930	6 819	1 276	254	108	-628	-454
(Impairment) / reversal of impairment of financial instruments	-75	21	-75	3	0	18	0	0
<b>Operating profit (loss)</b>	<b>156 084</b>	<b>59 885</b>	<b>148 714</b>	<b>58 990</b>	<b>7 397</b>	<b>895</b>	<b>-27</b>	<b>0</b>
Financial revenues	9 530	5 201	9 388	4 959	142	294	0	-52
Financial expenses	4 765	846	4 246	455	572	443	-53	-52
<b>Profit (loss) before tax</b>	<b>160 849</b>	<b>64 240</b>	<b>153 856</b>	<b>63 494</b>	<b>6 967</b>	<b>746</b>	<b>26</b>	<b>0</b>
Income tax	14 092	12 700	12 692	12 597	1 394	103	6	0
<b>Net profit (loss) from continuing operations</b>	<b>146 757</b>	<b>51 540</b>	<b>141 164</b>	<b>50 897</b>	<b>5 573</b>	<b>643</b>	<b>20</b>	<b>0</b>

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

The aggregate **Sales revenues** of the CD PROJEKT Group in the first half of 2020 reached 363 998 thousand PLN, which is 148 896 thousand PLN more than in the first half of 2019 (69.2% increase).

The significant increase in sales revenues is due mainly to the following factors:

### **1.** Internal factors:

- a. CD PROJEKT RED: revenues from distribution of *The Witcher 3: Wild Hunt* for Nintendo Switch, which was not part of the portfolio during the reference period,
- b. CD PROJEKT RED and GOG.com: *GWENT: The Witcher Card Game* posted record revenues in the project's history due to the game's availability on iOS devices (since October 2019) as well as its release for Android devices and on Steam, both of which took place in the reporting period;
- c. CD PROJEKT RED: revenues from sales of elements of the physical collector's edition of *Cyberpunk 2077* and revenues generated by the CD PROJEKT RED GEAR merch store,
- d. CD PROJEKT RED and GOG.com: promotional activities related mainly to the launch of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* on new platforms, along with the upcoming release of *Cyberpunk 2077*, all of which may have bolstered sales of earlier CD PROJEKT RED products.

### **2.** External factors:

- a. CD PROJEKT RED and GOG.com: increased interest in *The Witcher* franchise due to the launch of *The Witcher* series on Netflix,
- b. CD PROJEKT RED and GOG.com: general increase in sales of videogames during H1 2020 due to the COVID-19 pandemic,
- c. CD PROJEKT RED and GOG.com: weakening of PLN against USD and EUR between mid-March and mid-May of the current year.

The largest contribution to the Group's revenues (65.3%) during the reporting period came from **Revenues from sales of products**, with an aggregate value of 237 665 thousand PLN (increase by 116.5% compared to the reference period in 2019). CD PROJEKT RED accounted for the majority of H1 2020 sales in this category, at 228 099 thousand PLN, in particular through:

- a. licensing royalties associated with the ongoing strong sales of *The Witcher 3: Wild Hunt* and its expansions – *Hearts of Stone* and *Blood and Wine*,
- b. licensing royalties associated with the distribution of *The Witcher 3: Wild Hunt* for Nintendo Switch, released on 15 October 2019,
- c. revenues generated in the framework of *GWENT: The Witcher Card Game* (which was released for iOS devices in October 2019, for Android devices in March 2020 and on the Steam platform in May 2020); additionally, in the first half of 2020 gamers were offered access to Journey – a new game mode where progression unlocks rewards, while in June the studio released another expansion titled *Master Mirror*,
- d. licensing royalties associated with distribution of *Thronebreaker: The Witcher Tales* on digital platforms (the game was released for Nintendo Switch in January 2020),
- e. licensing royalties associated with distribution of *The Witcher 2* and *The Witcher*, along with royalties generated by proprietary CD PROJEKT RED franchises.

In the GOG.com segment revenues from sales of products corresponded mostly to GOG.com's share in revenues generated by *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, apportioned in line with the existing consortium agreement (see the above description).

Consolidated **Revenues from sales of services** were reported at 744 thousand PLN (which accounts for 0.2% of the Group's sales revenues) and covered mainly shipping fees posted by customers of the CD PROJEKT RED GEAR store. In the reporting period CD PROJEKT RED did not engage in co-financing of promotional campaigns with its publishing partners – an activity which strongly affected this category of revenues in the reference period. As a result, the reported revenues from sales of services is significantly lower than in the first half of 2019, where one-off events were an important factor.

**Revenues from sales of goods and materials** accounted for 34.5% of the Group's consolidated sales revenues, having reached 125 559 thousand PLN in the reporting period (70.9% increase compared to the reference period).

The main contribution to this category of revenues was from digital distribution of games licensed from external suppliers and marketed through the GOG.com platform and the GOG Galaxy application. In the reporting period these revenues reached their highest level yet, with GOG.com reporting 102 148 thousand PLN in revenues from sales of goods and materials (for a 32% increase). This is mostly due to a series of successful promotional activities – the best Spring Sale in the segment's history, along with the major Summer Sale. Furthermore, GOG.com engaged in a number of well received brand-new releases, including those of *Dishonored: Complete Collection*, *Metro Exodus* and *Wolfenstein: The Two Pack*. The GOG.com portfolio was also expanded with highly anticipated titles, including *Evil Within* and *Rimworld*.

Revenues from sales of goods and materials in the CD PROJEKT RED segment were reported at 29 752 thousand PLN. Significant growth (by 28 480 thousand PLN) was observed in relations to the reference period, mainly due to sales of elements of physical editions of the Studio's own releases (carrier media, boxes, figurines, gadgets) to distributors – this concerns mainly the physical collector's edition of *Cyberpunk 2077* along with physical editions of *The Witcher 3: Wild Hunt* for Nintendo Switch. This category also aggregates revenues from sales carried out by the CD PROJEKT RED GEAR online store, launched in May 2019, which distributes tie-in products related to the Group's games and brands to fans in Europe and North America.

The **Cost of products, services, goods and materials sold**, which directly offsets sales revenues, was reported at 107 402 thousand PLN and increased by 61.2% compared to the reference period (whereas consolidated sales revenues increased by 69.2%).

The **Cost of products and services sold**, at 14 980 thousand PLN, was comparable to that reported in the first half of 2019 despite a more-than-twofold increase in Revenues from sale of products. This line item aggregates depreciation of development expenditures: at CD PROJEKT S.A. and GOG sp. z o.o. they relate mainly to *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, while CD PROJEKT RED currently depreciates the development costs of *The Witcher 3: Wild Hunt* for Nintendo Switch, which was released in October 2019.

According to the accounting policy in force at the Group, development expenditures related to *GWENT* are depreciated in a straight-line manner throughout a three-year period following the release of the game's full version (October 2018). With regard to *Thronebreaker: The Witcher Tales* (released in October 2018) and *The Witcher 3: Wild Hunt* for Nintendo Switch (released in October 2019) development expenses are also

depreciated over three years following the games' respective releases, however in their case the breakdown is based on expected future revenues, estimated on the basis of sales of past products.

