2021

WARSAW, APRIL 21ST 2022

PCF GROUP SPÓŁKA AKCYJNA GROUP

DIRECTOR'S REPORT ON THE OPERATIONS OF PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP IN 2021

This Directors' Report on the operations of PCF Group S.A. and its Group in 2021 has been prepared pursuant to Par. 70.1.4, 70.1.6, 70.1.7 and Par. 71.1.4, 71.1.6, 71.7 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2018, item 757, as amended).

As permitted under Par. 71.8 of the Regulation, the Directors' Report on the operations of PCF Group S.A. and its Group in 2021 has been prepared as a single document.

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All amounts in this Directors' Report on the operations of PCF Group S.A. and its Group are in thousands of Polish złoty (PLN '000), except to the extent expressly stated otherwise. The financial information contained in this report is based on the consolidated and separate financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, issued and effective as at December 31st 2021.

This Report contains forward-looking statements that reflect the Company's current beliefs and views. Such statements are based on a number of assumptions concerning the Company's or its Group's current and future business plans and their market environment, subject to risks, uncertainties and other material factors beyond the Company's or its Group's control, and therefore the actual results delivered by the Company or its Group, their prospects and future development may differ materially from those described in these forward-looking statements. The Company gives no warranty or assurance that factors described in these forward-looking statements will actually occur, bringing them to the readers' attention as only one of the possible scenarios, which should not be viewed as the most likely or typical one. None of the forward-looking information expressed in this report or implied by its content represents a performance forecast or estimate.

GENERAL INFORMATION

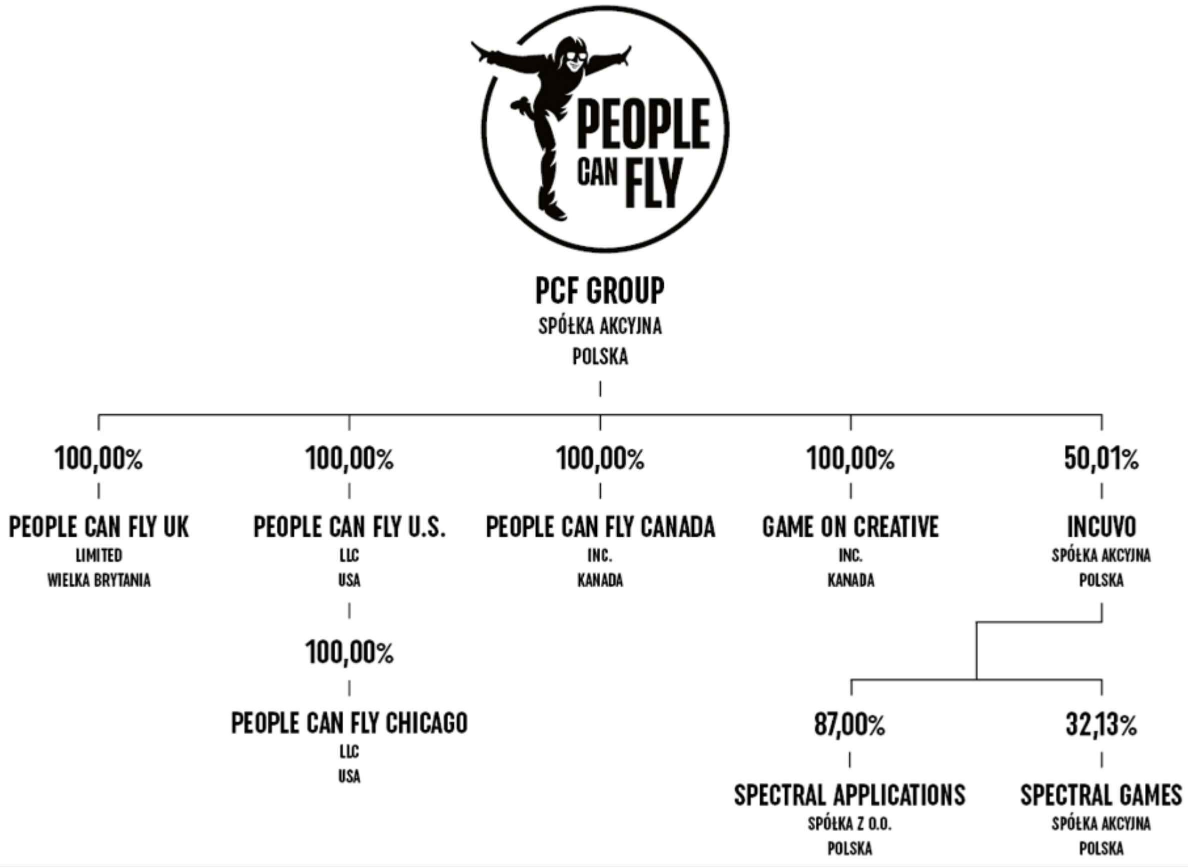
1. Organisational structure of the PCF Group S.A Group

Organisational structure of the PCF Group S.A Group, its consolidated entities as well as changes in the Group's organisation structure and reasons for such changes

The parent of the PCF Group Spółka Akcyjna Group (the "Group") is PCF Group Spółka Akcyjna (the "parent"). The parent is entered in the Business Register of the National Court Register maintained by the District Court for the Capital City of Warsaw, 13th Commercial Division, under entry No. KRS 0000812668. The parent's Industry Identification Number (REGON) is 141081673.

The parent's registered office is located at Al. Solidarności 171, 00-877 Warsaw, Poland. It is also the principal place of business of the Group.

The chart below presents the composition and structure of the Group as at December 31st 2021.



The parent has a branch in Rzeszów operating under the name of: PCF Group Spółka Akcyjna Oddział w Rzeszowie "Oddział Badawczo Rozwojowy" (Research and Development Branch), located at ul. Litewska 10, suite 4-5, 35-302 Rzeszów.

The subsidiaries do not have any branches.

The parent and the consolidated entities were established for indefinite time.

Changes in the Group's structure in the reporting period, including changes which follow from mergers, acquisitions or sale of subsidiaries, long-term investments, restructuring or discontinuation of business

The following changes occurred in the Group's structure in the 12 months ended December 31st 2021:

- on April 6th 2021, People Can Fly Chicago, LLC, a subsidiary of People Can Fly U.S., LLC, was incorporated under the laws of Delaware, USA;
- on April 27th 2021, the parent acquired all shares in Game On Creative, Inc. of Montreal, Quebec, Canada ("Game On");
- on December 13th 2021, the parent entered into an investment agreement under which it acquired a 50.01% ownership interest in Incuvo S.A. of Katowice. The acquired interest represents 50.01% of the total voting rights at the acquiree's general meeting.

PCF Group S.A., as the parent, did not and does not hold any treasury shares. Also, the Group companies or persons acting on behalf of PCF Group S.A. or its subsidiaries (entities of the PCF Group) did not and do not hold any treasury shares.

Other equity holdings

As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, there were no joint ventures or other companies outside the PCF Group in which any of the Group companies would hold equity interests with potentially material bearing on the assessment of the Group companies' assets, liabilities, financial condition and profit or loss.

Organisational or cross-equity links between PCF Group S.A. and other entities

As at December 31st 2021, Incuvo S.A., a subsidiary of the Group, held a 32.14% ownership interest in Spectral Games S.A. and 32.14% of the total voting rights at its general meeting. As the Group does not control Spectral Games S.A., it was not consolidated.

Branches (establishments)

The parent has a branch in Rzeszów operating under the name of: PCF Group Spółka Akcyjna Oddział w Rzeszowie (Research and Development Branch). The subsidiaries do not have any branches.

Related-party transactions executed by PCF Group S.A or its subsidiaries on non-arm's length terms

In 2021 and from January 1st 2022 to the date of issue of the Company's full-year separate financial statements for the financial year ended December 31st 2020 and the Group's full-year consolidated financial statements for the financial year ended December 31st 2021, neither the Company nor its subsidiaries executed any material related-party transactions on non-arm's length terms.

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2. Key products

The Group's business is run through the following three operating segments, which are also its reportable segments:

- contract development of video games ("development segment"),
- copyrights to developed games (royalties) ("copyrights segment"),
- self-publishing activities.

The Group's 2021 revenue totalled PLN 180.3m, up 74% year on year. The major source of revenue was contract development of video games, contributing PLN 178.4m (99% of total revenue) in the reporting period. In 2021, contribution from the segment of copyrights to developed games (royalties) was 1%, or PLN 1.9m.

Contract development of video games (development segment)

In 2021, the Group's key products in the segment of contract development of video games were the following titles:

Outriders

Outriders is a Triple-A RPG shooter game released on April 1st 2021.

It was developed in partnership with the publisher Square Enix Limited, which published or produced such titles as *Final Fantasy*, *Deus Ex*, *Tomb Raider*, *Just Cause* and *Life is Strange*. The game is available for next-generation consoles Xbox Series X, Xbox Series S and PlayStation 5, as well as for PC (via the Steam and Epic Games Store distribution platforms), Xbox One, PlayStation 4, Xbox One X and PlayStation 4 Pro consoles and Stadia streaming platform. Since its release, the game has also been available through the Xbox Game Pass and Xbox Game Pass Ultimate subscription service for Xbox One and Xbox Series consoles, as well as Android-powered smartphones and tablets (through the xCloud streaming service).

When played online, *Outriders* offers drop-in drop-out gameplay for one, two or three players in a system allowing them to join or leave the game while it is in progress without disrupting it for other players. Since its release, the game can be enjoyed as a multiplayer experience enabling both combat and role-play parts, including cinematics, to be played online, with each player seeing its character as if it was the main protagonist. The multiplayer system is available in a co-operation mode, which increases the number of possible combinations of tactics and ways to fight enemies. *Outriders* can also be played in a singleplayer mode, with the choice between multiplayer and singleplayer depending solely on player preferences. Outriders has featured full cross-play compatibility since its launch, which means that players across all platforms for which the game has been released can play in the co-op mode regardless of which platform the other players are on. Also, players who have purchased the game for a current generation console (particularly PlayStation 4 and Xbox One) can upgrade to a next-generation device free of charge (which does not apply to buyers of box sets for PlayStation 4 who purchase PlayStation 5 digital). *Outriders* is not a GaaS (game as a service), which means that it contains no micropayments, loot boxes or pay-to-win solutions.

The game enables players to adjust the difficulty level to their own skills and preferences. It is designed to improve and equip the selected character by collecting and upgrading gear items, with the storyline providing an average of some 40 hours of gameplay with one character class. Characters are controlled from a third person perspective (TPP). The game is set in a dark science fiction world. It features a hub system, where the player can repeat certain missions from the level of town hubs, around which individual game locations are built.

Project Gemini

Project Gemini is a Triple-A game that is being developed in partnership with the publisher Square Enix Limited. Its scale is comparable to that of *Outriders.* The Group expects that the game will reach completion by the end of 2024.

Project Dagger

Project Dagger is a Triple-A action RPG developed in partnership with a top-ranking global AAA game publisher Take-Two Interactive Software, Inc. People Can Fly U.S., LLC plays the leading role in the game development project. The Group aims to create an original ARPG with new gameplay elements and storyline solutions it has never used before. The positioning of *Project Dagger* as an ARPG is a step towards winning a wider audience for the Group's products. The publisher's total budget allocated by the Group to develop Project Dagger is EUR 40–60m. The Group expects that the game will reach completion by the end of 2024.

Copyrights to developed games (royalties) (copyrights segment)

As part of the segment of copyrights to developed games (royalties), the Group earns profits from copyrights to video games it has developed under contracts with publishers. In 2021, the Group's key products in the copyrights segment were the *Bulletstorm* remaster – *Bulletstorm: Full Clip Edition*, and the *Painkiller* game with a DLC *Painkiller: Battle Out of Hell* and its re-releases *Painkiller: Gold Edition* and *Painkiller: Black Edition*.

***Bulletstorm*: *Full Clip Edition* (remaster)**

A *Bulletstorm* remaster – *Bulletstorm: Full Clip Edition* was produced in 2017 as a science-fiction first-person shooter published by Gearbox Publishing, LLC. It features a wide diversity of weapons allowing players to inflict various types of injuries. The game's distinctive feature compared with other FPP shooters is a point system rewarding players for creative ways of combating and eliminating enemies ('skillshots') which, combined with futuristic locations and a multiplayer mode, adds variety to the player's experience. Compared with the *Bulletstorm* series, the game features new modes, including the Overkill Campaign Mode, where players start with a full arsenal of weapons.

The game has been released for Windows PC platforms, PlayStation 4 (in both cases with a 4K option) and Xbox One. The game has also been available for Nintendo Switch since 2019.

Painkiller

Painkiller is People Can Fly's first project. The game was released in 2004 by the publisher DreamCatcher Interactive Inc., gaining widespread popularity outside of Poland. The game's expansion pack called *Painkiller: Battle Out of Hell* developed by People Can Fly was released in 2004. *Painkiller* is a horror shooter FPP game set in the purgatory, with a wide array of unusual weapons available to players (including the iconic stakegun). The game was created for the Windows PC platform, featuring both singleplayer and multiplayer modes. Special editions of the game *Painkiller: Gold Edition* and *Painkiller: Black Edition*, both developed by the Group, and Xbox edition of the original game (*Painkiller: Hell Wars*) were released in the following years.

Self-publishing segment

In this segment, the Group classifies outlays as well as future income and expenses related to the development of video games that it plans to self-publish in the future.

Unlike in the contract development segment, under the self-publishing model the Group carries out projects as a publisher, financing them with own funds and using own newly created intellectual property that it will retain title to.

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BUSINESS ACTIVITIES OF THE PCF GROUP

3. Revenue structure and operating segments

Games developed by the People Can Fly studio are available throughout the world via a digital distribution model, from platforms ranking as the world's largest gaming product distributors with a dominant position in digital sales of AAA games, and in the form of box sets, being a traditional video games distribution model.

In its full-year consolidated financial statements for the financial year ended December 31st 2021, the Group reported revenue broken down by geography, into Europe (PLN 101.3m) and Other countries (PLN 77.0m).

The key digital distribution channels for the Group's products are the Steam and Epic Games Store services (for PC gaming) as well as the PlayStation Store and Microsoft Store distribution platforms (for console games). In addition, the Group's games are available via other distribution channels, such as: (i) Nintendo eShop, a digital distribution platform set up by Nintendo for Nintendo consoles, and (ii) leading retail chains, being part of the distribution channel for box set games.

In the case of *Outriders*. since its release (April 1st 2021) the game has also been available through the Xbox Game Pass and Xbox Game Pass Ultimate subscription service for Xbox One and Xbox Series consoles, as well as Android-powered smartphones and tablets (through the xCloud streaming service). *Outriders* is also available through Stadia, a pioneer video game streaming service, operated by Google.

The Group is a video game developer, which has only recently commenced publishing activities and as such is yet to publish its first video game.

Except for the dependence on the publishers of games developed by the Group, which provide the Group – as a developer that has not been generating revenue from sale of self-published games as yet – with financing for the game development process, in the parent's opinion the Group does not depend in its principal business on any other customers or suppliers.

(all figures in PLN '000, unless stated otherwise)

GROUP'S REVENUE STRUCTURE

	Contract development of video games	Copyrights segment	Self-publishing activities	Other	**Total**
Jan 1–Dec 31 2021					
Region					
Europe	101,303	36	-	-	**101,339**
Other countries	77,066	1,888	-	-	**78,954**
Total revenue	**178,369**	**1,924**	**-**	**-**	**180,293**
Product line					
Games	178,369	1,924	-	-	**180,293**
Total revenue	**178,369**	**1,924**	**-**	**-**	**180,293**
Timing of transfer of goods/services					
At a point in time	-	1,924	-	-	**1,924**
Over time	178,369	-	-	-	**178,369**
Total revenue	**178,369**	**1,924**	**-**	**-**	**180,293**
Jan 1 – Dec 31 2020					
Region					
Europe	87,752	12	-	-	**87,764**
Other countries	12,233	3,772	-	-	**16,005**
Total revenue	**99,985**	**3,784**	**-**	**-**	**103,769**
Product line					
Games	99,985	3,784	-	-	**103,769**
Total revenue	**99,985**	**3,784**	**-**	**-**	**103,769**
Timing of transfer of goods/services			**-**	**-**	
At a point in time	-	3,784	-	-	**3,784**
Over time	99,985	-	-	-	**99,985**
Total revenue	**99,985**	**3,784**	**-**	**-**	**103,769**

(all figures in PLN '000, unless stated otherwise)

PARENT'S REVENUE STRUCTURE

	Contract development of video games	Copyrights segment	Other	**Total**
Jan 1–Dec 31 2021				
Region				
Europe	91,566	36	4	**91,606**
Other countries	5,195	1,840	9,184	**16,219**
Total revenue	**96,761**	**1,876**	**9,188**	**107,825**
Product line				
Games	96,761	1,876	-	**98,637**
Other	-	-	9,188	**9,188**
Total revenue	**96,761**	**1,876**	**9,188**	**107,825**
Timing of transfer of goods/services				
At a point in time	-	1,876	9,188	**11,064**
Over time	96,761	-	-	**96,761**
Total revenue	**96,761**	**1,876**	**9,188**	**107,825**
Jan 1 – Dec 31 2020				
Region				
Europe	76,203	12	4	**76,219**
Other countries	1,727	3,663	1,919	**7,309**
Total revenue	**77,930**	**3,675**	**1,923**	**83,528**
Product line				
Games	77,930	3,675	-	**81,605**
Other	-	-	1,923	**1,923**
Total revenue	**77,930**	**3,675**	**1,923**	**83,528**
Timing of transfer of goods/services				
At a point in time	-	3,675	1,923	**5,598**
Over time	77,930	-	-	**77,930**
Total revenue	**77,930**	**3,675**	**1,923**	**83,528**

4. Key events with significant bearing on the Group's and the parent's business and financial performance in the current financial year or with a possible impact on future periods

Below are presented key events that took place in 2021:

- **Loan agreement between People Can Fly U.S., LLC and Beverly Bank & Trust Company, N.A.**

  On March 5th 2021, People Can Fly U.S., LLC entered into a USD 842 thousand loan agreement with Beverly Bank & Trust Company, N.A. The loan was granted under the Paycheck Protection Programme Second Draw run by the US government's Small Business Administration to help save jobs during the COVID-19 pandemic. The SBA provides guarantees for loans advanced by financial institutions under the programme. The loan was granted to cover personnel costs of People Can Fly U.S., LLC, as well as other costs of the company's day-to-day operations (such as rent under lease contracts or service charges). People Can Fly U.S., LLC received the full amount it had applied for. On November 18th 2021, People Can Fly U.S., LLC was notified by the Small Business Administration that its request to forgive 100% of the loan amount had been processed and approved.

- **Agreement for award and payment of tax relief to People Can Fly Canada Inc.**

  In March 2021, People Can Fly Canada Inc. received CAD 547 thousand from the Quebec Revenue Agency (Revenu Québec) on account of a multimedia tax relief comprising partial reimbursement of the costs of outsourcing production of cutscenes, dialogues and other programming and game design services. People Can Fly Canada Inc. received the full amount it had applied for.

- **Release of *Outriders***

  The game *Outriders* was released on April 1st 2021.

- **Incorporation of People Can Fly Chicago, LLC**

  On April 6th 2021, People Can Fly Chicago, LLC, a single-member subsidiary of People Can Fly U.S., LLC, was incorporated under the laws of Delaware.

- **Acquisition of a development team in Chicago**

  On April 23rd 2021, People Can Fly Chicago, LLC, an indirect subsidiary of PCF Group S.A., acquired an 18-strong development team of Phosphor Games, LLC of Chicago, the US. The new People Can Fly Chicago, LLC studio commenced operations on May 1st 2021. The acquisition of the development team was financed with proceeds from the loan granted on March 31st 2021 by PCF Group S.A. to its single-member subsidiary People Can Fly U.S., LLC.