This line item also aggregates sales costs incurred by the Group in relation to revenues from sales of services.

The **Cost of goods and materials sold**, at 92 422 thousand PLN, increased by 79.3% compared to the reference period in 2019.

The bulk of this figure comes from sales costs related to goods procured from suppliers on the GOG.com platform, where the reported increase is commensurate with the increased sales figures posted by the platform. The ratio between the cost of goods and materials sold by GOG and the corresponding sales revenues was 71%, which is 1 percentage point more than during the reference period.

Additionally, the reported increase in this category of costs is associated with components of physical editions of the Group's own releases, as well as with merchandise sold in the CD PROJEKT RED segment – both of which are, of course, related to the increased sales revenues in the corresponding category.

In the first half of 2020 the CD PROJEKT Group obtained 256 596 thousand PLN in **Gross profit from sales** – this is 72.8% (108 113 thousand PLN) more than in the reference period. The Group's gross sales profitability (i.e ratio between gross profit from sales and sales revenues) was 70.5% – slightly more than in the first half of 2019, where the corresponding figure was 69.0%.

In the presented period the CD PROJEKT RED segment posted 223 540 thousand PLN in gross profit from sales, i.e. 98 109 thousand PLN (78.2%) more than in the first half of 2019. The segment's gross sales profitability (i.e ratio between gross profit from sales and sales revenues) was 85.9%, compared to 90.0% in the reference period. The reported change in the level of profitability was mainly due to a change in the structure of this segment's revenue stream – with lower revenues obtained from sales of services (affected by one-off marketing events) coupled with increased revenues from sales of goods and materials.

In the GOG.com segment, gross profit from sales between January and June of the current year was reported at 34 198 thousand PLN, which is 44.3% more than in the corresponding reference period. The segment's gross sales profitability increased from 29.2% to 31.1%, mostly due to a twofold increase in sales revenues generated by *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* assigned to the GOG.com segment in line with the consortium agreement.

The Group's **Selling costs** were reported at 72 147 thousand PLN, having increased by 30.8% since the first half of 2019.

The CD PROJEKT RED segment posted 49 432 thousand PLN in selling costs – 36.9% more than in the reference period. In both periods the reported figure mainly comprises expenditures related to promotion of CD PROJEKT RED's products. In the current period the bulk of these expenditures related to the intensive promotional campaign of *Cyberpunk 2077*, along with promotional expenses associated with *GWENT: The Witcher Card Game*.

In both segments the reported selling costs are inclusive of expenses related to maintenance, support and further development of *GWENT: The Witcher Card Game*, including work on the game's mobile edition for Android devices (released in May 2020), its Steam edition, the new *Journey* mode and the *Master Mirror* expansion. These costs are split between the CD PROJEKT RED and GOG.com segments in accordance with their consortium agreement.

The Group's selling costs also include expenses related to upkeep and compensation (both fixed and result-dependent) of internal publishing departments, expenses related to result-dependent compensation of management boards of the Group's member companies, as well as expenses related to bought-in sales support services. In the GOG.com segment selling costs furthermore include expenses related to maintenance of the GOG.com platform, including:

- compensation of the team responsible for the platform's maintenance, development and promotional activities,
- transaction costs related to processing payments,
- costs of marketing activities which concern the GOG.com platform and the GOG Galaxy application,
- costs of IT services involved in processing sales.

**General and administrative costs** of the CD PROJEKT Group were reported at 25 860 thousand PLN in the first half of 2020, which is 24.8% less than during the reference period.

The main components of this category of expenses include compensation and provision of result-dependent compensation of the Group's administrative departments, compensation of the management boards of the Group's member companies, costs of bought-in services which qualify as general and administrative costs as well as costs related to the Group's incentive program.

The reported reduction in the Group's general and administrative costs in the first half of 2020 (compared to H1 2019) was mainly due to lower incentive program costs attributable to the current period. In the first half of 2019 the CD PROJEKT RED segment updated its projections regarding the anticipated vesting of the incentive program, which resulted in a one-time cost item (15 193 thousand PLN) associated with the shortening of the program's expected duration. For this reason, the Group's general and administrative costs saw a major decrease on a year-over-year basis.

**Other operating revenues**, at 4 015 thousand PLN, correspond mainly to revenues obtained by CD PROJEKT RED from leasing office space in the property complex at Jagiellońska 74 in Warsaw which the Group purchased in Q4 2019.

**Other operating expenses** were reported at 6 445 thousand PLN. The bulk of this figure came from the CD PROJEKT RED segments and includes a donation of 2 million PLN to the Great Orchestra of Christmas Charity Foundation, earmarked for projects related to combatting the COVID-19 pandemic, along with 1 651 thousand PLN in costs related to lease agreements, and a one-time cost of 1 543 thousand PLN related to demolishing of unused technical structures in the framework of refurbishing the CD PROJEKT campus – a newly initiated project.

The Group generated 9 530 thousand PLN in **Financial revenues** during the first half of 2020. This corresponds to an increase by 82.3% compared to the reference period – mainly due to recognition of 5 243 thousand PLN in instruments which mitigate exchange rate risks related to CD PROJEKT S.A.'s purchase of treasury bonds denominated in foreign currencies. Interest on bank deposits was reported at 4 253 thousand PLN – 17.6%



lower than in H1 2019, mainly due to a lower aggregate balance of deposits which reached maturity during the first half of the year compared to the reference period.

**Financial expenses** were reported at 4 765 thousand PLN. The bulk of this figure comes from a surplus of negative exchange rate differences. This major increase in negative exchange rate differences in the CD PROJEKT RED segment is mainly due to estimation of treasury bonds denominated in foreign currencies and corresponds to the estimation of instruments mitigating exchange rate risks, which are aggregated with the Financial revenues line item.

Overall, in the first half of 2020 the Group reported a positive net balance of financial activities, at 4 765 thousand PLN (9.4% more than in the reference period).

The Group's consolidated **Pre-tax profit** was 160 849 thousand PLN – 96 609 thousand PLN (150.4%) more than in the first half of 2019.

As of 30 June 2020 the Group's **Income tax** was 14 092 thousand PLN, which translates into an effective tax rate of 8.8% for the first half of 2020. This figure is affected by preferential taxation rules applicable to commercialization of eligible intellectual property rights by CD PROJEKT S.A. (the so-called IP BOX preference) along with R&D tax relief.

The Group's consolidated **Net profit** at the end of June 2020 was 146 757 thousand PLN – 95 217 thousand PLN more than in the first half of 2019 (184.7% increase). Of this figure 141 164 thousand PLN is attributable to the CD PROJEKT RED segment (177.4% increase) while the remaining 5 573 thousand PLN corresponds to the GOG.com segment (766.7% increase).

Both with regard to consolidated sales revenues and the consolidated net profit, the first half of 2020 was the second most successful semiannual period in the Group's history.

The Group's net profitability (share of net profit in sales revenues) for the reporting period was 40.3% compared to 24.0% in the reference period.

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT GROUP

**Table 4** Consolidated statement of financial position – selected highlights (PLN thousands)

	30.06.2020	31.12.2019*
<b>FIXED ASSETS</b>	<b>825 268</b>	<b>679 389</b>
Property, plant and equipment	105 954	105 267
Intangibles	62 237	59 763
Expenditures on development projects	483 143	385 848
Investment properties	47 616	44 960
Goodwill	56 438	56 438
Shares in affiliates excluded from consolidation	8 168	8 025
Deferrals	9 944	18 730
Other financial assets	51 456	-
Other receivables	312	358
<b>WORKING ASSETS</b>	<b>771 835</b>	<b>724 719</b>
Inventories	16 163	12 862
Trade receivables	68 412	129 573
Current income tax receivables	14 006	20 349
Other receivables	52 172	60 078
Deferrals	28 228	19 556
Other financial assets	113 668	-
Cash and cash equivalents	164 640	49 406
Bank deposits (maturity beyond 3 months)	314 546	432 895
<b>TOTAL ASSETS</b>	<b>1 597 103</b>	<b>1 404 108</b>

	30.06.2020	31.12.2019*
<b>EQUITY</b>	<b>1 260 719</b>	<b>1 105 651</b>
<b>Equity attributable to shareholders of the parent entity</b>	<b>1 260 719</b>	<b>1 105 651</b>
Share capital	96 120	96 120
Supplementary capital	784 110	780 951
Other reserve capital	62 678	54 657
Exchange rate differences	1 188	898
Retained earnings	169 866	(2 290)
Net profit (loss) for the reporting period	146 757	175 315
<b>Minority interest equity</b>	<b>-</b>	<b>-</b>
<b>LONG-TERM LIABILITIES</b>	<b>23 702</b>	<b>25 239</b>
Other financial liabilities	17 209	17 751
Other liabilities	3 293	3 421
Deferred income tax liabilities	518	2 935
Deferred revenues	1 682	364
Provisions for employee benefits and similar liabilities	255	255
Other provisions	745	513
<b>SHORT-TERM LIABILITIES</b>	<b>312 682</b>	<b>273 218</b>
Other financial liabilities	2 356	2 154
Trade liabilities	54 702	59 866
Current income tax liabilities	1 022	118
Other liabilities	17 724	11 041
Deferred revenues	206 785	161 364
Provisions for employee benefits and similar liabilities	2	2
Other provisions	30 091	38 673
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 597 103</b>	<b>1 404 108</b>

\* adjusted data

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

### Assets

At the end of July 2020 the value of the Group's **Fixed assets** was reported at 825 268 thousand PLN, having increased by 145 879 thousand PLN since 31 December 2019 (21.5% increase).

**Property, plant and equipment** with an aggregate value of 105 954 thousand PLN, comprises mainly the following assets:

- value of the property complex located at Jagiellońska 74 in Warsaw, purchased in October 2019 and corresponding to the part of the complex which CD PROJEKT S.A. intends to use for its own purposes.
- assets reflecting the usufruct of leased office space (with simultaneous recognition – as Other financial liabilities – of financial liabilities associated with the corresponding lease agreements),
- Machinery and equipment, which mainly includes computer hardware, servers and other electronic devices used by the Group in the course of its activities.

The aggregate value of Property, plant and equipment did not undergo appreciable changes throughout the reporting period.

**Intangibles**, whose aggregate value on 30 June 2020 was reported at 62 237 thousand PLN, comprise mainly the CD PROJEKT brand name and *The Witcher* trademark, jointly estimated at 33 199 thousand PLN, along with intellectual property rights held by the Group (17 718 thousand PLN), computer software (8 294 thousand PLN) and patents and licenses (1 665 thousand PLN). Over the first half of 2020 the total value of the Group's Intangibles increased by 2 474 thousand PLN (4.1%).

The increase in the balance of Fixed assets reported during H1 2020 was primarily related to the net balance of **Expenditures on development projects**, which increased by 97 295 thousand PLN (25.2%), which comprise expenses related to development of new products and technologies at the Group's member companies.

At the end of the reporting period the cumulative balance of Expenditures on development projects reached 483 143 thousand PLN, and comprises the following:

- **Development projects in progress** at 448 513 thousand PLN. This line item increased by 32.9% since the end of 2019, mainly as a result of development of *Cyberpunk 2077*, scheduled for release on 19 November 2020. The reported increase was also due to ongoing work on other projects in the CD PROJEKT RED segment, and on the GOG Galaxy technology in the GOG.com segment.
- **Development projects completed** with a net balance sheet value (following depreciation) of 34 630 thousand PLN as of 30 June 2020. This figure decreased by 28.3% since the end of 2019. Completed projects subject to depreciation in the first half of 2020 included *GWENT: The Witcher Card Game*, *Thronebreaker: The Witcher Tales* and *The Witcher 3: Wild Hunt Complete Edition* for Nintendo Switch. Development expenditures related to earlier CD PROJEKT RED videogames had been fully depreciated in past reporting periods.

Another notable contribution to the consolidated assets of the CD PROJEKT Group in the reporting period was from **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 bulk of the reported figure (46 417 thousand PLN) is a result of the merger between the parent entity and the CDP Investment Group which occurred on 30 April 2010, along with settlement of the purchase of the Wrocław-based development studio from Strange New Things sp. z o.o. sp. k., which occurred on 18 May 2018 (10 021 thousand PLN). The value of goodwill did not change in the reporting period.

**Investment properties** with an aggregate balance of 47 616 thousand PLN include the properties at Jagiellońska 74 and Jagiellońska 76 in Warsaw, portions of which are subjected to leasing (both to affiliated entities and external lessees).

The value of **Shares in subsidiaries excluded from consolidation** was reported at 8 168 thousand PLN on 30 June 2020, consisting of the share capital of Spokko Sp. z o.o. and – to a lesser degree – capital contributions to CD PROJEKT Co. Ltd. With a registered office in Shanghai.

**Other financial assets** whose aggregate value was listed as 51 456 thousand PLN represent mainly the value of domestic treasury bonds estimated at amortized cost with maturity periods exceeding 12 months, purchased in the second quarter of 2020 as a means of diversifying credit risk.

At the end of the first half of 2020 the value of the Group's **Working assets** reached 771 835 thousand PLN, having increased by 47 116 thousand PLN (6.5%).

**Inventories** increased in value by 16 163 thousand PLN, chiefly due to ongoing production (in the CD PROJEKT RED segment) of components of physical editions of *Cyberpunk 2077*, production of components of physical editions of *The Witcher 3: Wild Hunt* for Nintendo Switch, released in October 2019, and recognition of inventories of the CD PROJEKT RED GEAR online store, which began serving European customers in May 2019 and expanded its reach to include North America in September 2019.