- **Acquisition of Game On Creative Inc**
  On April 27th 2021, the parent acquired 100% of shares in Game On Creative Inc. ("Game On") from Game On's shareholder, Fiducie Familiale Samuel Girardin 2020, a trust established for Samuel Girardin and related persons. The acquisition price for all shares in Game On was PLN 29,369,385.59.

- **Investment agreement with Square Enix Limited**

  On August 29th 2021, the parent signed an investment agreement with Square Enix Limited defining the rights and obligations of the parties in connection with the issue of subscription warrants by the parent under Resolution No. 5 of the Extraordinary General Meeting of the parent of June 26th 2020 on the issue of subscription warrants, conditional increase in the share capital through the issue of Series C ordinary shares, full waiver of the existing shareholders' pre-emptive rights to acquire all subscription warrants and pre-emptive rights to acquire all Series C shares, the seeking of admission and introduction of Series C shares to trading on the regulated market operated by the Warsaw Stock Exchange, conversion of Series C shares into book-entry form, authorisation to enter into an agreement on registration of Series C shares in the securities depository and amendment to the parent's Articles of Association; details of the agreement were published in Current Report No. 40/2021.

- **Activities under the self-publishing model**

  After the Group's development team was expanded in April 2021 and further game development and publishing capabilities were acquired, in May 2021 the Group – in line with the growth strategy published in the parent's prospectus approved by the Polish Financial Supervision Authority on November 25th 2020 – commenced development of a new game to be produced under the self-publishing model, i.e. by the Group as its publisher, and to be financed with the Group's own funds, based on new intellectual property rights that will remain the property of the Group, based on new intellectual property rights that will remain the property of the Group. In addition, in May 2021 the Group began conceptual work on new games which could be developed by the Company in partnership with a publisher or in the self-publishing model, provided that their business potential is positively assessed by the Group.

- **Acquisition of a 50.01% interest in Incuvo S.A.**

  On December 13th 2021, the parent entered into an agreement with OÜ Blite Fund (the seller) for the purchase by the parent of 7,143,900 shares in Incuvo S.A. of Katowice, listed in the NewConnect alternative trading system operated by the Warsaw Stock Exchange and representing 50.01% of Incuvo's share capital and 50.01% of total voting rights at its General Meeting.

  Under the agreement, the total purchase price of the shares was PLN 19,996 thousand. In addition, the seller is entitled to receive from the parent an earn-out payment, the amount of which is to be calculated in accordance with the formula specified in the agreement.

  The earn-out amount depends on: (i) the amount of profit (i.e. sales less development costs and commissions charged by digital distribution platforms) earned by the Green Hell VR video game, which was developed and published by Incuvo S.A., in the reference period specified in the agreement, (ii) the game's Metacritic score. The maximum amount of earn-out will not exceed PLN 11,596 thousand.

5. Major research and development achievements

Expenditure on game development projects carried out under the self-publishing model meets the definition of development work under *IAS 38 Intangible Assets*. For details, see 'Development work in progress' in Note 4 to the Group's consolidated financial statements for the financial year 2021.

In 2021, the Group did not incur any significant expenditure on research projects.

6. Development policy for the Group

The parent and the Group aim to position People Can Fly as a global brand attracting top talent in the games development industry by offering them a unique, multicultural working environment with professional advancement opportunities. In the medium term, the parent intends to build around the brand a community of players and professionals in various fields related to the video games industry.

The key asset of the Group's business is its team, committed to creating world-class video games. The Group keeps expanding its development team at a dynamic rate. The parent remains committed to its plan of further growing the team organically, at the Group's existing studios, and through new team or business acquisitions. As its team is growing rapidly, the Group also plans to continuously develop its structures and infrastructure, including through acquisition of best-in-class professionals also in those areas of the Group's operations that are not directly related to game development.

In game development, the parent and its Group want to create ambitious and innovative AAA shooter and action games with RPG elements. The combination of these features places the titles the Group is developing or wants to expand in the future among the most challenging projects from a creative point of view, which increases their uniqueness. For this reason, the Group wants to keep working with publishers who can leave it the greatest possible creative and artistic independence, nurtured by the Group for almost two decades now. In order to drive profitability, the Group has launched development of AAA video games which are to be self-published. This means that it seeks to publish games developed internally based on existing or new IP. Back in 2020, the Group took the first steps to gain publishing capabilities and in 2021 continued the process.

7. The PCF Group S.A's and the Group's strategy and steps taken to advance that strategy in the reporting period; information on the PCF Group S.A's growth prospects in the next financial year or beyond

Strategy

As at the reporting date, the Group's strategic objectives as defined by the parent's Management Board and for the first time presented in the Company's prospectus approved by the Polish Financial Supervision Authority on October 25th 2020 remained valid and continued to be consistently pursued by the Management Board. This applies to both short-term and long-term objectives.

The Group's short-term objectives include:

- to continue development work on *Project Gemini* and *Project Dagger*, and to provide further development support for *Outriders;*
- to further strengthen the international character of People Can Fly's studio and development team, and to further expand the Group's development teams across all locations by hiring developers with experience in creating world-class video games. In this regard, the Management Board's intention remains to expand the New York- and Montreal-based development teams as well as the one based in Poland by acquiring the most talented developers available on the Polish market to support the Group's studio in implementing its projects;
- to further develop PCF Framework (a proprietary, unique game development platform (software and tools) developed by the Company), both in the context of the development of existing modules and work on new modules, in particular in the area of online services, which will enhance the Company's expertise in the development of multiplayer games;
- to acquire new development team or teams, launch new in-house development studios or acquire video game development businesses. To that end, the Group is analysing opportunities to acquire new development teams, set up new development studios, or acquire video game development companies for the purpose of building new IP. The parent's objective remains to build strong development teams working in parallel and sharing experience on projects implemented by the Group, in reliance on the Unreal Engine and PCF Framework technologies.

The Group's long-term objectives continue to include:

- to further develop the Group's existing IP and create new IP in the course of new game development projects so as to strengthen the Group's self-publishing potential;
- to continue the business model adopted by the Group, which consists in parallel development of several Triple-A games in partnership with leading global publishers;
- to strengthen the global People Can Fly brand as a leading independent AAA game developer;
- to further enhance its specialisation in Triple-A games development in order to position the Group among the world's top AAA action game developers;
- to further advance the PCF Framework as a vital element underpinning the Group's competitive advantage in AAA video game development;
- to develop new business lines based on the studio's brand and the Group's know-how and IP, including through increased use of Unreal Engine and investments in new segments of the entertainment industry.

The Group's strategy also assumes the possibility of: (i) expanding the Group's game portfolio to include AA games, provided that despite shorter development times, lower budgets and smaller scope, their quality would be comparable to that of Triple-A games developed by the Group, (ii) developing AAA and AA games in genres which the Group has not worked in yet, and (iii) acquiring new development teams or video game development companies specialised in areas which would be new to the Group, such as the AA segment and genres other than shooter and action games with RPG elements. The objective of such measures is to position the Group as one of the world's leading independent development studios and to release a self-published or externally published title annually starting from 2024.

Business growth prospects of the PCF Group S.A in the next financial year

The parent and its Group plan to consistently and dynamically expand their business and development teams. The Management Board will strive to deliver the following strategic objectives:

- to continue development work on *Outriders*,
- to continue development work on *Project Gemini* and *Project Dagger,*
- to continue work on the project to develop a game which the Group plans to self-publish,
- to continue work on projects at the concept design stage, including commencing the pre-development stage of at least one of the projects,
- to further expand the Group's development teams across all locations, and
- to acquire further publishing capabilities.

8. Agreements significant to PCF Group S.A.'s business, including shareholder, insurance, partnership or cooperation agreements known to PCF Group S.A.

Development and publishing agreements

Development and publishing agreement for Outriders

In connection with the development of Outriders, on February 16th 2016 the Company entered into a development and publishing agreement with Square Enix Limited as the publisher, to which People Can Fly UK Limited acceded as a party by way of an annex.

Under the agreement, the Company developed the game and delivered it to the publisher in accordance with the agreed schedule divided into milestones. The game development process included all work necessary to create a product ready to be marketed by the publisher, including the preparation of its artistic and technical concepts, source code development, creation and integration of all audiovisual effects accompanying the game, integration of the game with the supported platforms, its appropriate testing, and fixing of any potential errors and bugs (including those discovered after the market release). In addition, the Company was obliged to assist the publisher in securing relevant approvals from platform licensors, which entailed appropriate modifications of the game. At the same time, by way of annexes to the agreement, the parties defined a list of subcontractors with whom the Company was permitted to cooperate in delivering the agreement and a budget allocated to subcontractor payments.

The development and publishing agreement was a framework agreement, providing for the execution between the parties of content riders to specify (i) successive milestones of the game development process, along with a detailed scope of work to be performed by the Company with respect to each game development milestone, and (ii) the commercial terms applicable between the parties, including the amount and form of consideration payable to the Company for its development work. Upon completion of each milestone, the Company was obliged to provide its deliverables to the publisher, and the publisher was obliged either to accept the works or to notify the Company of any defects therein involving non-conformity of the delivered product with the agreed specifications or other terms of the agreement. Upon receipt of a notice of defects, the Company was obliged to rectify the defects in line with the relevant procedure detailed in the agreement.

As a general rule, each instalment of the consideration was payable upon acceptance by the publisher of the deliverables supplied after each milestone or as otherwise agreed by the parties in the course of their business negotiations.

Since the game was completed and placed on the market (which happened on April 1st 2021), the Company has been entitled to royalties payable if specific proceeds (as defined in the agreement) from its sales ensure that the publisher recovers a predetermined level of costs incurred in connection with the development, promotion and distribution of the game. The level of royalties depends on the amount of specific proceeds from the game's sales. The Group received no royalties from the publisher for the period to December 31st 2021, which means that as at the reporting date net proceeds from the sale of Outriders were insufficient to recover the costs and expenses incurred by the publisher to develop, distribute and promote the title. This was confirmed by the royalty statement for the fourth quarter of 2021, received by the Group from the publisher. There can be no assurance that net proceeds from the sale of *Outriders* in future periods will be sufficient for the publisher to recover the costs incurred and to pay royalties to the Group.

Immediately upon receipt of a royalty statement from the publisher confirming the Group's right to receive a specific amount of royalties or upon receipt of royalties by the Group, the Group will announce it in the form of a current report pursuant to Article 17 of Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation).

The agreement gives the Company the right of first negotiation concerning the terms of development of any game-related products, such as DLCs, sequels or porting to other platforms. In line with the right of first negotiation, if the publisher decides to release any game-related products, it is obliged to give notice to the Company, which may then enter into exclusive negotiations with the publisher to agree on the development terms. If the Company refuses such business offer from the publisher within a time frame specified in the agreement, or the parties fail to agree on the terms of business, the publisher may enter into a contract for development of the game-related products with another developer. The right of first negotiation does not apply to a subsequent sequel of the game if the previous sequel has not been developed by the Company.

Under the development and publishing agreement, the Company transferred to the publisher its existing and future intellectual property rights (copyrighted property rights) in *Outriders*, as well as any DLCs, sequels and additional game-related products. The Company also waived its moral rights for the benefit of the publisher.

The agreement has been concluded for an indefinite period, and is unlimited as to territory. It may be terminated by either party upon the occurrence of certain events specified therein. The publisher has the right to terminate the agreement in the event of a change in control of the Company. A change in control is defined as the acquisition of at least 50% of total voting rights in the Company, whether by acquisition of its shares or otherwise. The publisher may terminate the agreement within 60 days of being notified or otherwise becoming aware of an intended or actual change in control.

The agreement is governed by the laws of England and Wales.

Content rider to develop DLC for Outriders

In connection with work related to the provision of further development support for *Outriders* and expansion of the game content (DLC), on August 12th 2020 the Company and Square Enix Limited signed a content rider, forming a part of the development and publishing agreement of February 16th 2016. The rider specifies successive milestones in the game content expansion, technical specifications for each component, and consideration due to the Company once they are accepted by the publisher. Any matters not covered by the content rider are governed by the provisions of the development and publishing agreement. According to information provided by the publisher, the DLC for *Outriders* will be released under the name *Outriders Worldslayer* in 2022.

Development and publishing agreement for Project Gemini

In connection with the development of *Project Gemini*, on August 12th 2020 the Company and People Can Fly UK Limited signed a development and publishing agreement with Square Enix Limited as the publisher.

The provisions of the agreement relating to its scope, mutual obligations of the parties, the game development approach, the forms and method of payment of consideration due to the Company and People Can Fly UK Limited, the right of first negotiation regarding the terms of development of game-related products, as well as the IP ownership, do not differ materially from those set out in the development and publishing agreement for *Outriders*.

The agreement has been concluded for an indefinite period, and is unlimited as to territory. It may be terminated by either party upon the occurrence of certain events involving a deterioration of the other party's economic standing. In addition, the publisher may terminate the agreement either for cause, with such causes being listed in the agreement, or for convenience.

The list of causes entitling the publisher to terminate the agreement includes, but is not limited to: (i) delay in the performance of material contractual obligations; (ii) material breach of contractual obligations; (iii) failure to deliver a product within the time frame prescribed by the schedule (or an additional time limit arising from the agreement); and (iv) the publisher's refusal to accept a delivered product because of its non-conformity with the agreement. Such termination may have immediate effect.

Where the agreement is terminated by the publisher in specific situations provided for therein, the publisher has the right to continue the development process in respect of the game (product developed on the basis of the agreement) and to release the game, also by engaging another developer.

The Company, on the other hand, has the right to terminate the agreement for cause if the publisher fails to pay the consideration due thereunder. In addition, if the publisher breaches the terms of the agreement, the Company may exercise its suspension rights.

The agreement sets out detailed rules for the settlement of accounts between the parties following its termination by the publisher or by the Company, depending on the termination procedure and development stage at which the agreement is terminated. They specify the amount of consideration to which the Company would be entitled for work performed until the termination date and any consideration which could be due to the Company thereafter, as well as the terms of payment of additional costs (fees) by the Company to the publisher in situations specifically described in the agreement. The agreement additionally defines other post-termination rights and obligations of the parties.

Project Gemini is scheduled for release by the end of 2024, and the project scale is comparable to that of Outriders.

Development and publishing agreement for Project Dagger

In connection with the development of *Project Dagger*, on July 21st 2020 People Can Fly U.S., LLC and the Company signed a development and publishing agreement with Take-Two Interactive Software, Inc. as the publisher.

The agreement sets out the terms on which People Can Fly U.S., LLC will develop a game under the working title of *Project Dagger,* and other products such as DLCs or sequels (such other products, including *Project Dagger*, hereinafter being referred to as "Products"). The agreement is a framework agreement, with the specific terms of business between the publisher and People Can Fly U.S., LLC involving Products set out in separate schedules. These schedules specify the detailed terms of financing the development work and payment of the consideration due to People Can Fly U.S., LLC for the development of a specific Product depending on the progress of work and milestone-based development schedule agreed by the parties.

As a party to the agreement, the Company is jointly and severally liable with People Can Fly U.S., LLC for the latter's performance of its obligations thereunder. On the other hand, the publisher has gained an exclusive right to finance and release the Products during the term of the agreement.

The consideration for developing *Project Dagger* is to be paid by the publisher to People Can Fly U.S., LLC in instalments, following the achievement of pre-agreed development milestones by People Can Fly U.S., LLC and their acceptance by the publisher. Upon completion of each milestone, People Can Fly U.S., LLC is to provide its deliverables to the publisher, and the publisher is obliged to notify People Can Fly U.S., LLC within a specified period of time whether it accepts the works or not, providing People Can Fly U.S., LLC with a list of defects which must be rectified by People Can Fly U.S., LLC. The agreement sets out a detailed procedure to be followed by the parties in rectifying any defects and obtaining the publisher's acceptance. Once the respective milestones of Project Dagger are achieved, People Can Fly U.S., LLC is entitled to corresponding consideration instalments (milestone payments) from the publisher, in accordance with a schedule annexed to the agreement.

In addition to the consideration for development of *Project Dagger*, following its release by the publisher People Can Fly U.S., LLC will also be entitled to royalties. With respect to Project Dagger and its sequels, royalties will represent a specific percentage of net profit (as defined in the agreement), to be determined based on the amount of net profit from the game's sales and achievement of a specific metacritic score.

The publisher has an exclusive right to publish, develop or outsource the development of Products specified in the agreement. The agreement additionally grants People Can Fly U.S., LLC the right of first refusal in negotiating the terms of development of new Products specified in the agreement. If the publisher decides to launch the development of such new Products, it is obliged to notify People Can Fly U.S., LLC, whereupon People Can Fly U.S., LLC will have the right, on an exclusive basis, to enter into negotiations with the publisher regarding the terms of their development.

If the parties do not reach an agreement regarding the terms of such cooperation within the time limit specified in the agreement, the publisher may either start the development of a relevant Product on its own or outsource it to another developer. The aforementioned right of the publisher to release specific Products in the future may be terminated by People Can Fly U.S., LLC on the terms and within the time limit set out in the agreement.

The agreement specifies the situations and the manner in which the publisher has the right to take over the development and release of a Product, including through engagement of another developer. The publisher also has the option to purchase the IP associated with Products developed under the agreement from People Can Fly U.S., LLC.

People Can Fly U.S., LLC has retained, as the sole owner, intellectual property rights in Project Dagger and other Products, granting an exclusive licence to exercise such rights to the publisher within the scope set out in the agreement.

The agreement has been concluded for an indefinite period, and is unlimited as to territory. It may be terminated in whole or solely in respect of a specific schedule relating to a given Product. In the event of termination of a schedule relating to an individual Product, the other terms of the agreement will remain in full force and effect.

Each party has the right to terminate the agreement (or a specific schedule) in the event of a material breach of the agreement by the other party, unless such material breach is remedied within 30 days (termination for breach).

Furthermore, the publisher has the sole right to the following types of agreement or schedule termination:

- termination for specific causes, including: (a) infringement by People Can Fly U.S., LLC of the publisher's exclusive rights arising, in particular, from a Product licence granted under the agreement; (b) determination by the publisher that People Can Fly U.S., LLC has discontinued development of certain Products in contravention of the agreement; (c) occurrence of circumstances detailed in the agreement involving People Can Fly U.S., LLC or, to a limited extent, its related parties, which may include their insolvency, bankruptcy, liquidation or cessation of business,
- termination for convenience,
- termination for concept rejection, and
- termination for change in control.

A change in control means the acquisition by an investor (whether by purchase, exchange or otherwise, and whether directly or indirectly) of shares representing no less than 50% of total voting rights in the Company. An investor means a person or a group of persons for whom the number of voting rights held by each person is aggregated for the purposes of obligations related to the acquisition of qualifying holdings in accordance with applicable laws. In the case of a change in control, the publisher has the right to terminate the agreement in its entirety with immediate effect.

In addition, the agreement specifies the procedure and time limits for its termination by the publisher.

It also sets out detailed rules for the settlement of accounts between the parties following its termination by the publisher or by People Can Fly U.S, LLC depending on the termination procedure and development stage at which the agreement is terminated. They specify the amount of consideration to which People Can

Fly U.S, LLC would be entitled for work performed until the termination date and any consideration which could be due to People Can Fly U.S, LLC thereafter, as well as the terms of payment of additional costs (fees) by the Company to the publisher or refund of the consideration already received in situations specifically described in the agreement. The agreement additionally defines other post-termination rights and obligations of the parties.

The agreement is governed by the laws of the State of New York, USA.

Project Dagger is scheduled for release by the end of 2024, and the publisher plans to spend a total of EUR 40–60m on the game development by the Group.