With regard to Working assets, the consolidated **Trade receivables** were reported at 68 412 thousand PLN as of 30 June 2020, which represents a decrease by 61 161 thousand PLN since the end of 2019. The year-end spike in receivables resulted from strong sales reported in the fourth quarter. At the end of H1 2020, most of the Group's trade receivables were attributable to the CD PROJEKT RED segment, where they mainly include receivables associated with licensing reports covering the second quarter of the year, received after the balance sheet date.

**Other receivables**, reported at 52 172 thousand PLN as of 30 June 2020, decreased by 7 906 thousand PLN compared to the 2019 year-end figure. This line item mainly comprises VAT receivables, receivables associated with withholding tax deducted at source by foreign recipients of licenses granted by CD PROJEKT RED and reportable by the Company in its annual financial statement, as well as prepayments remitted by CD PROJEKT RED for future delivery of goods and services.

The consolidated value of **Prepaid expenses**, which are further divided into short- and long-term prepaid expenses (28 228 thousand PLN and 9 944 thousand PLN respectively) was primarily affected by the so-called minimum guarantees remitted by GOG.com to suppliers in association with distribution of their products on the GOG.com platform (21 291 thousand PLN). This figure also aggregates prepayments related to marketing activities and license fees paid in the CD PROJEKT RED segment, which are settled over time.

**Other short-term financial assets**, at 113 668 thousand PLN, correspond mainly to treasury bonds estimated at fair value through other comprehensive income, purchased by the Company in the first half of 2020 as a means of diversifying credit risk, along with the value of the corresponding forward currency contracts.

The aggregate value of **Cash and cash equivalents** and **Bank deposits with maturity beyond 3 months** was 479 186 thousand PLN as of 30 June 2020, having decreased by 3 115 thousand PLN compared to the end of 2019. However, when factoring in liquid financial assets in the form of recently purchased treasury bonds, along with the corresponding forward currency contracts, the Group's total financial reserves had a value of 642 307 thousand PLN at the end of H1 2020 – 160 006 thousand PLN more than at the end of 2019. This is due to excellent earnings posted in the first half of the current year, and ongoing collection of receivables which arose in the final quarter of 2019.

At the end of the first half of 2020 Fixed assets accounted for 51.7% of the Group's total assets (compared to 48.4% at the end of 2019), with the remaining 48.3% corresponding to Working assets (51.6% at the end of 2019).

### Equity and liabilities

The Group's consolidated **Equity** reached 1 260 719 as of 30 June 2020, which represents an increase by 155 068 thousand PLN compared to the end of 2019. Key factors responsible for this change included profit obtained in the current period (increase by 146 757 thousand PLN) and recognition of costs related to the incentive program (7 930 thousand PLN).

The Group's **Long-term liabilities** were reported at 23 702 thousand PLN, having decreased by 6.1%. Most of this figure corresponds to liabilities related to perpetual usufruct of land comprising the plots at Jagiellońska 74 and Jagiellońska 76, in accordance with IFRS 16, aggregated with **Other financial liabilities**.

**Short-term liabilities** reached a value of 312 682 thousand PLN as of 30 June 2020, having increased by 39 464 thousand PLN (14.4%) throughout the reporting period.

The second largest contribution to Short-term liabilities at the end of the reporting period was from **Trade liabilities** with a Groupwide balance of 54 702 thousand PLN – 5 164 thousand PLN less than at the end of 2019. This figure mainly corresponds to licensing liabilities in the GOG.com segment, royalties covering the second quarter of 2020 but payable in future reporting periods and current trade liabilities in the CD PROJEKT RED segment.

**Other liabilities** had a reported value of 17 724 thousand PLN on 30 June 2020, having increased by 6 683 thousand PLN since the end of the previous year. This figure comprises mainly current tax liabilities (VAT, PIT) and social security payments.

As of 30 June 2020, the most important contribution to short-term liabilities came from **Deferred revenues** (206 785 thousand PLN; increase by 45 421 thousand PLN), where Group segments report mainly the following:

- CD PROJEKT RED – licensing royalties associated with preorders of digital editions of PC games scheduled for release in future reporting periods,
- CD PROJEKT RED – the so-called minimum guarantees, i.e. prepayments paid or payable by foreign publishers and distributors in relation to licensing royalties for games scheduled for release in future reporting periods,
- GOG.com – preorders of games scheduled for release in future reporting periods,
- CD PROJEKT RED and GOG.com – deferred revenues related to subsidies,

- GOG.com – deferred revenues corresponding to transactions with customers (including Store Credit and Wallet contributions).

At the end of the reporting period the Group's Deferred revenues comprised mainly future period sales (190 021 thousand PLN) which include minimum guarantees and advances on licensing royalties associated with preorders of *Cyberpunk 2077*, as well as – to a lesser degree – settlements related to subsidies (15 564 thousand PLN).

The balance of **Other financial liabilities** for 30 June 2020, at 2 356 thousand PLN, did not change appreciably throughout the reporting period. Most of the reported figure corresponds to liabilities arising from office space lease agreements.

**Other provisions** decreased by 8 582 thousand PLN (22.2%) compared to the beginning of the year, reaching 30 091 thousand PLN. As of 30 June 2020 the reported figure comprises mainly provisions for compensation dependent on current-period financial results, and provisions for other liabilities in both activity segments.

At the end of the first half of 2020, equity accounted for 78.9% of the Group's aggregate equity and liabilities, while the remaining 21.1% was made up of short- and long-term liabilities.

The Group's segmented consolidated statement of financial position can be found in the Condensed interim consolidated financial statement of the CD PROJEKT Group for the period between 1 January and 30 June 2020.

## **DESCRIPTION OF THE STRUCTURE OF CONSOLIDATED ASSETS, EQUITY AND LIABILITIES, INCLUDING FROM THE POINT OF VIEW OF LIQUIDITY**

Excellent financial results posted in the recent years, as well as in the first half of 2020, enabled the CD PROJEKT Group to amass assets with a total balance sheet value of 1.597 billion PLN. The Group's equity – despite two dividends paid out in recent years – amounts to 1.261 billion PLN as of 30 June 2020, which represents 78.9% of the value of the Group's assets.

At the end of the reporting period the Group held financial assets valued at 642 307 thousand PLN – mostly bank deposits and treasury bonds (both domestic and foreign), and had no outstanding debt under any credit or loan agreement.

Regarding the asset structure, **Working assets** account for 48.3% of the consolidated figure, and are comprised mainly of **Cash and cash equivalents, Bank deposits (maturity beyond 3 months)** and **Other financial assets** which together make up 37.1% of the Group's assets. The available cash, deposits and treasury bonds secure further dynamic growth of the Group, including future development of games and new technologies, promotional support for the scheduled releases and future investment prospects. They also provide a financial buffer, enabling the Group to cope with unexpected circumstances and exploit emerging opportunities.

Among **Fixed assets** (which represent 51.7% of the consolidated assets) the largest subcategory corresponds to **Expenditures on development projects** with a cumulative balance of 483 143 thousand PLN (30.3% of all assets) – most of which corresponds to *Cyberpunk 2077*, currently in its final phase of development, along with the yet-to-be-depreciated portion of development expenses related to *GWENT* and *Thronebreaker*, both

of which were released in 2018 and continue to generate revenues, as well as *The Witcher 3* for Nintendo Switch, which appeared in 2019.

The Group also invests in infrastructure required to carry out and further expand its activities. **Property, plant and equipment, Intangibles** and **Investment properties** together account for 13.5% of the Group's consolidated assets, with an aggregate value of 215 807 thousand PLN.

**Goodwill** created in business combinations, along with **Shares in subsidiaries excluded from consolidation**, with a total value of 64 606 thousand PLN, represent 4% of the Group's consolidated assets.

Ongoing investments also involve minimum guarantees payable in the GOG.com segment to suppliers of licenses for products marketed via the GOG.com platform. These guarantees account for the bulk of the reported 38 172 thousand PLN in short- and long-term **Prepaid expenses** (2.4% of the Group's assets).

Taken together, the four categories of assets listed above, with an aggregate balance sheet value of 801 728 thousand PLN, represent 50.2% of the Group's consolidated assets. Their value increased by 103 141 thousand PLN (14.8%) in the first half of 2020, charting the main direction of investment activities underway at CD PROJEKT, all of which are fully covered by the Group's equity.



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

**Table 5** Consolidated statement of cash flows – selected highlights

	01.01.2020- -30.06.2020	01.01.2019- -30.06.2019
<b>OPERATING ACTIVITIES</b>		
<b>Net profit (loss)</b>	<b>146 757</b>	<b>51 540</b>
<b>Total adjustments:</b>	<b>134 315</b>	<b>(3 701)</b>
Depreciation of PP&E, intangibles, expenditures on development projects and investment properties	4 032	3 964
Depreciation of expenditures on development projects recognized as cost of products and services sold	14 165	13 191
Profit (loss) from exchange rate differences	1 131	-
Interest and profit sharing	(4 049)	(4 868)
Profit (loss) from investment activities	(3 699)	(821)
Change in provisions	(6 412)	(10 111)
Change in inventories	(3 301)	(829)
Change in receivables	75 304	(72 228)
Change in liabilities excluding credits and loans	1 597	(5 608)
Change in other assets and liabilities	46 714	52 560
Other adjustments	8 833	21 049
<b>Cash flows from operating activities</b>	<b>281 072</b>	<b>47 839</b>
Income tax on pre-tax profit (loss)	14 092	12 700
Income tax (paid)/reimbursed	(9 288)	(15 098)
<b>Net cash flows from operating activities</b>	<b>285 876</b>	<b>45 441</b>
<b>INVESTMENT ACTIVITIES</b>		
<b>Inflows</b>	<b>419 683</b>	<b>567 841</b>
Reimbursement of advance payment for investment properties and perpetual usufruct of land	-	1 667
Sales of intangibles and PP&E	16	130
Closing bank deposits (maturity beyond 3 months)	415 380	560 839
Interest on bonds	33	-
Other inflows from investment activities	4 254	5 205

<b>Outflows</b>	<b>588 651</b>	<b>544 081</b>
Purchases of intangibles and PP&E	12 292	5 824
Expenditures on development projects	114 274	59 770
Purchase of investment properties and activation of future costs	4 093	9 054
Capital contributions to subsidiary	-	2 300
Loans granted	2 000	-
Purchase of bonds and the associated purchasing costs	158 953	-
Opening bank deposits (maturity beyond 3 months)	297 031	467 133
Other outflows from investment activities	8	-
<b>Net cash flows from investment activities</b>	<b>(168 968)</b>	<b>23 760</b>

#### FINANCIAL ACTIVITIES

<b>Inflows</b>	<b>-</b>	<b>14</b>
Collection of receivables arising from financial lease agreements	-	13
Interest collected	-	1
<b>Outflows</b>	<b>1 674</b>	<b>104 369</b>
Dividends and other payments due to equity holders	-	100 926
Payment of liabilities arising from lease agreements	1 469	3 113
Interest payments	205	330
<b>Net cash flows from financial activities</b>	<b>(1 674)</b>	<b>(104 355)</b>
<b>Total net cash flows</b>	<b>115 234</b>	<b>(35 154)</b>
<b>Change in cash and cash equivalents on balance sheet</b>	<b>115 234</b>	<b>(35 154)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>49 406</b>	<b>104 378</b>
<b>Cash and cash equivalents at end of period</b>	<b>164 640</b>	<b>69 224</b>

## **CLARIFICATIONS REGARDING THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CD PROJEKT GROUP**

In the scope of its **Operating activities** in the first half of 2020 the CD PROJEKT Group reported 285 876 thousand PLN in net cash flows, which is 240 435 thousand PLN (529.1%) more than in the reference period.

The continuing strong sales of *The Witcher* videogames, along with one of the best semiannual periods in GOG.com's history enabled the Group to post a net profit of 146 757 thousand PLN, securing a strong base for its operating cash flows. This result was further adjusted by the following:

- I. Non-cash items (total: +18 050 thousand PLN):
  - **Development projects recognized as cost of sales** (+14 165 thousand PLN) – mostly depreciation of development expenses associated with *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, which debuted in the fourth quarter of 2018, along with *The Witcher 3: Wild Hunt Complete Edition* for Nintendo Switch, released in the final quarter of 2019,
  - **Other adjustments** (+8 835 thousand PLN) – mostly settlements related to vesting of the incentive program,
  - **Depreciation** (+4 030 thousand PLN),
  - **Profit (loss) from exchange rate differences** (+1 131 thousand PLN) resulting from estimation of treasury bonds,
  - **Profit (loss) from investment activities** (-3 699 thousand PLN) corresponding mainly to estimation of transactions mitigating the exchange rate risks which arose due to the purchase of foreign treasury bonds, as well as the value of liquidated investment properties,
  - **Changes in provisions** (-6 412 thousand PLN), primarily due to recognition of bonuses dependent on the 2019 financial result, payable in the first half of 2020
  
- II. Items related to changes in working assets and short-term liabilities (total: +120 314 thousand PLN):
  - **Changes in receivables** (+75 304 thousand PLN), comprising mainly the reduction in the balance of trade receivables due to collection of licensing royalties following strong sales near the end of 2019,
  - **Changes in other assets and liabilities** (+46 714 thousand PLN) – primarily Deferred revenues arising mostly from the successful preorder campaign for *Cyberpunk 2077*, initiated in June 2019,
  - **Changes in liabilities excluding credits and loans** (+1 597 thousand PLN), which are mainly driven by increases in the balance of trade liabilities,
  - **Changes in inventories** (-3 301 thousand PLN) – mainly increases in inventories resulting from production of components of physical editions of *Cyberpunk 2077* in the run-up to its release, along with recognition of inventories belonging to the CD PROJEKT RED GEAR online store.
  