Shareholder agreements

On June 26th 2020, the following shareholders of the Company: Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszka and Krzysztof Dolaś, who are also members of the Group of Qualifying Shareholders within the meaning of the Company's Articles of Association, entered into a Qualifying Shareholders Agreement. As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, based on notifications submitted by the shareholders comprising the Group of Qualifying Shareholders as shareholders holding at least 5% of total voting rights at the Company's General Meeting and on transactions conducted by persons discharging managerial responsibilities pursuant to Art. 19.1 of MAR, the shareholders who were parties to the Qualifying Shareholders Agreement held an aggregate of 21,161,262 shares, representing 70.65% of the share capital of PCF Group S.A., and 21,161,262 voting rights, representing 70.65% of total voting rights in the Company.

Under the Qualifying Shareholders Agreement, its parties agreed, among other things, to: (i) act in concert with and in a manner loyal to the other parties and the Company with respect to the development of video games by the Company, as well as with respect to the Company's strategic objectives; (ii) discuss and agree on their strategic concepts with respect to the development process for both ongoing and future video game projects that are being or may be developed by the Company, as well as strategic directions for the Company's business; (iii) discuss in good faith and agree on all their decisions, and then vote in concert on the relevant resolutions at the Company's General Meeting on all Company shares held by them; (iv) execute lock-up agreements with respect to Company shares; and (v) notify one another of the number of Company shares held by them.

The Qualifying Shareholders Agreement is an agreement referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005, and its parties regard one another as entities bound by the agreement referred to in that Act.

In view of this arrangement, the parties appointed Sebastian Wojciechowski as a representative authorised to exercise their rights and perform their obligations under the Qualifying Shareholders Agreement within the meaning of Art. 87.3 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005. In connection with his role, the parties to the Qualifying Shareholders Agreement agreed to: (i) notify Sebastian Wojciechowski upon his request of the number of Company shares held by them; and (ii) promptly notify Sebastian Wojciechowski in writing of any legal transaction or any other legal event resulting or potentially resulting in a change of the percentage of total voting rights in the Company held by a given party or parties, including any acquisition or disposal of Company shares, or the occurrence of an event or performance of any action which, to the best of a given party's knowledge, may affect the parties' obligations as parties to the agreement referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, including in particular the disclosure obligations imposed on the parties by the Act or other laws related to trading in securities.

The Qualifying Shareholders Agreement was concluded for an indefinite period and may be terminated by any of its parties by notice addressed to all the other parties. Also, if a party votes at the Company's General Meeting in a manner contrary to what was agreed upon by the parties in accordance with the Qualifying Shareholders Agreement, that party will promptly notify the Company and the other parties whether, despite having voted differently, it remains a party to the agreement referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, or whether it wishes to terminate the agreement, whereupon the agreement will be terminated with immediate effect in relation to that party. Such termination of the agreement will be equivalent to termination of the Qualifying Shareholders Agreement.

Insurance contracts

The Group maintains insurance for its companies and their operations covering substantially all risks relevant to the industry in which the Group operates, with limits of indemnity available on the market to business operators active in this industry. In addition, the requirement to maintain appropriate insurance cover arises under the development and publishing agreements entered into by the Group with Square Enix Limited, Take-Two Interactive Software, Inc. and Gearbox Publishing, LLC.

In connection with the agreements concluded with the publisher Square Enix Limited to develop and publish the Outriders and Project Gemini games, the parent took out an insurance policy from Colonnade Insurance S.A. Branch in Poland comprising: (i) commercial general liability insurance, (ii) professional liability insurance including an errors & omissions cover (to protect it from lawsuits claiming infringement of intellectual property rights) and (iii) product liability insurance, in each case with a sum insured equal to USD 5m for losses arising from a single event and USD 10m in respect of all events. The insurance cover expires on March 31st 2022. The policy also includes retroactive cover held from the retroactive date of February 16th 2016.

In connection with the agreement concluded with the publisher Take-Two Interactive Software, Inc. to develop and publish the Project Dagger game, on November 22nd 2020 People Can Fly U.S., LLC took out a professional liability insurance policy from Beazley USA Services, Inc. including an errors & omissions cover (to protect it from lawsuits claiming infringement of third party property rights, including, without limitation, copyrights, trade secrets and trademark infringement claims related to performance by the developer of its contractual obligations), with a sum insured of USD 1m in respect of one and all events. The insurance cover expires on November 22nd 2022. The policy also includes retroactive cover held from the retroactive date of November 22nd 2019.

Notwithstanding that policy, People Can Fly U.S., LLC is covered by additional commercial general liability insurance, taken out from Chubb Group of Insurance Companies headquartered in New York. The limit of indemnity under the insurance contract equals USD 1m in respect of a single event and USD 2m in respect of all events. The insurance cover expires on July 15th 2022.

The insurance professional indemnity insurance requirement under the Company's agreement with the publisher Gearbox Publishing, LLC to develop and publish the *Bulletstorm* remaster – *Bulletstorm: Full Clip Edition*, is satisfied with the aforementioned insurance policy with Colonnade Insurance S.A. Branch in Poland, with a sum insured of USD 1m with respect to one and all events.

Investment agreement with Square Enix Limited

On August 29th 2021, pursuant to Resolution No. 5 of the Extraordinary General Meeting of the parent of June 26th 2020 on the issue of subscription warrants, conditional increase in the share capital through the issue of Series C ordinary shares, full waiver of the existing shareholders' pre-emptive rights to acquire all subscription warrants and pre-emptive rights to acquire all Series C shares, the seeking of admission and introduction of Series C shares to trading on the regulated market operated by the Warsaw Stock Exchange, conversion of Series C shares into book-entry form, authorisation to enter into an agreement on registration of Series C shares in the securities depository and amendment to the parent's Articles of Association, the parent signed an investment agreement with Square Enix Limited defining the rights and obligations of the parties in connection with the issue by the parent of subscription warrants to be offered to Square Enix Limited and with the acquisition by Square Enix Limited of Series C shares in the exercise of its rights under the subscription warrants. For details of the investment agreement, see Current Report No. 40/2021 of August 29th 2021.

In the performance of the investment agreement, on November 17th 2021 Square Enix Limited accepted the parent's offer of October 11th 2021 to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the parent, each conferring the right to subscribe for one Series C ordinary bearer share in the parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. In addition, on December 10th 2021, the parent's Management Board submitted an offer to the publisher to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A3 warrants), which was accepted on January 18th 2022 on the terms specified above. Square Enix Limited's rights to subscribe for Series C shares would first vest after it has acquired the fourth tranche of warrants. As at the date of authorisation of these interim condensed consolidated financial statements, the parent estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited under the investment agreement would represent approximately 1.8% of the parent's share capital.

On March 4th 2022, in response to the parent's application of February 23rd 2022, the Central Securities Depository of Poland issued a statement to the effect that on March 8th 2022 it would enter into an agreement with the parent to register the aforementioned 270,000 Series A registered subscription warrants under ISIN PLPCFGR00044.

(all figures in PLN '000, unless stated otherwise)

9. Loan and credit facility agreements signed and terminated in the financial year, with information at least on the amounts, types, interest rates, currencies and maturity dates of the loans and facilities

GROUP

	Current liabilities		Non-current liabilities	
	Dec 31 2021	Dec 31 2020	**Dec 31 2021**	Dec 31 2020
Financial liabilities measured at amortised cost				
Borrowings and subsidies	7,362	583	510	1,167
Financial liabilities measured at amortised cost	**7,362**	**583**	**510**	**1,167**
Total borrowings, other debt instruments	**7,362**	**583**	**510**	**1,167**

PARENT

	Current liabilities		Non-current liabilities	
	Dec 31 2021	Dec 31 2020	**Dec 31 2021**	Dec 31 2020
Financial liabilities measured at amortised cost				
Non-bank borrowings	875	583	510	1,167
Financial liabilities measured at amortised cost	**875**	**583**	**510**	**1,167**
Total borrowings, other debt instruments	**875**	**583**	**510**	**1,167**

The Group's debt instruments as at December 31st 2021 are described below.

- Subsidy agreement with Polski Fundusz Rozwoju S.A. ("PFR"). On April 30th 2020, the parent entered into a subsidy agreement with PFR under the government-run 'Polish Development Fund's Financial Shield for Micro, Small and Medium-Sized Enterprises' programme (the "Programme") providing financial support to businesses as relief against the consequences of COVID-19. The subsidy of PLN 3,500 thousand was applied by the parent for the purposes specified in the terms of the Programme. Based on the statement of settlement of the subsidy submitted by the parent, PFR decided that half of the subsidy, i.e. PLN 1,750 thousand, had to be repaid. The repayment began in the 13th month from the first full calendar month after the disbursement, and is to be completed in 24 equal monthly instalments. The subsidy agreement, being a part of the government-run programme to support businesses as a relief against the consequences of the COVID-19. pandemic, was concluded on preferential, non-market terms. The subsidy does not bear interest.
- Credit facility agreement between Game On Creative Inc. and Royal Bank of Canada. The purpose of the credit facility was to finance the management buyout in connection with the acquisition of Game On Creative Inc. by the parent. Game On Creative Inc. has been repaying the facility in equal monthly instalments of CAD 41 thousand each. As at December 31st 2021, the balance outstanding under the facility was CAD 1,944 thousand. The facility bears interest at a fixed rate of 2.94%. As at the date of authorisation of this Directors' Report on the operations of PCF Group S.A. and it Group in 2021 for issue, the Group did not receive any notice of acceleration from Royal Bank of Canada despite not

meeting certain covenants under the credit facility agreement. The Group does expect the bank to issue such notice. However, as Game On was in breach of the covenants under the credit facility agreement as at December 31st 2021, the Group decided to present the entire amount outstanding under the facility under current liabilities.

10. Loans advanced in the financial year, including loans granted to PCF Group S.A.'s related parties, with information at least on the amounts, types, interest rates, currencies and maturity dates of the loans

In the financial year 2021, PCF Group S.A. advanced the following loans:

- **Loan advanced by PCF Group S.A. to People Can Fly U.S., LLC**

  On March 31st 2021, PCF Group S.A. advanced a loan to its subsidiary People Can Fly U.S., LLC. The loan proceeds are to be used to finance activities related to the implementation of the PCF Group Spółka Akcyjna Group's strategy, including incorporation of a single-member subsidiary People Can Fly Chicago, LLC. The loan principal was USD 5,000 thousand; the interest rate is equal to LIBOR plus 2 percentage points. The loan was granted for ten years. It is secured with People Can Fly U.S., LLC's assets, including intellectual property rights. The loan is to be repaid through a one-off payment at the end of the financing period, with a prepayment option. The loan was granted on market terms.

- **Loans advanced by PCF Group S.A. to People Can Fly UK Limited**

  On June 18th 2021 and June 29th 2021, PCF Group S.A. advanced loans to its one-member subsidiary People Can Fly UK Limited, to be used to finance the implementation of the PCF Group S.A.'s strategy. The loans amounted to EUR 250 thousand and GBP 250 thousand, respectively, with interest at an annual rate of 3M LIBOR plus 2 percentage points. The loans were granted for ten years. They are secured with People Can Fly UK Limited's assets, including intellectual property rights. The loans are to be repaid through a one-off payment at the end of the financing period, with a prepayment option. The loans were granted on market terms.

11. Sureties and guarantees issued and received in the financial year, including sureties and guaranties issued to the Company's related parties

Apart from the instrument described below, as at December 31st 2021 the Group did not have any other financial guarantees or contingent assets or liabilities.

In connection with the joint and several liability of the Company for the performance by People Can Fly U.S., LLC of its obligations under the Project Dagger development and publishing agreement, on September 30th 2020 the Company entered into a guarantee agreement with People Can Fly U.S., LLC. The agreement sets out mutual obligations of the parties in the process of Project Dagger development, the Company's liability for the performance by People Can Fly US., LLC of its obligations related to the game's development, as well as the procedure applicable in case the publisher decides to enforce the guarantee provided by the Company and accounts need to be settled between the Company and People Can Fly U.S., LLC in connection with the publisher's enforcement of the guarantee. In addition, the agreement defines the reporting obligations of People Can Fly U.S., LLC towards the Company in connection with its performance of the development and publishing agreement. Under the agreement, Company will have the right to take over the development of *Project Dagger* from People Can Fly U.S., LLC in circumstances specified therein. Under the agreement, the Company is entitled to receive a consideration from People Can Fly U.S., LLC, defined as a specific percentage of costs related to People Can Fly U.S., LLC's performance under the Project Dagger development and publishing agreement. The guarantee agreement is governed by the laws of Poland.

12. Financial instruments

Key financial instruments held by the parent and its Group include financial assets, such as trade receivables and cash generated directly in the course of their operating activities.

The parent and its Group do not use derivatives to hedge their currency risk exposure. The fair value of financial instruments held by the parent and its Group as at December 31st 2021 and December 31st 2020 did not differ materially from the value disclosed in the financial statements for the respective years for the following reasons:

- with respect to short-term instruments, the potential discount effect was immaterial,
- the instruments related to transactions executed on an arm's length basis.

13. Changes in significant management policies at PCF Group S.A. and its Group

In 2021, there were no changes in the significant management policies at PCF Group S.A. or its Group.

14. Agreements concluded between the Company and its management personnel providing for compensation in the event of their resignation or removal from office

As at December 31st 2021 and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, there were no agreements concluded between PCF Group S.A. or its subsidiaries and management personnel providing for compensation in the event of their resignation or removal from office without a valid reason, or if they are removed from office or made redundant following PCF Group S.A.'s merger by acquisition.

15. Liabilities arising from pensions or similar benefits due to former members of management, supervisory or administrative bodies, and liabilities incurred in connection with such pensions, with the total amount of such liabilities specified for each body

As at December 31st 2021, there were no liabilities arising from pensions or similar benefits due to former members of management or supervisory bodies or former members of administrative bodies of PCF Group S.A. or its subsidiaries, or any liabilities incurred in connection with such pensions.

16. Remuneration, bonuses or benefits, including those under equity-based incentive or bonus schemes, in particular schemes based on bonds with pre-emptive rights, convertible bonds and subscription warrants (in cash, in kind or any other form), paid, payable or potentially payable separately to each member of the management, supervisory or administrative bodies of the Company's business

In 2021, neither PCF Group S.A. nor its subsidiaries adopted any equity-based incentive or bonus schemes for serving as members of the parent's management, supervisory or administrative bodies, or for serving on the governing bodies of its subordinated entities.

17. Description of material risk factors and threats, including information on the Company's exposure to such risks or threats

Risk factors related to the Group's operations

Risk of high concentration of the Group's revenue under contracts with publishers

The Group has signed development and publishing agreements and a content rider with Square Enix Limited, as well as a development and publishing agreement with Take-Two Interactive Software, Inc. as the publishers, for the development of *Outriders* and *Project Gemini* and the content expansion of *Outriders*, and for *Project Dagger*, respectively. Under the development and publishing agreements in place, the publishers are obliged to pay to the Group a consideration for the progress in the game development work (milestone payments) during the game development phase, as well as royalties after the game's market release and launch of its sales, the amount of which will be conditional on the publisher's proceeds from game sales. In 2021, the consideration received from the publishers accounted for over 80% of the Group's total revenue. In the Company's opinion, consideration received from the publishers will remain the Group's main revenue stream at least until the end of 2022. Any decline in revenue from the publishers in the said period would translate directly into a decline in the Group's total revenue, which would have a major adverse impact on the Group's business and results should the consideration received from the publishers be significantly lower.

Risk of dependence on the Group's game development team members

The Group's business relies heavily on the skills and experience of its project team members working on game development, as well as the Group's management team. The unique skills and extensive experience of team members translate into the quality of the Group's products and its ability to meet the game development deadlines specified in the agreements with publishers, which in turn determines the consideration payable to the Group companies throughout the game development phase. From that perspective, the Group's management staff and owners of individual projects, including in particular the Creative Directors, Art Directors, Technical Directors, Technical Art Directors and Directors of Production at the Group's studios, are key to the game development process. The so-called Leads, i.e. persons heading individual project teams and reporting to the relevant Directors, also play an important role in every game development project. Many of them have worked for the Group for more than a dozen years, while holding equity interests in the Company.

However, there is strong demand for video games talent in the labour market, combined with a noticeable shortage of highly qualified IT professionals. Despite attractive terms of employment which, in the Company's opinion, are competitive relative to the market, a risk of staff churn across the Group cannot be altogether excluded. Should the Group lose members of its game development team, in particular certain Directors or Leads, the Group's professional game design and development capabilities would be impaired, which could adversely impact the quality of a given game product or the timing of its release. Given the difficulty in recruiting highly qualified staff, especially on a short notice, such staff churn could undermine the Group's ability to meet its game development obligations towards the publishers. Losing a significant number of game developers at various levels across the organisation could entail additional costs for the Group on recruiting new talent for the development team, and given the intense competition in the labour market, the recruitment of talented developers could be a time-consuming process without any guarantee of success. Any such events could adversely affect the Group's business and results. The fact that the managerial staff involved in game development (i.e. all Directors and many Leads in Poland) are shareholders in the Company, and that some of its employees and independent contractors became shareholders through the public offering of Company shares carried out in the fourth quarter of 2020 should, in the Company's opinion, foster their ties with the Company.

Risk of delayed or unsuccessful release of games developed by the Group

As at the end of 2021, development work on the Group's games (*Project Gemini* and *Project Dagger*) was still at a relatively early stage, and their releases were scheduled to take place by the end of 2024 without specifying any exact dates. Given the relatively early stage of project work, the Company cannot definitely rule out a scenario in which the games are not released within the scheduled time frame, all the more so that game release dates have been postponed in the past. On October 8th 2020, Square Enix Limited, the publisher of *Outriders*, announced a postponement of the game release date from the originally scheduled end of 2020 to February 2nd 2021, and then, on January 6th 2021, the release date was put off again to April 1st 2021. Since a decision on the final game release date and form remains at the publisher's sole discretion, the Company cannot rule out a risk that the scheduled timing of release will also be postponed in the case of these two games. A postponement of their release dates to 2025 would delay the payment of royalties, if any, to the Group, and could also undermine the Group's image and players' interest in its games.

Furthermore, given that as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the Group was mainly contracted to develop video games for third-party publishers and had only just launched self-publishing activities with its first internally developed game yet to be published under that model, the development of its games was financed solely by the publishers under the respective development and publishing agreements. During the game development phase, the Group's consideration is paid in instalments in accordance with the progress of work (milestone payments) after specific milestones have been achieved by the Group and approved by the publisher. Any delays on the Group's part relative to the agreed milestone-based schedule could result in delayed payment of consideration due to the Group from the publisher during the game development phase. In the event of significant delays in the Group's work to develop a given game, the publisher would in certain cases have the right to terminate the development and publishing agreement and to take over the game development project or exercise other rights, as a result of which the Group could lose the source of the majority of its revenue. Moreover, as game development is a highly complex process taking several years, the Group is exposed to a number of other risk factors, both within and beyond its control, which may delay game release dates and which the Group is unable to eliminate or avoid being affected by.

Although the Group has experience in the development of Triple-A games and is therefore able to organise the work of its game development team so as to meet the deadlines set out in the relevant agreements with publishers, any materialisation of the above-mentioned risks could adversely affect the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Risk related to Sebastian Wojciechowski's role in the Group and the exercise of special personal rights conferred on the Group of Qualifying Shareholders under the Articles of Association and the Qualifying Shareholders' Agreement

As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, Sebastian Wojciechowski was the only member of the Company's Management Board and of all the boards of the Group's U.S.-based subsidiaries, as well as being one of the two Directors authorised to independently represent the Group's Canadian-based subsidiaries. Therefore, taking into account the powers vested in the Supervisory Board and the General Meeting, he may take independent decisions on all material matters related to the Group's management.

Sebastian Wojciechowski is also a major shareholder in the Company, holding 49.98% of its shares conferring 49.98% of total voting rights. Therefore, he is able to exercise significantly influence on resolutions passed by the General Meeting.

Furthermore, pursuant to Art. 13 of the Articles of Association, Sebastian Wojciechowski has been granted a special personal right to appoint and remove the President of the Management Board, And may exercise that right for as long as he holds at least 25% of total voting rights in the Company.