- III. One item included elsewhere in the cash flow account – **Interest and profit sharing** (-4 049 thousand PLN),
  
- IV. Difference between the income tax reported in the profit and loss account for the first half of 2020 and the tax actually paid in 2019 (-4 804 thousand PLN).

In the reporting period the Group generated negative cash flows from **Investment activities** in the amount of 168 968 thousand PLN compared with 23 760 thousand PLN in positive cash flows in the reference period.

Investments comprising:

- **Expenditures on development projects** (114 274 thousand PLN), mainly related to *Cyberpunk 2077*, which has entered its final, most intensive (in terms of expenditures) phase of development, along with other projects underway at CD PROJEKT RED and development of new technologies in the GOG.com segment,
  - **Purchases of intangibles and PP&E** (12 292 thousand PLN) as well as the purchase of an investment property (Purchases of investment properties – 4 093 thousand PLN),
  - **Loans granted** to the Spokko sp. z o.o. subsidiary (2 000 thousand PLN),
- Together produced 132 659 thousand PLN in investment outflows.

The balance of bank deposits decreased by 118 349 in the reporting period; however, during the same period CD PROJEKT invested 158 953 thousand PLN in treasury bonds, which was reported as an investment outflow.

**Other inflows from investment activities**, with an aggregate value of 4 254 thousand PLN, include interest on deposits collected in the first half of 2020.

In the first half of 2020 the Group generated 1 674 thousand PLN in negative **Cash flows from financial activities** (compared to 104 355 thousand PLN in negative flows during the reference period, when the Company paid out 100 926 thousand PLN in dividends). The current figure comprises mainly **Payment of liabilities arising from financial lease agreements** – mostly due to application of IFRS 16, along with office space lease fees.

Altogether in the first half of 2020 the Group reported positive **Total net cash flows** at 115 234 thousand PLN, compared to 35 154 thousand PLN in negative net flows in the reference period.

In the first half of 2020 the balance of the Group's financial assets – cash, bank deposits and newly purchased treasury bonds along with the corresponding forward currency contracts – increased by 160 006 thousand PLN, reaching 642 307 thousand PLN. This is despite ongoing expenditures related to development of new videogames and technologies as well as intensive promotional campaigns focusing on the Group's products.

## **DISCLOSURE OF CREDITS AND LOANS IN THE FIRST HALF OF 2020**

Throughout the first half of 2020 the CD PROJEKT Capital Group had no outstanding debt under any credit or loan agreement.

## **DISCLOSURE OF CREDITS AND LOANS GRANTED IN THE FIRST HALF OF 2020**

In the first half of 2020 no member company of the CD PROJEKT Capital Group granted any credits or loans to external entities. CD PROJEKT Inc., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o.o. have access to financing under a loan agreement concluded with CD PROJEKT S.A.

## **DISCLOSURE OF GUARANTEES AND SURETIES GRANTED IN THE FIRST HALF OF 2020, AND OTHER OFF-BALANCE SHEET ITEMS**

Information regarding guarantees, sureties and other off-balance sheet items can be found in the Condensed interim consolidated financial statement of the CD PROJEKT Group for the period between 1 January and 30 June 2020.

## **DISCLOSURE OF TRANSACTIONS WITH AFFILIATES**

In the first half of 2020 the CD PROJEKT 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,
- subleasing 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., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o.o. by CD PROJEKT S.A.,
- collaboration in the scope of maintaining the online merch store, licensing and developing merchandise – between CD PROJEKT S.A. (videogame developer and IP holder) and CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc. (operators of merch stores in their respective territories),
- other minor transactions associated with day-to-day activities (e.g. re-invoicing joint expenses).

Transactions between affiliates are concluded on market terms as required by the business profiles of each member of the CD PROJEKT Group. A detailed description of procedures which govern transactions between affiliates is included in the Consolidated financial statement of the CD PROJEKT Group for the period between 1 January and 31 December 2019.

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

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

The CD PROJEKT Capital Group never published financial projections for 2020. Accordingly, no description of the significant differences between the Group's actual results and earlier projections is provided.



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CORPORATE GOVERNANCE

## Entity contracted to audit financial statements

On 14 May 2020 the Supervisory Board of CD PROJEKT S.A. selected Grant Thornton Polska sp. z o.o. sp. k. with a registered office in Poznań as the entity contracted to conduct a review of the semiannual financial statement and audit the annual financial statement of the Company and its Group for 2020 and 2021. Grant Thornton Polska sp. z o.o. sp. k. has also been contracted to audit the financial statement of GOG sp. z o.o., CD PROJEKT RED STORE sp. z o.o and Spokko sp. z o. o.

## 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 shareholding structure is determined on the basis of formal notices issued by shareholders who control at least 5% of the total number of votes at the General Meeting of Shareholders.

**Table 6** Shareholders controlling at least 5% of the vote at the General Meeting as of the publication date of this report

	Number of shares	% of share capital	Number of votes at the GM	% of total number of votes at the GM
<b>Marcin Iwiński</b>	12 150 000	12,64%	12 150 000	12,64%
<b>Michał Kiciński*</b>	10 486 106	10,91%	10 486 106	10,91%
<b>Piotr Nielubowicz</b>	6 135 197	6,38%	6 135 197	6,38%
<b>Free float</b>	67 348 697	70,07%	67 348 697	70,07%

\* As disclosed in Current Report [49/2016](#) of 6 December 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.

## Disclosure of completed and ongoing incentive programs

### INCENTIVE PROGRAM IN EFFECT BETWEEN 2016 AND 2019

On 24 May 2016 the General Meeting adopted resolution no. 20<sup>7</sup>, which provided a detailed description of the goals of the incentive program in effect during the 2016-2019 period. A maximum of 6 million individual entitlements could have potentially been assigned under the program, of which 5 535 500 entitlements were ultimately assigned.

On 11 August 2020, following the approval of the Consolidated Financial Statement of the CD PROJEKT Group for 2019 by the General Meeting, the Management Board of the Company (and – where Management Board members are concerned – the Supervisory Board of the Company) confirmed attainment of the result and market goals of the incentive program by the Group as a whole, while in the GOG.com segment – which had its own result subgoal – only the market goal had been met. Consequently, 5 167 500 entitlements may ultimately be exercised.

Due to a refusal to issue an interpretation of tax law concerning the fiscal effects of the vesting of the incentive program in force between 2016 and 2019, in resolutions no. 20 and 21<sup>8</sup> the Company applied to the General Meeting to approve an amendment to the terms of the existing incentive program whereby up to 516 700 entitlements could be exercised by claiming shares which the Company would have previously bought back on the market.

The following amendments were approved by the General Meeting on 28 July:

- The provision which enabled the Company to repurchase subscription warrants assigned to entitled parties for redemption was repealed. The original intent was to limit the dilution of Company stock and provide a source of funds with which the entitled parties could finance the exercise of their remaining entitlements.
- The lock-up period applicable to shares bought back by the Company and offered to Entitled Parties for the purposes of implementing the incentive program was lifted; however, the lock-up period applicable to shares newly issued by the Company in the course of exercising the rights afforded by subscription warrants remained in force.

In addition, in order to facilitate the exercise of Entitlements assigned under the Incentive Program, the General Meeting authorized the Management Board to buy back up to 516 700 shares of the Company at a total price (including purchasing costs) not exceeding 250 million PLN.

In line with the above, 516 700 of 5 167 500 entitlements will vest by assigning shares bought back by the Company on the open market, while the remaining 4 650 800 entitlements will vest by issuing subscription warrants incorporating the right to claim shares of CD PROJEKT S.A. According to the terms of the program, a

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<sup>7</sup> Full text available in Current Report no. 18/2016

<sup>8</sup> <https://www.cdprojekt.com/en/investors/regulatory-announcements/current-report-no-10-2020/>



one-year lock-up period shall apply to any new shares issued in association with the exercise of rights incorporated by subscription warrants.

Following the balance sheet date, acting in compliance with Resolution no. 21 of the aforementioned Ordinary General Meeting, between 30 July and 17 August the Company carried out the buy-back of its own stock. Shares were purchased on the official market of the Warsaw Stock Exchange. Altogether, the Company bought back the anticipated number of shares (516 700), for a total price of 214 151 thousand PLN. The aim of the buy-back program was to offer the acquired shares to Entitled Parties as a means of partially exercising the entitlements assigned to them under the Incentive Program in force at the Group between 2016 and 2019. The underlying intent was to exempt shares bought back on the market from the lock-up period which would otherwise apply, enabling the Entitled Parties to sell said shares and thereby gain a source of funds with which to finance their participation in the Incentive Program, including remittance of the issue price of newly issued Series M shares (claimed by Entitled Parties in the process of exercising the remaining entitlements assigned to them under the Incentive Program) as well as to discharge any individual tax liabilities arising in conjunction with the foregoing. Enabling partial exercise of entitlements by claiming Company shares which had previously been bought back on the market also serves to limit the dilution of capital by commensurately lowering the number of Series M shares which would have to be issued by the Company. Total revenues from sale of shares bought back on the market and from issuing new shares in accordance with the provisions of the Incentive Program instituted in 2016 should amount to 129 096 thousand PLN.

As outlined in Current Report no. 28/2020 of 1 September 2020, in collaboration with DM Trigon the Company has developed a mechanism of further actions which enable the Entitled Parties to sell their assigned shares in a way which limits the potential impact on the corresponding sell orders on the Company stock price, i.e. on similar terms as the buy-back of shares previously carried out by the Company.

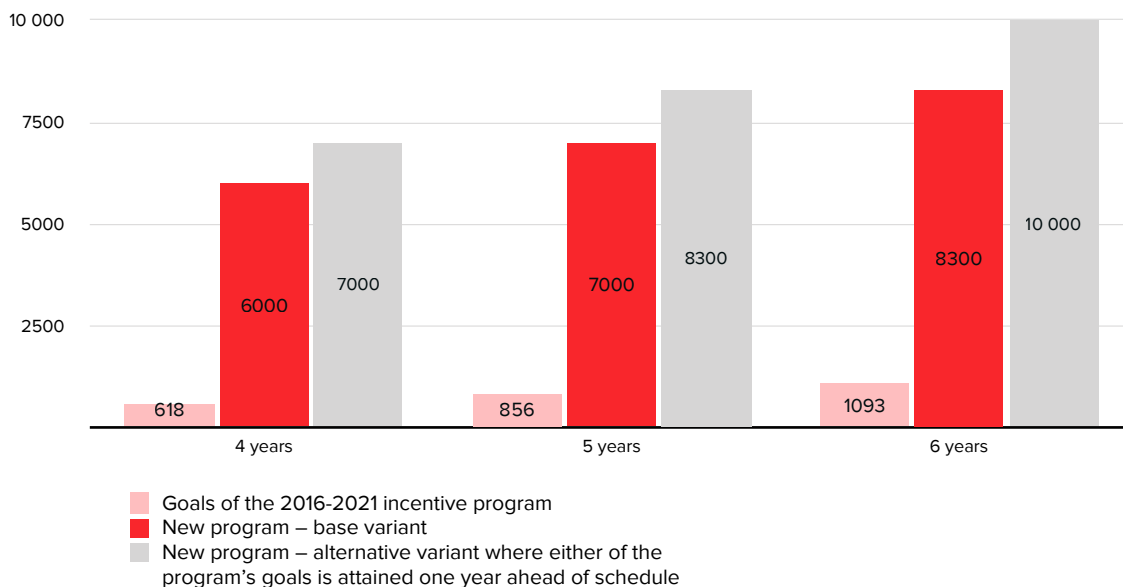
Sell orders will be processed by Trigon in batches, proportionally to the number of shares being sold by each Entitled Party, by means of ordinary session trades or block trades at the Warsaw Stock Exchange between 7 September 2020 and 25 September 2020, subject to a daily transaction limit, which is defined as 15% of the average daily trading volume of Company shares. Based on information collected from Entitled Parties the Company anticipates that in the course of the presented sale of Company shares by the Entitled Parties, including members of the Company's Management Board, the sell orders placed by Trigon will concern approximately 490 000 shares of Company stock, corresponding to approximately 9.5% of all entitlements assigned under the Incentive Program.

In all other respects, the Incentive Program vests by assigning to the Entitled Parties the right to claim newly issued Series M shares, which – subject to the terms and conditions of the Incentive Program – carry a one-year lock-up period beginning on the date of the respective subscription orders.

Further information regarding the incentive program and attainment of its goals can be found in the [Management Board report on CD PROJEKT Group and CD PROJEKT S.A. activities in 2019](#).

## 2020-2025 INCENTIVE PROGRAM

**Chart 16** 2020-2025 incentive program – result goal



On 28 July 2020 the Ordinary General Meeting of the Company adopted a resolution instituting a new incentive program for the years 2020-2025. However, the associated resolution concerning issue of subscription warrants with exclusion of subscription rights for existing shareholders, incorporating the right to claim Series N shares and the conditional increase in the Company's share capital through issue of Series N shares with exclusion of subscription rights for existing shareholders failed to gain the required four-fifths supermajority of votes represented at the General Meeting, as mandated by the Commercial Companies Code.

On 27 August of the current year the Management Board of the Company convened an Extraordinary General Meeting to take place on 22 September 2020, in order to vote on the following:

- resolution amending the regulations of the Group's new Incentive Program covering the years 2020-2025,
- resolution concerning issue of subscription warrants and conditional increase in the Company share capital with exclusion of subscription rights for existing shareholders, in order to enable implementation of the Incentive Program.