In addition, together with other Company shareholders, namely Bartosz Kmita, Krzysztof Dolaś and Bartosz Biełuszko (holding – according to information provided by them as shareholders holding at least 5% of total voting rights at the parent's General Meeting – as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, respectively, 8.61%, 6.03% and 6.03% of the Company shares and voting rights, and together with Sebastian Wojciechowski – an aggregate of 70.65% of total voting rights), Sebastian Wojciechowski forms the Group of Qualifying Shareholders referred to in Art. 17 of the Company's Articles of Association. Pursuant to the Articles of Association, the Group of Qualifying Shareholders have a personal right to appoint a majority of the Supervisory Board members for as long as the Qualifying Shareholders hold jointly at least 40% of total voting rights in the Company. With the above-mentioned powers, Sebastian Wojciechowski (either directly or as a member of the Group of Qualifying Shareholders, in which he holds the largest number of voting rights) has and will continue to have influence over the composition of the Company's Supervisory Board.

Furthermore, a Supervisory Board member has family links to Sebastian Wojciechowski – the Chairman of the Company's Supervisory Board, Mikołaj Wojciechowski, is Sebastian Wojciechowski's brother. In addition, on June 26th 2020 members of the Group of Qualifying Shareholders entered into a Qualifying Shareholders' Agreement whereby they agreed to vote in concert at the Company's General Meetings. The agreement was concluded for an indefinite period, with each party being entitled to terminate it at any time.

In addition to his corporate powers, Sebastian Wojciechowski plays a key role in the game development process and, given his long-standing involvement with the Group and direct contribution to the Group's expansion, also in foreign markets, he has unique knowledge of the Group's operations.

Considering the corporate control exercised over the Group by Sebastian Wojciechowski, as well as his family links to a Supervisory Board member, it cannot be ruled out that the current or future interests of Sebastian Wojciechowski, as the Company's majority shareholder, might become divergent from or conflicting with the interests of other shareholders. Such scenarios, including especially any dispute arising between the shareholders and its impact on corporate decisions taken by the General Meeting and the Supervisory Board, could lead to actions inconsistent with the interests of certain shareholders. Similarly, the Group of Qualifying Shareholders, by virtue of their personal right to appoint and remove a majority of the Supervisory Board members, as well as their agreement to vote in concert at the Company's General Meeting, could exercise their rights under the Articles of Association and voting rights attached to their shareholdings in the Company in a manner contrary to the interests of the remaining shareholders.

Furthermore, given the role of Sebastian Wojciechowski in management decisions and in the Group's operations, there is a risk that in the event of his temporary (and especially prolonged) inability to perform the duties of President of the Management Board due, for instance, to ill health or certain fortuitous events, the Group's operations could be significantly disrupted.

Risk of the Group's dependence on game publishers

As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the Group had not published any internally developed games despite having commenced self-publishing activities. This means that the contract development of games in partnership with publishers continues to be the mainstay of Group's business. Under that model, the Group's entry into a development and publishing agreement with a game publisher is a pre-condition for the launch by the Group of any game development project. Finding a suitable publisher and conclusion of a development and publishing agreement is usually a process taking several months (up to over a year in the worst case), which may call for the involvement of an external intermediary to find the publisher and sign such contract. This is due to the fact that the choice of game publishers in the AAA segment is limited, as they must be able to secure adequate financing for the Group's budget-intensive game development projects, enjoy a solid reputation in the market, and ensure appropriate marketing, distribution and sale of the Group's products. Also, the conclusion of an agreement with a publisher is contingent on the publisher's positive assessment of the game concept proposed by the Group, the Group's development capabilities, working budget and project schedule, as well as approval of all the terms and conditions of business. In the past, the Group has been able to find suitable publishers and sign agreements to secure the necessary financing for its game development projects. However, no assurance can be given that the Group will always be able to find the right publishers who would provide adequate financing for the Group's game development projects or would have a market reputation meeting the Group's expectations. If the Group is unable to sign new game development and publishing agreements while its self-publishing activities are not advanced enough to generate revenue, the Group's game development business could be limited or even put on hold.

The dependence of video game developers (such as the Group) on publishers is also due to the very structure of development and publishing agreements typically applied in the video game industry. Such agreements are essentially signed as general framework agreements and subsequently supplemented, in keeping with the progress of game development work, with further specific contracts between the parties in the form of content riders (also known as schedules), specifying the rights and obligations of the parties in respect of each subsequent milestone or milestone group contracted in the game development process (such as the scope of work to be performed by the developer (i.e. the Group), the time limit for its completion, and the amount and form of consideration payable to the developer by the publisher, which, as a rule, is payable only upon the completion of work specified in the respective content rider). Although all terms of business between the parties are determined on an ongoing basis, and the parties are free to determine the scope and timing of the Group's work as well as the form and timing of consideration payment by the publisher (as agreed to by the Group in the course of negotiations), there is still a risk of the Group's weaker bargaining power in its relations with the publisher. This is due, in particular, to the limited choice of potential publishers for the Group's products and the fact that they are part of global corporations publishing games for a number of developers.

With such structure of development and publishing agreements, its parties do not know the final schedule of game development work and, if a development and publishing agreement does not specify the total project budget (as was the case with *Outriders* and as is the case with *Project Gemini*), the parties have no way of knowing the final amount of consideration due to the developer (i.e. the Group), as a result of which the Group's revenue cannot be estimated even in the short term. Any delay in reaching an agreement between the parties as to the next game development milestone (i.e. a content rider) could result in delayed milestone payments to the Group, while a failure to reach such agreement could result in the Group not receiving any payment for the respective game development milestone, or even lead to termination of the development and publishing agreement by the publisher. In the past, the Group has always reached agreements as to the content riders with its publishers. However, no assurance can be given that the Group will reach such agreements in the future, especially considering that the Group's ongoing projects are still at a relatively early stage of development work, and therefore the risk of contract termination for convenience by the publisher is much higher than in the case of advanced-stage projects, where the publisher has already made significant financial outlays.

Any of the above scenarios would adversely affect the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Risk of the Group's failure to achieve commercial success

The Group expects its game projects to be a commercial success. This, however, depends on a number of factors, some of which remain beyond the Group's control. Such factors include the changing player preferences or consumer interests in the electronic services market, as well as the concurrent launch of AAA games by the Group's competitors. In addition, the success of games is contingent on consumer feedback regarding both the specific games and the Group's products in general, including mainly feedback posted on the Internet, especially via specialised game review portals, in gaming industry media or by influencers, i.e. opinion leaders in social media. All these factors could undermine consumer interest in the Group's products, and negative feedback on the Group's games could jeopardise their expected commercial success.

The Group's failure to achieve market success with its games and DLCs, and negative feedback from players, could also undermine customer confidence in the Group and its products, making it difficult for the Group to recruit highly qualified game developers. A failure to achieve market success and negative feedback on the Group's games could also weaken players' interest in the Group's products, reducing its estimated revenue from game sales, which in turn could adversely affect the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets). In particular, the Group's revenue from royalties received on account of game sales could be lower than expected by the Group.

Risk of the Group's inability to deliver its strategy

The Group's strategy provides for delivery of strategic objectives as defined by the Management Board in the short-term and long-term horizon.

Due to events beyond the Group's control, especially those of the legal, economic or social nature, the Group may find it difficult or impossible to deliver its strategic objectives or may be forced to modify or change its objectives or strategy. A similar situation may occur if the costs of implementing the strategy go over the budget. Such situations could adversely affect the delivery of the Group's strategy going forward and result in its failure to achieve the expected benefits or any benefits at all. Should the Group find it impossible to deliver its strategy within the assumed time horizon, this could adversely affect the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Currency risks

The Group is exposed to currency risk as a significant portion of the Group's costs are incurred in PLN, while the vast majority of the Group's revenue is denominated in foreign currencies, mainly in EUR and USD. The Group is therefore exposed to currency risk.

Under the Project Dagger development and publishing agreement all contract revenue is denominated in USD while the related costs is incurred by the Group in USD, PLN and CAD.

The *Outriders* and *Project Gemini* development and publishing agreements contain certain provisions that hedge the Group against the EUR/PLN exchange rate risk. Exchange rate fluctuations may reduce the amount of the Group's receivables or increase the amount of its liabilities, resulting in exchange differences charged to the Group's profit or loss. As at the date of these consolidated financial statements, the Group monitors movements in exchange rates, but does not use financial instruments to hedge the currency risk. As a result, the risk may adversely affect the Group's business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Risk factors relating to intellectual property rights

Risk of failure to effectively protect intellectual property rights held or generated by the Group

Under the development and publishing agreements concluded by the Group with publishers, the Group is liable towards the publishers for effective protection of the IP associated with the Group's products. Any failure to effectively protect the intellectual property rights held or generated by the Group, including as a result of a cyber attack on the Group intended to hack the Group's IP prior to the official release of a game, may result in imposition on the Group of relevant sanctions specified in the development and publishing agreements, or lead to contractual liability for a breach of contract. In a worst-case scenario, the publisher could decide to terminate the agreement, as a result of which the Group would lose both its expected revenue and good name.

In addition, under the development and publishing agreements concluded by the Group, the publishers hold certain intellectual property rights in the Group's products, as specified therein. For example, the Company has transferred to Square Enix Limited its copyrighted property rights, both existing and future, in *Outriders* as well as any DLCs, sequels and additional game-related products. The Company has also waived its moral rights for the benefit of Square Enix Limited. Similar provisions apply to the deliverables of further support work in connection with the game's development and content expansion (DLC) with respect to *Outriders* and *Project Gemini*.

As regards Project Dagger, People Can Fly U.S., LLC has retained, as the sole owner, the IP rights in the game and other related products (subject to the publisher's right to acquire the IP), granting an exclusive licence to exercise those rights to Take-Two Interactive Software, Inc. In view of these arrangements, the development and publishing agreements entitle the publishers (also by virtue of exclusive rights) to demand protection and enforcement of the intellectual property rights associated with software developed by the Group, which results or may result in the Group having limited control over the enforcement of IP rights in the Group's games. This may increase costs incurred by the Group and complicate the enforcement of the Group's rights.

Risk related to infringement by the Group of third party intellectual property rights

Copyright infringement by the Group may arise, in particular, as a result of the use of intellectual property rights of third parties not related to the Group, including software or parts thereof generated by such third parties. Such infringement may be either intentional (through deliberate actions taken by the Group's employees, independent contractors or external subcontractors) or unintentional. As a result, the Group may be exposed to claims relating to alleged copyright infringement in connection with its game development business, and consequently to court actions brought against it by third parties. Defending the Group's rights in such cases may entail high costs, delay game development processes and prevent the sale of the Group's products, while compromising its reputation. Should a third party prove in court that its IP rights have been infringed by the Group in connection with the Group's game development business, the Group could potentially be subject to, among other consequences, the obligation to pay damages, the obligation to discontinue and refrain from using specific content, a hold being put on sales of the Group's products, or the need to enter into a relevant licence agreement.

Any such infringement could result in the publishers raising allegations of a breach of the Group's IP-related obligations under the development and publishing agreements. Should the Group companies be unable to remedy such breach, they would be subject to relevant sanctions provided for in the respective development and publishing agreement or to contractual liability for a breach of contract. In certain cases, the publisher could elect to terminate the agreement for cause. Termination of a development and publishing agreement could result in the Group losing both its expected revenue and good name, which would have a significant adverse effect on the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Risk of the Group's using open source software in game development

Under the existing development and publishing agreements, the Group is not allowed to use any open source software in its products, including any programming platforms or toolboxes made available by platform providers and third parties. The Group strives to make sure that its employees, independent contractors and external subcontractors refrain from using any open source software, but no assurance can be given that the Group will avoid breaches in this respect. As a result of using open source software, the Group could forfeit protection of the Group's exclusive rights to its software and, consequently, breach the provisions of agreements it has signed with publishers, triggering termination of the relevant development and publishing agreements and loss of both its expected revenue and good name, which could have a significant adverse effect the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Risk factors associated with the Company's business environment

Risk of adverse developments related to the COVID-19 pandemic

In 2021, in view of the evolving COVID-19 pandemic, the Group continued measures to prevent the emergence and possible spread of the infection within the Group. Travel restricting policies were established, the offices of the Group were adapted to work in pandemic conditions, and communications were put in place to inform employees and independent contractors of the current situation and the recommendations made by government authorities in relation to the spread of the virus. Decisions were also made to prepare the technical infrastructure and software to secure the potential requirements in terms of network capacity, hardware performance and security standards to enable transition to remote-work mode. As a result of the growing threat, the Management Board of the parent decided to move to remote-work mode. Such a solution did not eliminate the risk of infection by team members but reduced the risk of team members becoming unavailable due to cross-infection. This decision provided both the team and the Group itself with security of business continuity.

As at the reporting date and as at the date of authorisation of these consolidated financial statements for issue, the financial condition of the Group was stable.

In the opinion of the Management Board of the parent, the COVID-19 pandemic did not have a material effect on financial results of the Group and should not pose a threat to the ability of the Group to continue as a going concern within 12 months from the end of the reporting period. This operating model, where the vast majority of the Group's revenue is generated from contract development of video games for third-party publishers, provides the Group with development revenue that is not exposed to the impact that COVID-19 has on global game sales. The revenue thus generated by the Group is sufficient to cover operating expenses, and the earned margin enables the Group to continue as a going concern. However, the further development of COVID-19 and its impact on the global economy and directly on the video games industry cannot be clearly predicted at this time. Accordingly, there is a risk that a pandemic-induced increase in unemployment and inflation could have an adverse effect on the international video game industry going forward.

Risk of additional restrictions being imposed on game content

In keeping with current market trends and expectations of their target users, the content of games developed by the Group may be perceived as violent and vulgar, or not intended for persons below a certain age. In this regard, there is a risk of more stringent regulations being introduced on certain markets or game distribution platforms. There is also a noticeable trend of promoting active lifestyles, which may lead to stricter regulations applicable to the sale of games developed by the Group. Such regulations could result in lower sales or even a ban on sales of the Group's products on certain markets. The Group makes every effort to ensure that its games meet all the legal requirements applicable on target markets, as well as those imposed by the publishers and game distribution platforms, and that they conform to the standards adopted on such markets or platforms. However, it cannot be entirely ruled out that the Group will fail to meet the existing or stricter requirements in that respect, which would drive down the sales of its products, adversely affecting the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

18. Material litigation, arbitration or administrative proceedings

Neither parent nor any of the other Group companies are the subject of or a party to material proceedings before a court, a competent arbitration body or a public administration authority.

The parent's other receivables include a PLN 254 thousand fine imposed on the parent in connection with an error made in the VAT settlement for January 2021. The Management Board of the parent believes the error to have been a manifest clerical mistake and thus the fine to have been unjustified. The parent is of the opinion that the amount of the fine is fully recoverable, since in similar cases administrative courts have tended to rule in favour of taxpayers, in line with the Court of Justice of the European Union's decision Ref. C-935/19.

PCF GROUP SPÓŁKA AKCYJNA GROUP

DIRECTOR'S REPORT ON THE OPERATIONS
OF PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP
IN 2021

2021

(all figures in PLN '000, unless stated otherwise)

FINANCIAL CONDITION OF THE PARENT AND ITS GROUP

19. Financial results of the parent and its Group in 2021

To provide a comprehensive picture of the parent's and the Group's financial condition, its analysis has been supplemented by alternative performance metrics (APMs), which, in the opinion of the parent's Management Board, provide material information on the financial condition, operating performance, profitability and liquidity, but should only be analysed as additional financial information. These data should be read in conjunction with the financial statements of the parent and its Group. In the opinion of the parent's Management Board, the selected APMs are a source of additional valuable information on the Group's and the parent's financial condition, facilitating analysis and assessment of the Group's and the parent's financial performance in 2020 and 2021.

20. Consolidated statement of profit or loss

	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020	Change	Change in %
Continuing operations				
Revenue	180,293	103,769	76,524	74%
Cost of sales	90,270	66,268	24,002	36%
Gross profit (loss)	**90,023**	**37,501**	**52,522**	**140%**
General and administrative expenses	36,373	19,602	16,771	86%
Other income	9,334	8,498	836	10%
Other expenses	1,329	808	521	64%
Operating profit (loss)	**61,655**	**25,589**	**36,066**	**141%**
Finance income	4,054	1,480	2,574	174%
Finance costs	1,268	411	857	209%
Profit (loss) before tax	**64,441**	**26,658**	**37,783**	**142%**
Income tax	3,115	2,079	1,036	50%
Net profit (loss) from continuing operations	**61,326**	**24,579**	**36,747**	**150%**
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	**61,326**	**24,579**	**36,747**	**150%**
Net profit (loss) attributable to:				
- owners of the parent	61,367	24,579	36,788	150%
- non-controlling interests	(41)	-	(41)	-

Revenue

Revenue for 2021 and 2020 amounted to PLN 180.3m and PLN 103.8m, respectively. The 74% year-on-year increase was attributable to:

- higher revenue from work performed for Square Enix Limited on the development of Project Gemini,
- higher revenue from work performed for Take-Two Interactive Software, Inc. on the development of Project Dagger,
- revaluation of subscription warrants (for more information, see Note 23 to the consolidated financial statements for the financial year ended December 31st 2021),
- revenue recognised by Game on Creative, Inc., which became part of the Group in 2021.

Cost of services sold

Costs of services sold include mainly costs of the development team in Poland, the United States, the United Kingdom and Canada, as well as costs of services outsourced to subcontractors.

General and administrative expenses

General and administrative expenses include mainly salaries and wages of the Group's employees and independent contractors (not directly involved in games development), lease of office space and services not related to games development. The year-on-year increase in general and administrative expenses in 2021 was mainly attributable to:

- overall increase in costs resulting from the increased scale of operations, which translated into the need to expand the Group's back office function;
- need to incur costs resulting from the public offering and the issue of shares by the parent (PLN 2.0m);
- cost of advisory services related to the acquisition of Game On Creative, Inc. and to the process of taking over Phosphor Games, LLC's development team;
- cost of advisory services related to the acquisition of shares in Incuvo S.A.;
- operating expenses generated by companies included in the Group during the 12 months ended December 31st 2021, namely People Can Fly Chicago, LLC, Game On Creative, Inc., Incuvo S.A., and Spectral Applications sp. z o.o.;
- increase in the cost of office space leasing, in particular the lease of the Warsaw office and the leases of office space in Chicago and Montreal following the establishment of People Can Fly Chicago, LLC and acquisition of Game On Creative, Inc.

Other income

Other income includes income from sublease of office space, technical infrastructure, medical services and other services for entities cooperating with the Group. Other income also includes approximately PLN 3.3m from cancellation of 100% of a loan received under the Paycheck Protection Program Second Draw in the US.

Other expenses

Other expenses include the costs of medical services and other benefits provided to the Group's independent contractors (mainly the development team in Poland), which are subsequently re-charged to those contractors.

(all figures in PLN '000, unless stated otherwise)

Finance income and costs

As part of its financing activities, the Group recognises interest on bank deposits of free cash (as income) and interest on leases (as costs). In addition, it accounts for exchange differences, which in 2021 represented the key positive contributor to net finance income (PLN +2.9m) relative to 2020 (PLN +1.5m).

Income tax

On April 30th 2020, the National Revenue Information System issued a private letter ruling in response to the parent's enquiry concerning the application of the IP Box tax relief. When settling corporate income tax for the financial years 2020 and 2021, the parent availed itself of the IP Box tax relief in accordance with the ruling, and so it applied a preferential corporate income tax rate of 5% to eligible income from eligible intellectual property rights within the meaning of the IP Box regulations. Accordingly, the current portion of the parent's corporate income tax was calculated at the rate of 19% for taxable income from other sources and at the rate of 5% for the taxable income from eligible intellectual property rights (IP Box).

As a result, the Group's effective tax rate for 2021 and 2020 was 4.8% and 7.8%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 1.6m and PLN 0.8m in 2021 and 2020, while deferred income tax amounted to PLN 1.5m and PLN 1.3m, respectively.