The proposals expressed in the above draft resolutions serve to align the conditions of the Group's Incentive Program for 2020-2025, instituted by the Ordinary General Meeting of 28 July 2020, with the expectations voiced by the Company's minority shareholders.

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

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The proportions of shares held by shareholders may be affected by exercise of rights assigned under the incentive program which has now vested. Detailed information can be found in the section titled [Disclosure of completed and ongoing incentive programs](#).

## Disclosure of the purchase of own shares

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

Following the balance sheet date the Company carried out a buy-back of its own shares. Further information can be found in the section titled [Disclosure of completed and ongoing incentive programs](#).

## Information regarding the employee share control system

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The relevant information can be found in the section titled [Disclosure of completed and ongoing incentive programs](#).

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

**Table 7** Quantity of shares held by members of the Company's managerial and supervisory bodies

Name	Position	as of 03.09.2020	as of 30.06.2020	as of 31.12.2019
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	3 100	3 100	3 100
Katarzyna Szwarc	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.

On 12 August 2020 the Supervisory Board of the Company confirmed attainment of the goals of the Incentive Program covering the years 2016-2019. Consequently, the following (aggregate) quantity of stock options have been assigned to members of the Company's Management Board.

Name	Position	Entitlements granted
Adam Kiciński	President of the Board	800 thousand
Marcin Iwiński	Vice President of the Board	800 thousand
Piotr Nielubowicz	Vice President of the Board	800 thousand
Adam Badowski	Board Member	600 thousand
Michał Nowakowski	Board Member	600 thousand
Piotr Karwowski	Board Member	120 thousand

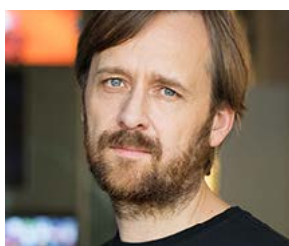
Members of the Company's Supervisory Board did not participate in the Incentive Program covering the years 2016-2019.

## 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** – 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. Co-develops and coordinates global publishing plans. Coordinates and participates in shaping relations with the gaming community.



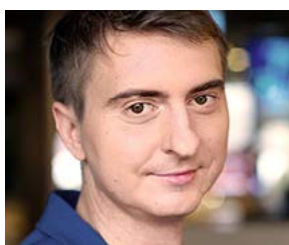
### **Piotr Nielubowicz** – Vice President and CFO

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



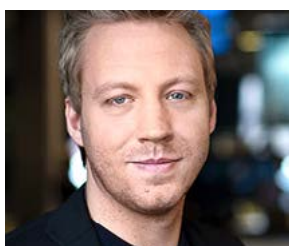
### **Adam Badowski** – Board Member

Heads the CD PROJEKT RED development studio which is owned by the Company. Co-develops the conceptual framework and artistic vision of projects carried out at CD PROJEKT RED.



### **Michał Nowakowski** – Board Member

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

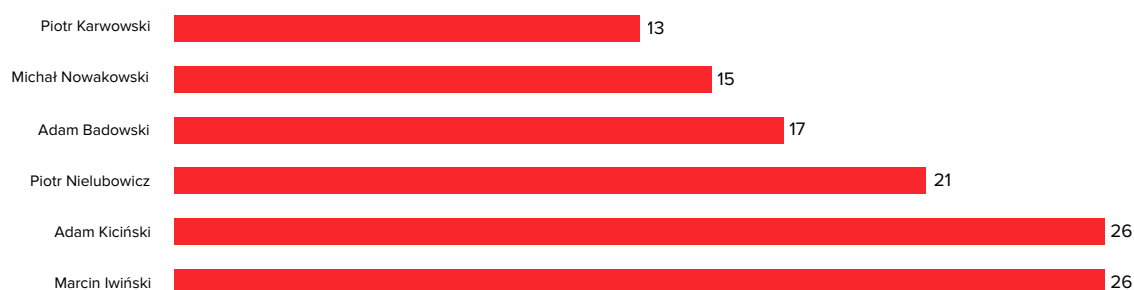


### **Piotr Karwowski** – Board Member

Co-manages the GOG.com segment, being responsible, among others, for design and development of the GOG.com platform and of the GOG Galaxy application. Supervises online services and activities of the CD PROJEKT Group. Also responsible – since 2019 – for the operation and further 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.

**Chart 17** Tenure of incumbent members of the Company Management Board as employees of CD PROJEKT Group companies (in years)



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

No changes in the composition of the Company Management Board occurred in the reporting period.

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

**Katarzyna Szwarc** – Chairwoman of the Supervisory Board and of the Audit Committee

**Piotr Pągowski** – Deputy Chairman of the Supervisory Board; Audit Committee Member

**Maciej Nielubowicz** – Secretary of the Supervisory Board; Audit Committee Member

**Krzysztof Kilian** – Supervisory Board Member; Audit Committee Member

**Michał Bien** – Supervisory Board Member; Audit Committee Member

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

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

### DISCLOSURE OF LIABILITIES RELATED TO PENSIONS AND SIMILAR BENEFITS OFFERED TO FORMER MEMBERS OF MANAGERIAL OR SUPERVISORY BODIES OR FORMER EXECUTIVES, AND OF ANY LIABILITIES INCURRED IN RELATION TO SUCH BENEFITS, INDICATING THE TOTAL AMOUNT FOR EACH CATEGORY

As of 30 June 2020, the Company has no such liabilities.

### DISCLOSURE OF AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND PERSONS HOLDING MANAGERIAL RESPONSIBILITIES, CONTAINING PROVISIONS FOR COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL

As of 30 June 2020 and as of the preparation date of this report members of the Company Management Board are appointed on the basis of Supervisory Board resolutions and there are no agreements in force containing provisions for compensation in the event of their resignation or dismissal.

### CHANGES IN THE BASIC MANAGEMENT PROCEDURES AT THE COMPANY AND ITS GROUP

No significant changes in the basic management procedures at the Company and its Group occurred in the first half of 2020.

## Corporate governance policies

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CD PROJEKT S.A. follows the corporate governance policies listed in the “Best Practice for WSE Listed Companies 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 the CD PROJEKT GROUP and CD PROJEKT S.A. can be found on the Company corporate website at <https://www.cdprojekt.com/en/wp-content/uploads-en/2016/01/statement-regarding-the-implementation-of-corporate-governance-policies-2.pdf>.

## Disclosure of significant legal proceedings

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

### LITIGATION IN WHICH CD PROJEKT S.A. IS THE PLAINTIFF OR CLAIMANT

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

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

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

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

On 9 October 2014 the Company filed an appeal against the District Court's judgment with regard to those sections in which the District Court dismissed the Company's claims, and also the section concerning the cost of legal proceedings associated with the case. A parallel appeal against the section in which the District Court affirms the Company's claims was filed by the State Treasury. On 21 December 2018 the Appellate Court 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. As of the publication date of this report, this case is again pending before the District Court in Warsaw.

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