21. Consolidated statement of financial position

ASSETS	Dec 31 2021	Dec 31 2020	Change	Change in %
Non-current assets				
Goodwill	54,604	-	54,604	-
Intangible assets	30,738	5,020	25,718	512%
Property, plant and equipment	10,846	3,308	7,538	228%
Right-of-use assets	28,205	11,595	16,610	143%
Other non-current financial assets	293	-	293	-
Non-current prepayments and accrued income	453	83	370	446%
Deferred tax assets	203	-	203	-
Non-current assets	**125,342**	**20,006**	**105,336**	**527%**
Current assets				
Contract assets	35,293	24,019	11,274	47%
Trade and other receivables	18,030	7,083	10,947	155%
Current tax assets	-	1,717	(1,717)	-100%
Other current financial assets	1	171	(170)	-99%
Current prepayments and accrued income	924	1,399	(475)	-34%
Cash and cash equivalents	137,102	41,302	95,800	232%
Current assets	**191,350**	**75,691**	**115,659**	**153%**
Total assets	**316,692**	**95,697**	**220,995**	**231%**

The Group's assets rose 231%, by PLN 221m, to PLN 316.7m as at December 31st 2021, from PLN 95.7m as at December 31st 2020.

As at December 31st 2021, key items of the Group's assets were:

- contract assets, representing 11% of total assets.
- goodwill, representing 17% of total assets,

(all figures in PLN '000, unless stated otherwise)

- cash and cash equivalents, representing 43% of total assets.

As at December 31st 2021 and December 31st 2020, contract assets amounted to PLN 35.3m and PLN 24m, respectively (up by PLN 11.3m). The change resulted from measurement as at the reporting date of the progress of work under the Outriders development and publishing agreement concluded with Square Enix Limited and work performed for Square Enix Limited under separate content riders, including further support in connection with the game's development and content expansion, as well as development work on Project Gemini, and performance of work to develop Project Dagger for Take-Two Interactive Software, Inc.

Changes in goodwill:

	Dec 31 2021	Dec 31 2020
Increase:		
On acquisition of control of subsidiaries	52,803	-
Exchange differences on translation	**1,801**	**-**
As at end of period	**54,604**	**-**

EQUITY AND LIABILITIES	**Dec 31 2021**	Dec 31 2020	Change	Change in %
Equity				
Equity attributable to owners of the parent				
Share capital	599	550	49	9%
Share premium	121,869	-	121,869	-
Other components of equity	50,727	47,453	3,274	7%
Retained earnings	84,266	28,516	55,750	196%
Equity attributable to owners of the parent	**257,461**	**76,519**	**180,942**	**236%**
Non-controlling interests	**2,081**	**-**	**2,081**	**-**
Equity	**259,542**	**76,519**	**183,023**	**239%**
Liabilities				
Non-current liabilities				
Borrowings, other debt instruments	510	1,167	(657)	-56%
Leases	25,439	8,001	17,438	218%
Deferred tax liability	2,991	1,260	1,731	137%
Non-current prepayments and accrued income	975	-	975	-
Non-current liabilities	**29,915**	**10,428**	**19,487**	**187%**
Current liabilities				
Trade and other payables	9,708	3,816	5,892	154%
Contract liabilities	2,030	-	2,030	-
Current tax liabilities	2,444	54	2,390	4,426%
Borrowings, other debt instruments	7,362	583	6,779	1,163%
Leases	3,869	3,990	(121)	-3%
Employee benefit obligations and provisions	1,822	307	1,515	493%
Current liabilities	**27,235**	**8,750**	**18,485**	**211%**
Total liabilities	**57,150**	**19,178**	**37,972**	**198%**
Total equity and liabilities	**316,692**	**95,697**	**220,995**	**231%**

(all figures in PLN '000, unless stated otherwise)

As at December 31st 2021, the Group's equity increased by PLN 183m (239%) relative to December 31st 2020. The year-on-year increase was mainly attributable to:

- an increase in the parent's share capital through the issue of Series B and Series D shares,
- net profit recorded in the period under review.

22. Consolidated statement of cash flows

	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020	Change	Change in %
Cash at beginning of period	**41,302**	**29,125**	**12,177**	**42%**
Cash flows from operating activities	59,254	15,762	43,492	276%
Cash flows from investing activities	(81,917)	(6,568)	(75,349)	1,147%
Cash flows from financing activities	118,399	2,191	116,208	5,304%
Total net cash flows	**95,736**	**11,385**	**84,351**	**741%**
Effect of foreign currency translation on cash	64	792	(728)	-92%
Cash and cash equivalents at end of period	**137,102**	**41,302**	**95,800**	**232%**

Cash increased by PLN 95.8m, from PLN 41.3m as at December 31st 2020 to PLN 137.1m as at December 31st 2021.

Operating activities

In accordance with IAS 7 *Statement of Cash Flows*, the Group uses the indirect method to present its operating cash flows. Under this method, cash flows from operating activities for a period are calculated by making appropriate adjustments to pre-tax profit or loss for that period.

In 2021, the Group generated positive operating cash flows (of PLN 59.3m), driven mainly by pre-tax profit (PLN 64.4m). The pre-tax profit was partly offset by a negative change in working capital (of PLN -14.9m), which in turn was mainly attributable to a change in contract assets and liabilities (PLN -10.7m).

Investing activities

The Group recorded negative cash flows from investing activities (PLN -81.9m), attributable almost in full to the Group's acquisitions of subsidiaries, intangible assets, and property, plant and equipment. The most important acquisitions were the acquisition of Game On Creative Inc. and Incuvo S.A. and the take-over of Phosphor Games, LLC's development team. The Group also invested in the development and upgrading of its hardware base, including ICT infrastructure.

Financing activities

Cash flows provided by the Group's financing activities were positive (at PLN 118.4m). They were achieved thanks to the receipt of:

- proceeds from the issue of Series B and D shares by the parent,
- loan received from Beverly Bank & Trust Company, N.A. under the Paycheck Protection Program Second Draw run by the US government's Small Business Administration to help save jobs during the COVID-19 pandemic.

(all figures in PLN '000, unless stated otherwise)

These inflows were partly offset by payment of dividend (PLN -5.6m) and repayment of lease liabilities (PLN -5.4m).

23. Consolidated profitability ratios

	Dec 31 2021	Dec 31 2020
Gross profit (loss) margin	49.9%	36.1%
EBITDA	73,194	31,940
EBITDA margin	40.6%	30.8%
EBITDA adjustments:		
costs of offering / issue of Series B shares (1)	2,040	1,168
forgiveness of 50% of PFR subsidy (2)	-	(1,750)
forgiveness of PPP and PPP2 loans (3)	(3,339)	(2,156)
subscription warrants (revaluation) (4)	(3,399)	3,399
subscription warrants (cost as incentive scheme) (5)	1,151	-
legal advisory / due diligence costs (6)	888	-
Adjusted EBITDA	70,535	32,601
Adjusted EBITDA margin	39.1%	31.4%
Operating profit margin	34.2%	24.7%
Net profit (loss) margin	34.0%	23.7%
Return on equity (ROE)	23.8%	32.1%
Return on assets (ROA)	19.4%	25.7%

The above ratios have been calculated in accordance with the following formulae:

- Gross profit margin = gross profit / revenue
- EBITDA = operating profit + depreciation and amortisation + goodwill impairment
- EBITDA margin = (operating profit + depreciation and amortisation + goodwill impairment) / revenue
- Adjusted EBITDA = (operating profit + depreciation and amortisation + goodwill impairment + adjustments*)
- Adjusted EBITDA margin = (EBITDA + adjustments*) / revenue
- Operating profit margin = operating profit / revenue
- Net margin = net profit / revenue
- Return on equity (ROE) = net profit attributable to owners of the parent / equity attributable to owners of the parent
- Return on assets (ROA) = net profit attributable to owners of the parent / assets

* EBITDA adjustments:

(1) one-off costs classified as costs of the issue of parent shares,

(2) forgiveness of 50% of the subsidy granted on the basis of the subsidy agreement with PFR under the Polish Development Fund's Financial Shield for Micro, Small and Medium-Sized Enterprises programme,

(3) forgiveness of the loan granted to PCF U.S. under the US government's Paycheck Protection Program and Paycheck Protection Program Second Draw,

(4) costs of the term sheet concluded between the parent and Square Enix concerning the issue of subscription warrants intended to be offered to Square Enix and subscription by Square Enix for Series C shares issued by the Company as part of a conditional share capital increase in the exercise of rights attached to the warrants,

(all figures in PLN '000, unless stated otherwise)

(5) reversal of the estimated value of the subscription warrants due to Square Enix Limited

(6) one-off costs of advisory services related to acquisitions.

24. Consolidated liquidity ratios

	Dec 31 2021	Dec 31 2020
Working capital	164,115	66,941
Current ratio	7.03	8.65
Quick ratio	7.03	8.65
Cash ratio	5.03	4.72

The above ratios have been calculated in accordance with the following formulae:

- Working capital = current assets - current liabilities + accrued income
- Current ratio = current assets / current liabilities
- Quick ratio = (current assets - inventories) / current liabilities
- Cash ratio = cash and cash equivalents / current liabilities

25. Consolidated funding structure ratios

	Dec 31 2021	Dec 31 2020
Equity to assets ratio	0.81	0.80
Equity to non-current assets ratio	2.05	3.82
Total debt ratio	0.19	0.20
Debt to equity ratio	0.23	0.25

The above ratios have been calculated in accordance with the following formulae:

- Equity to assets ratio = equity attributable to owners of the parent / total assets
- Equity to non-current assets ratio = equity attributable to owners of the parent / non-current assets
- Total debt ratio = (total assets - equity attributable to owners of the parent) / total assets
- Debt to equity ratio = (total assets - equity attributable to owners of the parent) / equity attributable to owners of the parent

(all figures in PLN '000, unless stated otherwise)

26. Separate statement of profit or loss

	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020	Change	Change in %
Continuing operations				
Revenue	107,825	83,528	24,297	29%
Cost of sales	45,435	43,997	1,438	3%
Gross profit (loss)	**62,390**	**39,531**	**22,859**	**58%**
General and administrative expenses	26,093	15,814	10,279	65%
Other income	5,788	7,039	(1,251)	-18%
Other expenses	1,126	808	318	39%
Operating profit (loss)	**40,959**	**29,948**	**11,011**	**37%**
Finance income	3,371	1,471	1,900	129%
Finance costs	431	401	30	7%
Profit (loss) before tax	**43,899**	**31,018**	**12,881**	**42%**
Income tax	2,147	1,922	225	12%
Net profit (loss) from continuing operations	**41,752**	**29,096**	**12,656**	**43%**
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	**41,752**	**29,096**	**12,656**	**43%**
Net profit (loss) attributable to:			**-**	**-**
- owners of the parent	41,752	29,096	12,656	43%

Revenue

Revenue for 2021 and 2020 amounted to PLN 107.8m and PLN 83.5m, respectively. The 29% year-on-year increase was attributable to:

- higher revenue from work performed for Square Enix Limited on the development of Project Gemini,
- revaluation of subscription warrants (for more information, see Note 23 to the consolidated financial statements for the financial year ended December 31st 2021),
- higher revenue from subsidiaries.

Cost of services sold

Costs of services sold include mainly costs of the development team.

General and administrative expenses

General and administrative expenses include mainly salaries and wages of the parent's employees and independent contractors (not directly involved in games development), lease of office space and services not related to games development. The year-on-year increase in general and administrative expenses in 2021 was mainly attributable to:

- overall increase in costs resulting from the increased scale of operations, which translated into the need to expand the parent's back office function,

- need to incur costs resulting from the public offering and the issue of shares by the parent (PLN 2.0m);
- cost of advisory services related to the acquisition of Game On Creative, Inc.;
- cost of advisory services related to the acquisition of shares in Incuvo S.A.;
- higher costs of leasing the office space in Warsaw.

Other income

Other income includes income from sublease of office space, technical infrastructure, medical services and other services for entities cooperating with the parent. In addition, a gain on disposal of non-financial non-current assets was recognised in 2020, which was related to the sale of one software licence to a related party.

Other expenses

Other expenses include the costs of medical services and other benefits provided to the parent's independent contractors, which are subsequently re-charged to those contractors.

Finance income and costs

As part of its financing activities, the parent recognises interest on bank deposits of free cash and on loans advanced to subsidiaries (as income) and interest on leases (as costs). In addition, it accounts for exchange differences, which in 2021 represented the key positive contributor to net finance income (PLN +2.1m) relative to 2020 (PLN +1.5m).

Income tax

On April 30th 2020, the National Revenue Information System issued a private letter ruling in response to the parent's enquiry concerning the application of the IP Box tax relief. When settling corporate income tax for the financial years 2020 and 2021, the Company availed itself of the IP Box tax relief in accordance with the ruling, and so the eligible income from eligible intellectual property rights within the meaning of IP Box regulations was taxed by the Company at a preferential corporate income tax rate of 5%. Accordingly, the current portion of the Company's corporate income tax was calculated at the rate of 19% for taxable income from other sources and at the rate of 5% for the taxable income from eligible intellectual property rights (IP Box).

As a result, the parent's effective tax rate for 2021 and 2020 was 4.9% and 6.2%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 2.3m and PLN 0.8m in 2021 and 2020, while deferred income tax amounted to PLN -0.1m and PLN 1.2m, respectively.

(all figures in PLN '000, unless stated otherwise)

27. Statement of financial position

ASSETS	**Dec 31 2021**	Dec 31 2020	Change	Change in %
Non-current assets				
Intangible assets	7,159	2,586	4,573	177%
Property, plant and equipment	4,064	2,860	1,204	42%
Right-of-use assets	11,804	10,143	1,661	16%
Investments in subsidiaries	55,721	7,862	47,859	609%
Receivables and loans advanced	31,134	-	31,134	-
Non-current prepayments and accrued income	101	83	18	22%
Non-current assets	**109,983**	**23,534**	**86,449**	**367%**
Current assets				
Contract assets	22,385	21,577	808	4%
Trade and other receivables	33,199	10,101	23,098	229%
Current tax assets	-	1,663	(1,663)	-100%
Current prepayments and accrued income	575	1,368	(793)	-58%
Cash and cash equivalents	90,735	32,940	57,795	175%
Current assets	**146,894**	**67,649**	**79,245**	**117%**
Total assets	**256,877**	**91,183**	**165,694**	**182%**

The parent's assets rose 182%, by PLN 165.7m, to PLN 256.9m as at December 31st 2021, from PLN 91.2m as at December 31st 2020.

As at December 31st 2021, key items of the Group's assets were:

- trade and other receivables, representing 13% of total assets;
- investments in subsidiaries, representing 22% of total assets;
- cash and cash equivalents, representing 35% of total assets.

Changes in investments in subsidiaries:

	Dec 31 2021	Dec 31 2020
Change in investments in subsidiaries		
As at beginning of period:	7,862	2,036
Increases:	**47,859**	**5,826**
Share capital increase at People Can Fly U.S. LLC	1,849	5,826
Acquisition of all shares in Game On Creative Inc.	25,685	-
Acquisition of a 50.01% interest in Incuvo S.A.	20,325	-
As at end of period:	**55,721**	**7,862**

(all figures in PLN '000, unless stated otherwise)

EQUITY AND LIABILITIES	Dec 31 2021	Dec 31 2020	Change	Change in %
Equity				
Share capital	599	550	49	9%
Share premium	121,869	-	121,869	-
Other components of equity	48,355	47,204	1,151	2%
Retained earnings	64,882	28,747	36,135	126%
Equity	**235,705**	**76,501**	**159,204**	**208%**
Liabilities				
Non-current liabilities				
Borrowings, other debt instruments	510	1,167	(657)	-56%
Leases	9,710	8,001	1,709	21%
Deferred tax liability	1,057	1,163	(106)	-9%
Non-current liabilities	**11,277**	**10,331**	**946**	**9%**
Current liabilities				
Trade and other payables	4,425	985	3,440	349%
Current tax liabilities	1,395	-	1,395	-
Borrowings, other debt instruments	875	583	292	50%
Leases	2,920	2,538	382	15%
Employee benefit obligations and provisions	280	245	35	14%
Current liabilities	**9,895**	**4,351**	**5,544**	**127%**
Total liabilities	**21,172**	**14,682**	**6,490**	**44%**
Total equity and liabilities	**256,877**	**91,183**	**165,694**	**182%**

As at December 31st 2021, the Group's equity increased by PLN 159.2m (208%) relative to December 31st 2020. The year-on-year increase was mainly attributable to:

- an increase in the parent's share capital through the issue of Series B and Series D shares,
- net profit recorded in the period under review.

28. Statement of cash flows

	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020	Change	Change in %
Cash at beginning of period	**32,940**	**23,365**	**9,575**	**41%**
Cash flows from operating activities	30,278	19,065	11,213	59%
Cash flows from investing activities	(90,759)	(10,232)	(80,527)	787%
Cash flows from financing activities	118,212	(50)	118,262	-2,365.24%
Total net cash flows	**57,731**	**8,783**	**48,948**	**557%**
Effect of foreign currency translation on cash	64	792	(728)	-92%
Cash and cash equivalents at end of period	**90,735**	**32,940**	**57,795**	**175%**

Cash increased by PLN 57.8m, from PLN 32.9m as at December 31st 2020 to PLN 90.7m as at December 31st 2021.

(all figures in PLN '000, unless stated otherwise)

Operating activities

In accordance with IAS 7 *Statement of Cash Flows*, the parent uses the indirect method to present its operating cash flows. Under this method, cash flows from operating activities for a period are calculated by making appropriate adjustments to pre-tax profit or loss for that period.

In 2021, the parent generated positive operating cash flows (of PLN 32.9m), driven mainly by pre-tax profit (PLN 43.9m). The pre-tax profit was partly offset by a negative change in working capital (of PLN -20.1m), which in turn was mainly attributable to a change in receivables (PLN -23.1m).

Investing activities

The parent recorded negative cash flows from investing activities (of PLN -90.8m), attributable primarily to:

- acquisition of Game On Creative Inc. and Incuvo S.A.,
- advancing loans to subsidiaries.

Financing activities

The Parent recorded positive cash flows from financing activities (PLN 118.2m), mainly due to proceeds from the issue of Series B and Series D shares.

29. Separate profitability ratios

	Dec 31 2021	Dec 31 2020
Gross profit (loss) margin	57.86%	47.33%
EBITDA	48,339	35,829
EBITDA margin	44.83%	42.89%
EBITDA adjustments:		
costs of offering / issue of Series B shares (1)	2,040	1,168
forgiveness of 50% of PFR subsidy (2)	-	(1,750)
issue of warrants (3)	(3,399)	3,399
subscription warrants (cost as incentive scheme) (4)	1,151	-
legal advisory / due diligence costs (5)	888	-
Adjusted EBITDA	49,019	38,646
Adjusted EBITDA margin	45.46%	46.27%
Operating profit margin	37.99%	35.85%
Net profit (loss) margin	38.72%	34.83%
Return on equity (ROE)	17.71%	38.03%
Return on assets (ROA)	16.25%	31.91%

The above ratios have been calculated in accordance with the following formulae:

(all figures in PLN '000, unless stated otherwise)

- Gross profit margin = gross profit / revenue
- EBITDA = operating profit + depreciation and amortisation + goodwill impairment
- EBITDA margin = (operating profit + depreciation and amortisation + goodwill impairment) / revenue
- Adjusted EBITDA = (operating profit + depreciation and amortisation + goodwill impairment + adjustments*)
- Adjusted EBITDA margin = (EBITDA + adjustments*) / revenue
- Operating profit margin = operating profit / revenue
- Net margin = net profit / revenue
- Return on equity (ROE) = net profit attributable to owners of the parent / equity attributable to owners of the parent
- Return on assets (ROA) = net profit attributable to owners of the parent / assets

* EBITDA adjustments:

(1) one-off costs classified as costs of the issue of parent shares,

(2) forgiveness of 50% of the subsidy granted on the basis of the subsidy agreement with PFR under the Polish Development Fund's Financial Shield for Micro, Small and Medium-Sized Enterprises programme,

(3) costs of the term sheet concluded between the parent and Square Enix concerning the issue of subscription warrants intended to be offered to Square Enix and subscription by Square Enix for Series C shares issued by the Company as part of a conditional share capital increase in the exercise of rights attached to the warrants,

(4) reversal of the estimated value of the subscription warrants due to Square Enix Limited

(5) one-off costs of advisory services related to acquisitions.

30. Separate liquidity ratios

	Dec 31 2021	Dec 31 2020
Working capital	136,999	63,298
Current ratio	14.85	15.55
Quick ratio	14.85	15.55
Cash ratio	9.17	7.57

The above ratios have been calculated in accordance with the following formulae:

- Working capital = current assets - current liabilities + accrued income
- Current ratio = current assets / current liabilities
- Quick ratio = (current assets - inventories) / current liabilities
- Cash ratio = cash and cash equivalents / current liabilities

(all figures in PLN '000, unless stated otherwise)

31. Separate funding structure ratios

	Dec 31 2021	Dec 31 2020
Equity to assets ratio	0.92	0.84
Equity to non-current assets ratio	2.14	3.25
Total debt ratio	0.08	0.16
Debt to equity ratio	0.09	0.19

The above ratios have been calculated in accordance with the following formulae:

- Equity to assets ratio = equity attributable to owners of the parent / total assets
- Equity to non-current assets ratio = equity attributable to owners of the parent / non-current assets
- Total debt ratio = (total assets - equity attributable to owners of the parent) / total assets
- Debt to equity ratio = (total assets - equity attributable to owners of the parent) / equity attributable to owners of the parent

32. Reconciliation of differences between the financial results disclosed in the full-year report and previously released forecasts for the year

Neither PCF Group S.A. nor its subsidiaries released any forecasts for 2021.

33. Assessment (with grounds for the assessment) of financial resources management, including assessment of the parent's ability to meet its liabilities; identification of threats and threat mitigation measures taken or intended to be taken by the parent

The financial condition of the parent and its Group is stable and sound. The Group's operations are financed mainly with equity, with significant cash resources at the Group's disposal. The Group does not carry any material liabilities and maintains a high level of cash at all times. The Management Board's objective is to keep the Company and the Group on a solid financial footing.

34. Feasibility of investment plans, including planned equity investments, in the context of available funds, taking into consideration possible changes in the investment financing structure

The parent and the Group have significant financial resources comprising cash in bank accounts. Therefore, the parent and the Group have sufficient resources to finance their investment plans and deliver the strategic objectives.

35. Assessment of factors and non-recurring events with bearing on the operating performance in the financial year, and their impact on the reported results

In the Management Board's opinion, in the financial year 2021 there were no factors or non-recurring events which would affect the operating performance in that year.

36. Off-balance sheet items by entity, type and value

From the reporting date to the date of issue of this report, there were no material off-balance-sheet items at the Group and the parent.

37. Key financial and non-financial performance indicators related to the entity's operations, as well as information on employee matters and the natural environment

One of the key non-financial indicators related to the Group's and the parent's operations is the number of employees and independent contractors.

The table below presents data on the average number of employees (under employment and temporary contracts) and independent contractors (sole traders) as well as on new hires and terminations at the Company.

(all figures in PLN '000, unless stated otherwise)

	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020
As at beginning of period:	236	186
New hires/new independent contractors in period (+)	72	73
Employee/contractor terminations in period (-)	(24)	(23)
As at end of period	**284**	**236**

The table below presents data on the average number of employees (under employment and temporary contracts) and independent contractors (sole traders) as well as on new hires and terminations at the Group.

	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020
Beginning of period	281	219
New hires/new independent contractors in period	245	93
Employee/contractor terminations	(31)	(31)
End of period	**495**	**281**

PCF GROUP SPÓŁKA AKCYJNA GROUP

DIRECTOR'S REPORT ON THE OPERATIONS
OF PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP
IN 2021

2021

SHARES AND OWNERSHIP STRUCTURE OF PCF GROUP S.A.

38. Total number and par value of the Company shares and shares in the Company's related entities held by the Company's management and supervisory personnel

Share capital of PCF Group S.A.

As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the share capital of PCF Group S.A. amounted to PLN 599,004.52 and was divided into:

- 27,500,000 Series A ordinary bearer shares with a par value of PLN 0.02 per share,
- 2,062,512 Series B ordinary bearer shares, with a par value of PLN 0.02 per share,
- 387,714 Series D ordinary bearer shares, with a par value of PLN 0.02 per share.

The shares were paid up in full.

Pursuant to the resolution of the parent's Extraordinary General Meeting of June 26th 2020 on the issue of subscription warrants, conditional increase of the share capital through the issue of Series C ordinary shares, full waiver of the existing shareholders' pre-emptive rights to acquire all Series C shares, the seeking of admission and introduction of Series C shares to trading on the regulated market operated by the Warsaw Stock Exchange, conversion of Series C shares into book-entry form, authorisation of entry into an agreement on registration of Series C shares in the securities depository and amendment of the parent's Articles of Association (the "Warrants Issue Resolution"), the parent's share capital was conditionally increased by no more than PLN 31,118.44 through the issue of up to 1,555,922 Series C ordinary bearer shares.

The amendment to the parent's Articles of Association concerning the conditional share capital increase pursuant to the Warrants Issue Resolution was registered in the Business Register of the National Court Register on August 18th 2020.

The warrants are intended to be offered to Square Enix Limited, but the Warrants Issue Resolution also permits their issuance to a publisher other than Square Enix Limited, provided that the parent establishes a business relationship with such new publisher in the future and that it agrees with that publisher upon the terms of their cooperation and acquisition of warrants. As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the parent did not intend to enter into an agreement with another publisher concerning acquisition by that publisher of Series B warrants and an equity interest in the parent. The parent believes that the maximum number of Series C shares that could be acquired by Square Enix Limited would represent approximately 1.8% of the parent's share capital.

On August 29th 2021, the parent and Square Enix Limited signed an investment agreement defining their respective rights and obligations with regard to the issue of subscription warrants intended to be offered to Square Enix Limited and subscription by Square Enix Limited for Series C shares in the exercise of the warrants. For details of the investment agreement, see Current Report No. 40/2021 of August 29th 2021.

In the performance of the investment agreement, on November 17th 2021 Square Enix Limited accepted the parent's offer of October 11th 2021 to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the parent, each conferring the right to subscribe for one Series C ordinary bearer share in the parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. In addition, on December 10th 2021, the parent's Management Board submitted an offer to the publisher to acquire, for no consideration, a further 90,000 Series A registered subscription warrants (Tranche A3 warrants), which was accepted on January 18th 2022 on the terms specified above. Square Enix Limited's rights to subscribe for Series C shares would first vest after it has acquired the fourth tranche of warrants.

On May 24th 2021, the Extraordinary General Meeting of the parent resolved to increase the parent's share capital through the issue of Series D ordinary shares, to waive the existing shareholders' pre-emptive rights with respect to all Series D shares, to seek admission and introduction of Series D shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series D shares into book-entry form, to authorise the Management Board to execute an agreement to register Series D shares in the depository for securities, and to amend the parent's Articles of Association.

Pursuant to the resolution, the parent's share capital was increased from PLN 591,250.24 to PLN 599,004.52, i.e. by PLN 7,754.28, through the issue of 387,714 Series D ordinary bearer shares with a par value of PLN 0.02 per share ("Series D Shares"). The issue price of Series D Shares was set at PLN 75.75 per share, and Series D Shares could only be paid for in cash. The Series D Shares subscription agreement was executed on May 31st 2021. The parent received PLN 29,369,385.59, representing the par value of the subscribed shares and the excess of the issue price over the par value.

The issue of Series D Shares was carried out by way of a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, whereby the shares were offered on an exclusive basis to be subscribed for by Fiducie Familiale Samuel Girardin 2020, a trust established for Samuel Girardin and related persons (the "Investor"). Series D Shares were issued in the performance of the investment agreement announced by the parent in Current Reports No. 15/2021 and No. 17/2021 of April 27th 2021 and May 4th 2021, respectively, under which the parent acquired all shares in Game On Creative, Inc. of Montreal, Quebec, Canada ("Game On") on April 27th 2021.

The purpose of the share capital increase at the parent through the issue of Series D Shares was to offer Series D Shares to the Investor, whose beneficiary is Samuel Girardin. This, in addition to appointing Samuel Girardin as Studio Head at People Can Fly Canada, Inc., the Group's subsidiary, and appointing him as President of the Management Board of People Can Fly Canada, Inc., was intended to strengthen cooperation with the parent through the Investor's equity investment in the parent.

The investment agreement also provides that 85% of Series D Shares will be subject to a lock-up agreement: 15% until April 27th 2023 (inclusive) and 70% until December 31st 2024 (inclusive). The lock-up period corresponds to the lock-up established for parent shares by the parent's shareholders who offered the parent shares for sale in the public offering carried out on the basis of the prospectus approved by the Polish Financial Supervision Authority on November 25th 2020. The share capital increase to PLN 599,004.52 was registered on July 1st 2021.

Ownership structure of PCF Group S.A.

In the reporting period, there were changes in the shareholding structure of PCF Group S.A., which resulted from:

- a public offering of shares in the parent based on the its prospectus as approved by the Polish Financial Supervision Authority on November 25th 2020, i.e. a public offering of up to 2,062,512 Series A shares offered to the public by the selling shareholders under the prospectus (i.e. all the twenty-five shareholders holding shares in the parent as at the date of the prospectus) and up to 2,062,512 new Series B ordinary bearer shares issued by the parent and offered to the public under the prospectus.
- the issue of Series D ordinary bearer shares with a par value of PLN 0.02 per share, carried out by way of a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, whereby the shares were offered on an exclusive basis to be subscribed for by Fiducie Familiale Samuel Girardin 2020, a trust established for Samuel Girardin and related persons.

The table below shows the Company's shareholding structure as at the date of approval of the Company's prospectus by the Polish Financial Supervision Authority, taking into account the Company shares held by its management and supervisory personnel.

(all figures in PLN '000, unless stated otherwise)

	As at November 25th 2020			
Shareholder	**Number of Series A Shares**	**(%)**	**Number of voting rights**	**(%)**
Sebastian Wojciechowski – President of the Management Board	16,077,862	58.46	16,077,862	58.46
Bartosz Kmita	2,789,092	10.14	2,789,092	10.14
Bartosz Biełuszko – Member of the Supervisory Board,	1,952,364	7.10	1,952,364	7.10
Krzysztof Dolaś – Member of the Supervisory Board,	1,952,364	7.10	1,952,364	7.10
*jointly parties to the Qualifying Shareholders' Agreement**	*22,771,682*	*82.81*	*22,771,682*	*82.81*
The other twenty-one selling shareholders	4,728,318	17.19	4,728,318	17.19
Total	**27,500,000**	**100**	**27,500,000**	**100**

*The shareholders Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and Krzysztof Dolaś are parties to an agreement of June 26th 2020, which, from the date of admission of at least one share in PCF Group S.A. to trading on a regulated market, constitutes an agreement referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005.

The table below presents the Company's shareholding structure as at the date of registration by the registry court of the increase in the parent's share capital through the issue of 387,714 Series D ordinary bearer shares, carried out pursuant to Resolution No. 4/05/2021 of the Extraordinary General Meeting of PCF Group S.A. of May 24th 2021 by way of a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, whereby the shares were offered on an exclusive basis to be subscribed for by Fiducie Familiale Samuel Girardin 2020, taking into account shares in the parent held by its management personnel. No shares in the parent were held by members of the supervisory bodies. The shareholding structure presented also reflects the disclosures of shareholdings made by shareholders holding 5% or more of total voting rights at the parent's General Meeting pursuant to Art. 69 et seq. of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, as well as notifications made by persons discharging managerial responsibilities at the parent under Art. 19 of MAR.

	As at Jul 1 2021			
Shareholder	**Number of shares held**	**(%)**	**Number of voting rights**	**(%)**
Sebastian Wojciechowski	14,872,022	49.66	14,872,022	49.66
Bartosz Kmita	2,579,910	8.61	2,579,910	8.61
Bartosz Biełuszko	1,805,936	6.03	1,805,936	6.03
Krzysztof Dolaś	1,805,936	6.03	1,805,936	6.03
*jointly parties to the Qualifying Shareholders' Agreement**	*21,063,804*	*70.33*	*21,063,804*	*70.33*
Other shareholders	8,886,422	29.67	8,886,422	29.67
Total	**29,950,226**	**100**	**29,950,226**	**100**

*The shareholders Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and Krzysztof Dolaś are parties to an agreement of June 26th 2020, which, from the date of admission of at least one share in PCF Group S.A. to trading on a regulated market, constitutes an agreement referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005.

The table below shows the Company's shareholding structure as at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, taking into account the Company shares held by its management personnel. No Company shares were held by members of the supervisory bodies. The shareholding structure presented also reflects the disclosures of shareholdings made by shareholders holding 5% or more of total voting rights at the parent's General Meeting pursuant to Art. 69 et seq. of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, as well as notifications made by persons discharging managerial responsibilities at the parent under Art. 19 of MAR.

(all figures in PLN '000, unless stated otherwise)

	As at April 21st 2022			
Shareholder	Number of shares held	(%)	Number of voting rights	(%)
Sebastian Wojciechowski	14,969,480	49.98	14,969,480	49.98
Bartosz Kmita	2,579,910	8.61	2,579,910	8.61
Bartosz Biełuszko	1,805,936	6.03	1,805,936	6.03
Krzysztof Dolaś	1,805,936	6.03	1,805,936	6.03
*jointly parties to the Qualifying Shareholders' Agreement***	*21,161,262*	*70.65*	*21,161,262*	*70.65*
Other shareholders	8,788,964	29.35	8,788,964	29.35
Total	**29,950,226**	**100**	**29,950,226**	**100**

*The shareholders Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and Krzysztof Dolaś are parties to an agreement of June 26th 2020, which, from the date of admission of at least one share in PCF Group S.A. to trading on a regulated market, constitutes an agreement referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005.

Company shares and shares in the Company's related entities held by the Company's management and supervisory personnel

In the reporting period, there were also changes in the number of shares in the parent held by the management personnel.

In the reporting period, Sebastian Wojciechowski, President of the Company's Management Board, purchased:

- 22,100 shares in the parent on August 18th 2021,
- 6,325 shares in the parent on August 26th 2021,
- 1,000 shares in the parent on August 27th 2021,
- 2,404 shares in the parent on August 30th 2021,
- 16,803 shares in the parent on October 13th 2021,
- 4,826 shares in the parent on October 19th 2021,
- 44,000 shares in the parent on December 29th 2021,

thus increasing its shareholding from 14,872,022 shares, representing 49.66% of the parent's share capital and total voting rights at the parent's General Meeting, to 14,969,480 shares, representing 49.98% of the parent's share capital and total voting rights at the parent's General Meeting, i.e. by a total of 97,458 shares, representing 0.32% of the parent's share capital and total voting rights at the parent's General Meeting.

To the best of the parent's knowledge and belief, in the period from January 1st 2021 to the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, none of the parent's supervisory personnel, with the exception of Bartosz Biełuszko and Krzysztof Dolaś, who held the positions of members of the parent's Supervisory Board until April 1st 2021, held any Company shares, and none of the parent's management or supervisory personnel held any shares in any of the parent's related entities.

39. Use of issue proceeds by the Company until the date of this report

On June 26th 2020, the Company's Extraordinary General Meeting passed a resolution to increase the Company's share capital through the issue of Series B ordinary shares, to fully waive the existing shareholders' pre-emptive rights to acquire all Series B shares, to seek the admission and introduction of Series A shares, Series B shares and rights to Series B shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series A shares, Series B shares and rights to Series B shares into book-entry form, to authorise entry into an agreement on registration of Series A shares, Series B shares and rights to Series B shares in the securities depository, and to amend the Company's Articles of Association ("the Issue Resolution").

Pursuant to the Issue Resolution, the Company's share capital was increased by PLN 41,250.24, i.e. to PLN 591,250.24 through the issue of 2,062,512 Series B ordinary bearer shares with a par value of PLN 0.02 per share, in the form of open subscription within the meaning of Art. 431.2.3 of the Commercial Companies Code, carried out through a public offering within the meaning of Art. 4.4a of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, on the terms and conditions set out in the Company's prospectus approved by the Polish Financial Supervision Authority on November 25th 2020.

The final price of Series B shares: (i) for retail investors was set at PLN 46.00 per share; the Management Board allotted 618,750 new shares to retail investors; (ii) for institutional investors was set at PLN 50.00 per share; the Management Board allotted 1,401,465 new shares to institutional investors; and (iii) for investors in the Employee Offering was set at PLN 41.40 per share; the Management Board allotted 42,297 new shares to these investors.

Net proceeds from the issue of Series B ordinary shares raised by the Management Board were PLN 100,286,845.80.

Until the date of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the parent used the proceeds from the issue of Series B shares as follows:

- On March 31st 2021, PCF Group S.A. advanced a loan to its subsidiary People Can Fly U.S., LLC. The loan proceeds are to be used to finance activities related to the implementation of the PCF Group Spółka Akcyjna Group's strategy, including incorporation of a single-member subsidiary People Can Fly U.S., LLC. The loan principal was USD 5,000 thousand; the interest rate is equal to LIBOR plus 2 percentage points. The loan was granted for ten years. It is secured with People Can Fly U.S., LLC's assets, including intellectual property rights. The loan is to be repaid through a one-off payment at the end of the financing period, with a prepayment option. The loan was granted on market terms.
- On April 6th 2021, People Can Fly Chicago, LLC, a single-member subsidiary of People Can Fly U.S., LLC, was incorporated under the laws of Delaware.
- On April 23rd 2021, People Can Fly Chicago, LLC, an indirect subsidiary of PCF Group S.A., acquired an 18-strong development team of Phosphor Games, LLC of Chicago, the US ("PH Games"). The new People Can Fly Chicago, LLC studio commenced operations on May 1st 2021. The acquisition of the development team was financed with proceeds from the loan granted on March 31st 2021 by PCF Group S.A. to its single-member subsidiary People Can Fly U.S., LLC.

The Management Board intends to allocate all the proceeds from the issue of Series B shares towards:

- further expansion of the Group's game development teams at all locations,
- development work related to new video game concepts, acquisition of new game development team or teams, launch of the Group's new game development studios or acquisition of video game developers,
- further development of PCF Framework (a proprietary, unique game development platform (software and tools) developed by the Company), both in the context of the development of existing modules and work on new modules, and
- devising a concept to exploit the Group's proprietary IP potential or create new IP.

Also, pursuant to the resolution of the parent's Extraordinary General Meeting of May 24th 2021 to increase the parent's share capital through the issue of Series D ordinary shares, to waive the existing shareholders' pre-emptive rights with respect to all Series D shares, to seek admission and introduction of Series D shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series D shares into book-entry form, to authorise the Management Board to execute an agreement to register Series D shares in the depository for securities, and to amend the parent's Articles of Association, the share capital of the parent was increased from PLN 591,250.24 to PLN 599,004.52, i.e. by PLN 7,754.28, through the issue of 387,714 Series D ordinary bearer shares with a par value of PLN 0.02 per share. The issue price of Series D shares was set at PLN 75.75 per share. The Series D shares subscription agreement was executed on May 31st 2021. The parent received PLN 29,369,385.59, representing the par value of the subscribed shares and the excess of the issue price over the par value. The Management Board intends to allocate all the proceeds from the issue of Series B shares towards the objectives specified above.

(all figures in PLN '000, unless stated otherwise)

PCF Group S.A.'s subsidiaries did not issue any shares in the financial year 2021.

40.Agreements which may result in future changes in the proportions of Company shares held by its existing shareholders

On June 26th 2020, The Extraordinary General Meeting of the parent passed a resolution on the issue of subscription warrants, conditional increase of the share capital through the issue of Series C ordinary shares, full waiver of the existing shareholders' pre-emptive rights to acquire all Series C shares, the seeking of admission and introduction of Series C shares to trading on the regulated market operated by the Warsaw Stock Exchange, conversion of Series C shares into book-entry form, authorisation of entry into an agreement on registration of Series C shares in the securities depository and amendment of the Company's Articles of Association (the "Warrants Issue Resolution"). Pursuant to the Warrants Issue Resolution, the Extraordinary General Meeting conditionally increased the parent's share capital by no more than PLN 31,118.44 through the issue of up to 1,555,922 Series C shares. The purpose of the conditional share capital increase is to grant the rights to subscribe for Series C shares to holders of subscription warrants, which may be issued free of charge in a number of up to 1,555,922.

Upon the issue of Series C shares and implementation of the Warrants Issue Resolution, the parent's shareholding structure will be further diluted. The table below shows the hypothetical structure of the parent's share capital following the issue of Series C shares provided that the maximum number of Series C shares is issued.

	Structure of the Company's share capital following issue of Series C shares	
Series of shares	**Number of shares and voting rights**	**(%)**
Series A	27,500,000	83.37
Series B	2,062,512	6.25
Series C	1,555,922	4.72
Series D	387,714	1.18
Shares issued within the limits of the authorised capital	1,478,125	4.48
Total	**32,984,273**	**100**

The warrants are intended to be offered to Square Enix Limited, but the Warrants Issue Resolution also permits their issuance to a publisher other than Square Enix Limited, provided that the parent establishes a business relationship with such new publisher in the future and that it agrees with that publisher upon the terms of their cooperation and acquisition of warrants. As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the parent did not intend to enter into an agreement with another publisher concerning acquisition by that publisher of Series B warrants and an equity interest in the parent. The parent believes that the maximum number of Series C shares that could be acquired by Square Enix Limited would represent approximately 1.8% of the parent's share capital.

On August 29th 2021, the parent and Square Enix Limited entered into an investment agreement defining the parties' rights and obligations with respect to the issue by the parent of subscription warrants and a conditional share capital increase through the issue of up to 1,555,922 Series C shares with a par value of PLN 31,118.44. details of the agreement were published in Current Report No. 40/2021.

On November 17th 2021, the parent received from Square Enix Limited a declaration of acceptance by Square Enix Limited of the parent's offer of October 11th 2021 to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the parent, each conferring the right to subscribe for one Series C ordinary bearer share in the parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. The acceptance of the offer by Square Enix Limited led to the execution on

November 17th 2021 of an agreement to acquire the warrants between the parent and Square Enix Limited. In addition, on December 10th 2021, the parent's Management Board submitted an offer to the publisher to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A3 warrants), which was accepted on January 18th 2022 on the terms specified above. As a result, on the same date, the parent entered into an agreement with Square Enix Limited to acquire Tranche A3 warrants.

Square Enix Limited's rights to subscribe for Series C shares would first vest after it has acquired the fourth tranche of warrants. As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the Company estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited in connection with its having accepted the offer would represent approximately 1.8% of the Company's share capital.

On May 24th 2021, the Extraordinary General Meeting of the parent resolved to amend the parent's Articles of Association and to authorise the Management Board to increase the share capital of the Company within the limits of the authorised capital, with an option to disapply the existing shareholders' pre-emptive rights in whole or in part, subject to approval by the Supervisory Board. Pursuant to the resolution, the Management Board was authorised to increase the parent's share capital by up to PLN 29,562.50, through one or more successive share capital increases within the limits specified above (up to the amount of authorised capital), through the issue of up to 1,478,125 ordinary bearer shares with a par value of PLN 0.02 per share. The Management Board's authorisation to increase the share capital and to issue new shares within the limits of the authorised capital will expire three years after the registration in the Business Register of the National Court Register of the amendments to the Articles of Association providing for authorised share capital, i.e. on July 1st 2024. When increasing the share capital within the limits of the authorised capital, the Management Board may deliver shares in exchange for cash or non-cash contributions. The Management Board's resolutions to set the issue price for shares issued within the limits of the authorised capital will require approval by the Supervisory Board. The Management Board is authorised, subject to the Supervisory Board's prior consent, to disapply the shareholders' pre-emptive rights (in whole or in part) to acquire shares issued as part of a share capital increase made within the limits of the authorised capital. The Management Board may not issue any preference shares or grant any special rights to shareholders in connection with increasing the share capital within the limits of the authorised capital.

Until the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the parent did not issue any shares within the limits of the authorised capital.

41. Repurchase of shares

PCF Group S.A., as the parent, did not and does not hold any treasury shares. Also, the Group companies or persons acting on behalf of PCF Group S.A. or its subsidiaries (entities of the PCF Group) did not and do not hold any treasury shares.

42. Control system for employee stock plans

In 2021, neither PCF Group S.A. nor its subsidiaries had any employee stock plans in place.

(all figures in PLN '000, unless stated otherwise)

OTHER INFORMATION

43. Auditor details

Pursuant to Art. 15.2.4 of the Articles of Association, the Supervisory Board appoints an audit firm to audit the parent's financial statements and the Group's consolidated financial statements; by April 20th 2020, i.e. until the date of registration in the Business Register of amendments to the Articles of Association in this respect, the right was vested in the General Meeting.

Under the Supervisory Board's Resolution No. 17 of June 29th 2021:

- Grant Thornton was appointed the audit firm authorised to review the parent's interim financial statements and the Group's interim consolidated financial statements for the six months ended June 30th 2021 and for the six months ended June 30th 2022 prepared in accordance with IFRS/IAS,
- Grant Thornton was appointed the audit firm authorised to audit the parent's financial statements and the Group's consolidated financial statements for the financial years 2021 and 2022 prepared in accordance with IFRS/IAS.

Grant Thornton is an audit firm within the meaning of the Statutory Auditors Act, entered in the list of audit firms maintained by the Polish Audit Supervision Authority under Reg. No. 3654. Grant Thornton meets the independence requirements under the laws and standards applicable to audit firms and auditors. Grant Thornton has no interest in the parent; in particular, as at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021 it did not hold any equity instruments of the parent, including shares or subscription warrants issued by the parent.

Consideration paid to the auditor for the provision of its services is presented below.

	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020
Statutory audit of financial statements	183	75
Audit of historical financial information	-	97
Other assurance services	55	113
Total	**238**	**285**

(all figures in PLN '000, unless stated otherwise)

CORPORATE GOVERNANCE STATEMENT OF PCF GROUP S.A. FOR 2021

Introduction

The parent is required to report on its compliance with the corporate governance principles as defined in the Best Practice for GPW Listed Companies 2021, introduced by Resolution No. 13/1834/2021 of the WSE Supervisory Board of March 29th 2021, with effect from July 1st 2021.

The content of the Best Practice for GPW Listed Companies 2021 is publicly available on the website of the Warsaw Stock Exchange at:

https://www.gpw.pl/pub/GPW/pdf/DPSN_2021.pdf

and at the registered office of the Warsaw Stock Exchange.

In fulfilling the disclosure requirements regarding the application of the Best Practice, PCF Group S.A. is guided by the principles of an effective and transparent information policy and communication with the market and investors. In its Current Report No. 1/2021 (EBI) of July 30th 2021, the Company reported on the scope of application of the Best Practice for GPW Listed Companies 2021, identifying certain specific corporate governance principles that it did not comply with on a permanent basis. On April 13th 2022, in Current Report No. 1/2022 (EIB), the parent updated its statement of compliance with the Best Practice for GPW Listed Companies 2021. All information arising from the corporate governance principles followed by the parent is published on the parent's website at:

https://peoplecanfly.com/wp-content/uploads/2022/04/20220413-gpw-dobre-praktyki-pcfgroup.pdf

Scope of non-compliance with the code of corporate governance standards

With respect to the Best Practice for GPW Listed Companies 2021, the Company undertook to follow all the provisions of that code of corporate governance, except for those listed below. As at the date of this Report, the Company did not comply with 20 principles of the Best Practice for GPW Listed Companies 2021.

		Commentary
1. DISCLOSURE POLICY AND INVESTOR COMMUNICATIONS		
1.2.	**Companies make available their financial results compiled in periodic reports as soon as possible after the end of each reporting period; should that not be feasible for substantial reasons, companies publish at least preliminary financial estimates as soon as possible.**	This principle is not complied with. The Company set the earliest possible release dates for periodic reports in 2021. The Company will seek to publish its periodic reports as soon as possible after the end of each reporting period, subject to the requirement to fully cover the gradually increasing scope of obligatory disclosures to be made in each such report under applicable laws and regulations and to have financial data audited or reviewed, as appropriate, by a qualified auditor prior to publication, as well as subject to the nature and complexity of the Group's business. The Company communicates any significant events with an actual or potential bearing on its financial performance to the market as provided for in the Market Abuse Regulation and in accordance with applicable Polish laws and regulations.

		Commentary
1.3.	**Companies integrate ESG factors in their business strategy, including in particular:**	
1.3.1.	**environmental factors, including measures and risks relating to climate change and sustainable development;**	This principle is not complied with. The Company's strategy does not address ESG issues, including environmental or sustainable development issues. As a developer of AAA video games, the Company does not run operations which would have a material environmental footprint. However, in its day-to-day operations, the Company takes various measures and initiatives in the area of sustainable development to reduce its negative environmental impacts, such as the implementation of electronic document workflow across the Company and its Group or leasing space for the Company's registered office in an office complex which is platinum certified under the worldwide LEED (Leadership in Energy and Environmental Design) green building certification program. The Company has not ruled out revising its business strategy in the future to include ESG aspects.
1.3.2.	**social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations.**	This principle is not complied with. The Company's strategy does not address ESG issues. Nevertheless, the key asset of the Group's business is its global and multicultural team, committed to creating world-class video games. Thus, such human factors as, in particular, employee engagement and satisfaction have, in the Management Board's opinion, an impact on the Company's performance, and any negligence in this area may lead to reduced or inconsistent productivity, weakening the Company's competitive position. In view of the above, the Company offers its employees competitive employment terms, including a range of perquisites. Given the international character of the Company's and its Group's workforce, the Company is committed to promoting a sound diversity and inclusion policy, which the Company believes helps attract new talent as well as stimulate innovation within the organisation by bringing together different ways of thinking and different approaches to problem solving. The Company has been continuously and rapidly expanding its team and offers equal hiring and promotion opportunities as well as equal employment terms to all candidates and existing personnel irrespective of their gender. In particular, gender is not a criterion affecting the amount of

		Commentary
		remuneration paid to men and women holding the same positions. The Company has not ruled out revising its business strategy in the future to include ESG aspects.
1.4.	**To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others:**	This principle is not complied with. The Company publishes on its website information on the Company's business strategy and objectives, including in particular long-term objectives and planned activities. Subject to the disclosure obligations applicable to the Company, the Company does not publish on its website any information on progress made in delivering the strategy. As at the date of this statement of compliance with the Best Practice for GPW Listed Companies 2021 ("Best Practice 2021"), the Company does not publish all metrics listed in this principle, including ESG information concerning the strategy.
1.4.1.	**explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;**	This principle is not complied with. As explained under principle 1.3., the Company's current business strategy does not address ESG aspects. It must be stressed that the Company, as a developer of AAA video games, does not run operations which would have a material environmental footprint. The Management Board of the Company as well as the management bodies of the Group's subsidiaries are, however, committed to ensuring that environmental protection solutions are applied across the Group's administrative functions.
1.4.2.	**present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.**	This principle is not complied with. The differences in remuneration at the Company and the Group's subsidiaries are attributable to the nature and type of positions held and the overall pay volatility in the video game development industry. Given that one gender represents the vast majority of all employees in the industry in which the Company and its Group operate, presentation of a general equal pay index for the entire Group in accordance with this principle would be unreliable and misleading. At the same time, as explained under principle 1.3.2, the Company observes the principle of equal pay for women and men employed in comparable positions and gender does not affect the terms of employment at the Company.
2 MANAGEMENT BOARD, SUPERVISORY BOARD		

		Commentary
2.1.	**Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.**	This principle is not complied with. While fully committed to the principles of diversity, the Company does not have in place a formal diversity policy applicable to the Management or Supervisory Board, approved by the Supervisory Board or the General Meeting, as appropriate. The Company does not ensure gender diversity on its Management or Supervisory Board at the level required under this principle. Members of the Company's governing bodies are appointed based on their qualifications and professional experience and regardless of their age, gender or other diversity criteria. When selecting candidates for supervisory and management positions, the authorised bodies or entities are guided by the interests of the Company and its shareholders, taking into account the relevant qualifications, skills and experience of the candidates. Given the nature of the Company's business, its size and the need to appoint to governing bodies persons with specialist knowledge, the key criterion applied by the Company in selecting staff is their qualifications and professional experience, while other criteria, such as their age or gender, are disregarded. Members of the Company's Management and Supervisory Boards and senior management are selected so as to ensure the relevant pool of educational background, qualifications and experience, in order to enable the Company to leverage their knowledge and experience across all business areas. In addition, considering its strong growth, the Company believes that incorporating diversity management principles into a formal policy could restrict its ability to attract talent with qualifications relevant to its business at a given point in time.
2.2.	**Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.**	This principle is not complied with. Members of the Company's governing bodies are appointed based on their qualifications and professional experience and regardless of their age, gender or other diversity criteria, subject to relevant laws and regulations. When selecting candidates for supervisory and management positions, the authorised bodies or entities are guided by the interests of the Company and its shareholders, taking into account the relevant qualifications, skills and experience of the candidates. Given the nature of the Company's business, its size and the need to appoint to governing bodies persons with specialist knowledge, the key criterion applied by the

		Commentary
		Company in selecting staff is their qualifications and professional experience, while other criteria, such as their age or gender, are disregarded. Members of the Company's Management and Supervisory Boards and senior management are selected so as to ensure the relevant pool of educational background, qualifications and experience, in order to enable the Company to leverage their knowledge and experience across all business areas. In addition, considering its strong growth, the Company believes that incorporating diversity management principles into a formal policy could restrict its ability to attract talent with qualifications relevant to its business at a given point in time.
2.7.	**A company's management board members may sit on corporate bodies of companies other than members of its group subject to the approval of the supervisory board.**	This principle is not complied with. Neither the Articles of Association nor other internal regulations in place at the Company require that members of tis Management Board secure the Supervisory Board's approval for serving on the governing bodies of entities other than Group entities. The Company has not ruled out amending its non-compete policies so as to require members of its Management Board to secure prior approval of the Supervisory Board for sitting on management or supervisory boards of non-Group companies competing with the Company.
2.11.	**In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. Such report includes at least the following:**	
2.11.3.	**assessment of the company's standing on a consolidated basis, including assessment of the internal control, risk management and compliance systems and the internal audit function, and information about measures taken by the supervisory board to perform such assessment; such assessment should cover all significant controls, in particular reporting and operational controls;**	This principle is not complied with. In the 'Report of the Supervisory Board and its Audit Committee on Their Activities in 2020, Including the Assessments Referred to in Principle II.Z.10 of the Best Practice for GPW Listed Companies 2016', as prepared by the Company's Supervisory Board and presented to the General Meeting, the Supervisory Board included assessment of the Company's standing and the systems referred to in this principle. However, the Supervisory Board's assessment was not based on formal reports prepared as part of the Company's internal control, risk management or compliance systems. For the purposes of the Supervisory Board's assessment, neither the Management Board nor risk or compliance

(all figures in PLN '000, unless stated otherwise)

		Commentary
		managers prepared any reports on the effectiveness of those functions as the Company has not established the positions of Chief Compliance Officer or Chief Risk Officer. The Report of the Supervisory Board does not contain an assessment of the internal audit function as the Company has not established a separate organisational unit dedicated to performing such function. The Report of the Supervisory Board does not include information on the measures taken by the Supervisory Board to assess the Company's standing, including the systems referred to in this principle, as no such disclosure is required under the Best Practice for GPW Listed Companies 2016 ("**Best Practice 2016**"). Such disclosures will be made starting with the Report of the Supervisory Board and its Audit Committee on Their Activities in 2021.
2.11.6.	**information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.**	This principle is not complied with. As principle 2.1. is not applied and the Company does not have in place a formal diversity policy applicable to the Management or Supervisory Board, approved by the Supervisory Board or the General Meeting, as appropriate, the annual Report of the Supervisory Board will not address the above matters.
3. INTERNAL SYSTEMS AND FUNCTIONS		
3.3.	**Companies participating in the WIG20, mWIG40 or sWIG80 index appoint an internal auditor to head the internal audit function in compliance with generally accepted international standards for the professional practice of internal auditing. In other companies which do not appoint an internal auditor who meets such requirements, the audit committee (or the supervisory board if it performs the functions of the audit committee) assesses on an annual basis whether such person should be appointed.**	This principle is not complied with. Given the nature of the Company's business, as at the date of this statement of compliance with the Best Practice 2021, the Company did not appoint an internal auditor to manage the internal audit function. As the Company's business model evolves and based on, among other things: (i) opinions of the Audit Committee; (ii) findings of the auditor; and (iii) findings, information and assessments obtained from third parties, including market regulators, the Company will consider appointment in the future of an internal auditor to manage the internal audit function. Until such time as such internal auditor is appointed by the Company to manage the internal audit function, the Audit Committee, as part of its internal audit monitoring activities, will at least once a year assess whether the Company's situation warrants the establishment of an internal audit unit and submit such assessment to the Supervisory Board.
3.4.	**The remuneration of persons responsible for risk and compliance**	This principle is not complied with.

		Commentary
	management and of the head of internal audit should depend on the performance of delegated tasks rather than short-term results of the company.	The Company has not appointed a Chief Compliance Officer or Chief Risk Officer. Also, the Company has not established a separate organisational unit to formally perform the internal audit function.
3.5.	**Persons responsible for risk and compliance management report directly to the president or other member of the management board.**	This principle is not complied with. The Company has not appointed a Chief Compliance Officer or Chief Risk Officer. Also, the Company has not established a separate organisational unit to formally perform the internal audit function.
3.6.	**The head of internal audit reports organisationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee.**	This principle is not complied with. Given the nature of the Company's business, as at the date of this statement of compliance with the Best Practice 2021, the Company did not establish a separate organisational unit to formally perform the internal audit function. As the Company's business model evolves and based on, among other things: (i) opinions of the Audit Committee; (ii) findings of the auditor; and (iii) findings, information and assessments obtained from third parties, including market regulators, the Company will consider establishment in the future of a separate unit to perform the internal audit function.
3.8.	**The person responsible for internal audit or the management board if such function is not performed separately in the company reports to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle 3.1 and tables a relevant report.**	This principle is not complied with. The Company's Management Board does not prepare such report as is referred to in this principle.
3.9.	**The supervisory board monitors the efficiency of the systems and functions referred to in principle 3.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and makes annual assessment of the efficiency of such systems and functions according to principle 2.11.3. Where the company has an audit committee, the audit committee monitors the efficiency of the systems and functions referred to in principle 3.1, which however does not release the supervisory board from the annual assessment of the**	This principle is not complied with. The Supervisory Board monitors and assesses the effectiveness of internal control, risk management and compliance systems and functions. Such monitoring and assessment are not, however, based on periodic reports provided to the Supervisory Board directly by persons responsible for such systems and functions, as the Company, in view of its size of the nature of its business, has not appointed such persons (officers). The Management Board does not prepare such periodic report either. Also, the Company has not established a separate organisational unit to formally perform the internal audit function.

		Commentary
	efficiency of such systems and functions.	
4. GENERAL MEETING, SHAREHOLDER RELATIONS		
4.1.	**Companies should enable their shareholders to participate in a general meeting by means of electronic communication (e-meeting) if justified by the expectations of shareholders notified to the company, provided that the company is in a position to provide the technical infrastructure necessary for such general meeting to proceed.**	This principle is not complied with. The Company intends to commence a process which could enable shareholders to participate in the Company's General Meetings by means of electronic communication, whether the Company receives a prior request for holding an e-meeting from a shareholder or shareholders or not. The Management Board gives priority to ensuring that the General Meeting proceeds smoothly and that its resolutions are properly adopted. The decision on whether to allow the Company to hold e-meetings will be made following, among other things, an analysis of the potential organisational and technical risks to the General Meeting proceeding smoothly, including to uninterrupted two-way communication with shareholders participating in the General Meeting from locations other than its venue, as well as an analysis of legal risks, in particular related to confirming shareholders' and other participants' identity and authority to take part in the General Meeting and to contesting General Meeting resolutions on the grounds of delays in the broadcast of the General Meeting or other technical defects, whether on the Company's end or on the end of a shareholder participating in the General Meeting by means of electronic communication.
4.3.	**Companies provide a public real-life broadcast of the general meeting.**	This principle is not complied with. The Company intends to commence real-life broadcasting of General Meetings in early 2022 at the latest. The Company intends to provide investors with an online livestreaming service dedicated to enabling them to follow the proceedings of the General Meeting as held and conducted by the Chairperson at its venue, including to listen to all statements made by the participants.
6. REMUNERATION		
6.2.	**Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term standing of the company measured by its financial and non-financial results as well as long-term shareholder value**	This principle is not complied with. As at the date of this statement of compliance with the Best Practice 2021, the Company had no incentive scheme in place. If such scheme is implemented, the Company intends to comply with this principle.

(all figures in PLN '000, unless stated otherwise)

		Commentary
	creation, sustainable development and the company's stability.	

Key features of the Company's internal audit and risk management systems adopted in connection with the preparation of separate and consolidated financial statements

The parent's Management Board is responsible for the internal control system at the parent and for its effectiveness in the process of preparing financial statements and periodic reports. The financial reporting process at PCF Group S.A. and its subsidiaries is supervised directly by the President of the Management Board.

On December 1st 2020, the parent took over maintenance of its accounting records from a third party provider of accounting services, which, in the Management Board's opinion, enabled the parent to adjust its in-house finance and accounting function to meet the parent's needs. In 2021, the accounting records of PCF Group S.A.'s subsidiaries, except those of Game On Creative, Inc., were maintained by third party accounting firms. Supervision of the third party providers of accounting services has been the responsibility of the Chief Financial Officer as part of the internal control system. The Chief Financial Officer is accountable to and reports directly to the President of the Management Board.

Both separate and consolidated financial statements are prepared by PCF Group S.A. The process involves the Management Board and the finance and accounting department. The financial data underlying the financial statements is sourced from the accounting records of PCF Group S.A., as well as from the systems of third party accounting offices keeping the accounts of subsidiaries.

The half-year separate and consolidated financial statements and full-year separate and consolidated financial statements are subject to, respectively, a review or audit by an independent auditor.

In accordance with the Articles of Association of PCF Group S.A., the Supervisory Board appoints an audit firm to audit the Company's and the Group's financial statements. Under the Supervisory Board's Resolution No. 17 of June 29th 2021: (i) Grant Thornton was appointed the audit firm authorised to review the parent's interim financial statements and the Group's interim consolidated financial statements for the six months ended June 30th 2021 and for the six months ended June 30th 2022 prepared in accordance with IFRS/IAS, and (ii) Grant Thornton was appointed the audit firm authorised to audit the parent's financial statements and the Group's consolidated financial statements for the financial years 2021 and 2022 prepared in accordance with IFRS/IAS.

The financial statements prepared by the Management Board and audited by the audit firm are submitted to the Supervisory Board for taking the actions provided for in the Commercial Companies Code, i.e. assessing their consistency with the underlying accounting records and documents, as well as with the findings of fact.

The Audit Committee controls and monitors the independence of the statutory auditor and the audit firm, assesses the independence of the statutory auditor, develops a policy for the selection of an audit firm to perform the audit, and determines the procedure for selecting an audit firm by a public-interest entity. The Audit Committee presents to the Supervisory Board its recommendation concerning the appointment of statutory auditors or audit firms pursuant to Art. 130.1.8 of the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017 in conjunction with Article 16(2) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16th 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

The Supervisory Board and the Audit Committee monitor the financial reporting and financial auditing processes, including by analysing separate and consolidated financial statements prior to their approval by the General Meeting. With the admission of Company shares to trading on a regulated market, this process also includes an analysis of the Company's periodic reports prior to their publication. In performing the supervisory and control activities, the Supervisory Board and the Audit Committee rely on the materials provided by the Management Board or the Chief Financial Officer, or on the information and explanations provided directly by the audit firm and the statutory auditor. In addition, the Supervisory Board and the Audit Committee rely on documents and other sources of information provided directly to the Supervisory Board or the Audit Committee upon their request by the Company's employees or independent contractors designated by the Supervisory Board or the Audit Committee. In order to perform its tasks, the Audit Committee may meet with the Company's employees or independent contractors without the involvement of Management Board members. The key financial reporting processes subject to control include: (i) settlement of and accounting for contracts concluded by the Company or its subsidiaries, (ii) the remuneration scheme for the Company employees and independent contractors, (iii) consolidation of the Company's financial data, (iv) preparation of the Company's separate and consolidated financial statements, and (v) tax settlements taking into account the operations carried out in various jurisdictions and tax credits/reliefs applied by the Group companies.

(all figures in PLN '000, unless stated otherwise)

The external auditor who audited the Group's full-year consolidated financial statements for the financial year ended December 31st 2020 and the Company's full-year separate financial statements for the financial year ended December 31st 2020 did not submit any comments on the operation of the internal control system.

Shareholders with major direct or indirect holdings of Company shares

The table below presents shareholders holding directly at least 5% of total voting rights at the General Meeting of PCF Group S.A. as at the reporting date and as at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, based on disclosures of shareholdings made by shareholders holding 5% or more of total voting rights at the parent's General Meeting pursuant to Art. 69 et seq. of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, as well as notifications made by persons discharging managerial responsibilities at the parent under Art. 19 of MAR. None of the listed shareholders held Company shares indirectly.

Shareholder	Number of shares held	(%)	Number of voting rights	(%)
Sebastian Wojciechowski	14,969,480	49.98	14,969,480	49.98
Bartosz Kmita	2,579,910	8.61	2,579,910	8.61
Bartosz Biełuszko	1,805,936	6.03	1,805,936	6.03
Krzysztof Dolaś	1,805,936	6.03	1,805,936	6.03
*jointly parties to the Qualifying Shareholders' Agreement**	*21,161,262*	*70.65*	*21,161,262*	*70.65*
Other shareholders	8,788,964	29.35	8,788,964	29.35
Total	**29,950,226**	**100**	**29,950,226**	**100**

*The shareholders Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and Krzysztof Dolaś are parties to an agreement of June 26th 2020, which, from the date of admission of at least one share in PCF Group S.A. to trading on a regulated market, constitutes an agreement referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005.

Holders of securities conferring special control powers, together with description of such powers

All PCF Group S.A. shares are ordinary bearer shares carrying no preference, and in particular conferring no special control powers.

Nevertheless, the Articles of Association confer special personal rights on the Company shareholders Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and Krzysztof Dolaś.

Pursuant to Art. 13.5 of the Company's Articles of Association, for as long as Sebastian Wojciechowski holds at least 25% of total voting rights in the Company, he will hold the special personal right to appoint and remove a member of the Company's Management Board acting as President of the Management Board. The said right will expire if Sebastian Wojciechowski ceases to be the Company's shareholder and his subsequent re-acquisition of Company shares will not reinstate that right. If Sebastian Wojciechowski's shareholding falls below the threshold of 25% of total voting rights in the Company, but he continuously remains the Company's shareholder, then upon his re-acquisition of Company shares and reaching the required threshold his special personal right will be reinstated.

In addition, the shareholders Sebastian Wojciechowski, Bartosz Kmita, Krzysztof Dolaś and Bartosz Biełuszko form the Group of Qualifying Shareholders who, from the date of admission of Company shares to trading on the regulated market (i.e. as of December 15th 2020), have special personal rights to appoint Supervisory Board members. Such rights are vested jointly with the shareholders forming the Group of Qualifying Shareholders and must be exercised jointly by all of them, with the proviso that a member of the Group of Qualifying Shareholders will forfeit such personal right if that member ceases to be the Company's shareholder and his subsequent re-acquisition of Company shares will not reinstate that right. However, in the event that one or more members of the Group of Qualifying Shareholders forfeit their personal rights, the rights of the remaining shareholders will continue in effect unchanged for as long as the Group of Qualifying Shareholders consists of one or more members holding jointly or individually the number of shares in the Company representing at least 40% of total voting rights.

The special personal rights will exist for as long as the Group of Qualifying Shareholders hold at least 40% of total voting rights in the Company. If the total number of voting rights in the Company held by the Group of Qualifying Shareholders falls below that threshold, the Group of Qualifying Shareholders cannot exercise their personal rights; such rights will be reinstated when the threshold is achieved again. Therefore, if the share held by any member of the Group of Qualifying Shareholders in the Company's share capital falls (although that member continues to be the Company's shareholder), as a result of which the overall share held by the Group of Qualifying Shareholders falls below 40% of total voting rights, the Group will forfeit its special personal right. However, the right will be subsequently reinstated if the share held by all members of the Group of Qualifying Shareholders (who have been the Company's shareholders continuously since the effective date of the said provisions of the Articles of Association) increases to at least 40% of total voting rights.

Pursuant to Art. 17.5 of the Articles of Association, if the General Meeting determines that the Supervisory Board is to consist of five members, which was the case as at December 31st 2020, the Group of Qualifying Shareholders will have the special personal right to appoint and remove three Supervisory Board members, including the Chairperson of the Supervisory Board to be appointed from among them.

Pursuant to Art. 17.6 of the Articles of Association, if the General Meeting determines that the Supervisory Board is to consist of six to seven members, the Group of Qualifying Shareholders will have the special personal right to appoint and remove four Supervisory Board members, including the Chairperson of the Supervisory Board to be appointed from among them.

Restrictions on the exercise of voting rights

Pursuant to the Articles of Association of PCF Group S.A., there are no restrictions on the exercise of voting rights, such as a voting cap applicable to holders of a given percentage or number of voting rights, time limits on the exercise of voting rights, or provisions under which equity rights attaching to securities are separated from the holding of such securities.

Restrictions on the transferability of PCF Group S.A.'s securities

Articles of Association

Pursuant to Art. 337 of the Commercial Companies Code, the Company's shareholders have the right to dispose of their shares. Such disposition of Company shares may include their sale (transfer of ownership) and other forms of disposition, including, in particular, through pledge, lease or establishment of usufruct over such shares. As at December 31st 2021, the Articles of Association did not provide for any restrictions on transferability of the Company's securities.

Lock-up Agreements

Notwithstanding the above provisions, as at the reporting date, each of the twenty-five shareholders of PCF Group S.A. who offered for sale, by way of a public offering, a total of 2,062,512 Series A ordinary bearer shares in the Company under PCF Group S.A.'s prospectus approved by the Polish Financial Supervision Authority on November 25th 2020, was a party to the agreement restricting their right to sell the remaining Series A shares in the Company held by a given selling shareholder, which were not covered by the public offering, concluded between the selling shareholder, the Company and the global coordinator, i.e. Trigon Dom Maklerski S.A. of Kraków (the "**Lock-up Agreements**"). Under the Lock-up Agreements, the selling shareholders submitted irrevocable instructions to the global coordinator to establish a lock-up on the remaining Series A shares in the Company that were not covered by the public offering, on the terms and conditions set out in the Lock-up Agreements, for a period starting from the date of execution of the Lock-up Agreements until the expiry of four calendar years from the date of the first listing of Company shares on the main market of the Warsaw Stock Exchange, i.e. from December 18th 2020.

During the lock-up period referred to above, the selling shareholders agreed, inter alia: (i) not to assume any obligations and make any disposals with respect to Series A shares, any rights conferred by Series A shares, or any rights to Series A shares; (ii) not to transfer Series A shares, whether for a consideration or free of charge; (iii) not to encumber or dispose of Series A shares in any other way that could lead to a change in the ownership of Series A shares, and in particular not to establish any pledge over Series A shares as security for liabilities assumed by the selling shareholders or by third parties.

The global coordinator will remove the lock-up referred to above in situations specified in the Lock-up Agreements, including in the event of: (i) expiry of the lock-up period; (ii) release of Series A shares from the lock-up, as agreed by the Company and the global coordinator; (iii) announcement, pursuant to a legal obligation, of a tender or exchange offer for all Company shares, or initiation by a shareholder or shareholders of a mandatory squeeze-out of Company shares; (iv) disposal or transfer of Series A shares as a result of any reorganisation, bankruptcy or liquidation proceedings; (v) disposal of Series A shares under a court ruling or decision issued by a public administration authority.

In addition, the Series B shares in the Company subscribed for by investors in the employee offering, being part of the public offering of Company shares carried out pursuant to PCF Group S.A.'s prospectus approved by the Polish Financial Supervision Authority on November 25th 2020, were subject to a lock-up from the date of execution by investors in the employee offering of the lock-up agreements for Series B shares for a period of 12 months from the date of the first listing of rights to Series B shares on the regulated market of the Warsaw Stock Exchange, i.e. until December 18th 2021. As at the reporting date and as at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, no shares in the Company subscribed for by investors in the employee offering as part of the public offering of Company shares were subject to any lock-up agreements.

Legal regulations

Furthermore, pursuant to Art. 75.4 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, shares encumbered with a pledge cannot be traded until the pledge has been extinguished, unless such shares are acquired under an agreement establishing financial collateral within the meaning of the Act on Certain Financial Collateral Arrangements of April 2nd 2004.

Apart from the above restrictions on the transferability of ownership of the Company's securities, the Company's securities are otherwise freely transferable.

Rules governing the appointment and removal of members of the Management Board; powers of members of the Management Board, in particular the power to make decisions on the issuance or buy-back of shares

Members of the Management Board of PCF Group S.A. are appointed and removed from office in accordance with the provisions of the Commercial Companies Code and the Company's Articles of Association.

Under the Articles of Association, the Management Board is composed of one or more members, including President of the Management Board. The number of Management Board members is determined by the Supervisory Board. If the Management Board is composed of more than one member, it may include Vice Presidents or other Management Board members in addition to the President of the Management Board. The Management Board members are appointed for a joint term of three years. As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the Management Board was composed of one member – President of the Management Board. The mandate of the President of the Management Board will expire on or before the date of the General Meeting convened to approve the financial statements for the most recent full financial year in which the President held the office. The mandate of the President of the Management Board will also expire upon the President's death, resignation or removal from the Management Board. If the Management Board is composed of more members, the mandate of a new Management Board member appointed prior to the expiry of the Management Board's term of office will expire simultaneously with the mandates of the other Management Board members.

Pursuant to Art. 13.5 of the Company's Articles of Association, for as long as Sebastian Wojciechowski holds at least 25% of total voting rights in the Company, he will hold the special personal right to appoint and remove a member of the Company's Management Board acting as President of the Management Board. The said right will expire if Sebastian Wojciechowski ceases to be the Company's shareholder and his subsequent re-acquisition of Company shares will not reinstate that right. If Sebastian Wojciechowski's shareholding falls below the threshold of 25% of total voting rights in the Company, but he continuously remains the Company's shareholder, then upon his re-acquisition of Company shares and reaching the required threshold his special personal right will be reinstated.

The other Management Board members are appointed and removed from office by the Supervisory Board. The Supervisory Board may appoint one or more Management Board members to serve as a Vice President of the Management Board.

The Supervisory Board has the right to suspend from duties all or any members of the Management Board for valid reasons, and to delegate members of the Supervisory Board, for a period no longer than three months, to temporarily substitute for Management Board members who have been removed from office, have resigned or otherwise are unable to perform their duties. A Management Board member may also be suspended from duties or removed from office by way of a resolution of the General Meeting.

The Management Board represents the Company in relations with third parties and manages all the Company's affairs not reserved for the General Meeting or the Supervisory Board under the Commercial Companies Code and the Company's Articles of Association. If the Management Board has only one member, the Company is represented by the President of the Management Board; and if the Management Board has more than one member, the Company is represented by the President of the Management Board acting jointly with another Management Board member.

The Management Board of PCF Group S.A. has no power to independently decide on any issue of Company shares. Pursuant to applicable laws and the Company's Articles of Association, the issue of shares and increase of the Company's share capital require a resolution of the General Meeting to be effective.

The Management Board may only acquire Company shares subject to the rules set out in the Commercial Companies Code with regard to share buy-back.

Rules governing amendments to the Company's Articles of Association

The rules governing amendments to the Company's Articles of Association are set out in the Commercial Companies Code and in the Company's Articles of Association.

In accordance with Art. 430.1 of the Commercial Companies Code, any amendment to the Articles of Association requires a resolution of the General Meeting and registration in the relevant register.

Pursuant to Art. 402.2 of the Commercial Companies Code, the notice convening a General Meeting whose agenda provides for amendments to the Articles of Association should present the existing provisions of the Articles of Association and proposed amendments. Where the extent of the proposed amendments is considerable, the notice may include a draft of the new consolidated Articles of Association with a list of new or amended provisions.

Pursuant to Art. 402^1.1 of the Commercial Companies Code, a General Meeting is convened by way of a notice published on the Company's website and in the manner prescribed for the purposes of current disclosures pursuant to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005. The notice should be published at least twenty-six days prior to the date of the General Meeting (Art. 402^1.2 of the Commercial Companies Code).

Draft resolutions and documents which are to be considered at the General Meeting and which are relevant to the resolutions to be voted on must also be published in a current report.

Pursuant to Art. 12.1 of the Company's Articles of Association, resolutions of the General Meeting concerning, inter alia, amendments to the Articles of Association, require the presence of shareholders representing at least a half of the share capital.

Pursuant to Art. 415.1 and 415.3 of the Commercial Companies Code, a resolution to amend the Articles of Association is passed by a three-fourths (3/4) majority of votes; however, a resolution to amend the Articles of Association so that the shareholders' obligations are increased or personal rights vested in individual shareholders are limited requires approval of all the shareholders concerned.

The text of the Articles of Association is available on the Company's website at:

peoplecanfly.com/wp-content/uploads/2021/01/statut-pcf-group-sa-1.pdf.

Operation and key powers of the General Meeting, shareholders' rights and the manner in which they are exercised

Operation of the General Meeting

In 2021, the Company's General Meeting was convened twice. The General Meetings of the Company are held in accordance with the rules set out in the Commercial Companies Code and the Articles of Association.

Pursuant to Art. 10.2 of the Company's Articles of Association, the General Meetings are held at the Company's registered office. For as long as the Company remains a public company, the General Meetings may also be held in the city where the company operating the regulated market on which the Company shares are traded has its registered office.

The text of the Articles of Association is available on the Company's website at:

https://peoplecanfly.com/wp-content/uploads/2021/07/tekst-jednolity-statutu-rep-a-4627-2021-24052021-aktualny-1.pdf

The Company's Articles of Association do not provide for the adoption of rules of procedure for the Company's General Meetings, and no such rules of procedure were in place at the Company as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021.

Key powers of the General Meeting

Under the Company's Articles of Association, the powers and responsibilities of the General Meeting include in particular: (i) review and approval of the Directors' Report on the Company's operations and the financial statements for the previous financial year, (ii) review and approval of the Directors' Report on the Group's operations and the Group's consolidated financial statements for the previous financial year, (iii) resolution on allocation of profit or set-off of loss, (iv) grant of liability discharge to members of the governing bodies, (v) increase or reduction of the Company's share capital, (vi) amendment of the Articles of Association, (vii) merger of the Company with another entity, demerger or transformation of the Company, (viii) dissolution of the Company, (ix) appointment and removal of Supervisory Board members from office in accordance with the rules set out in the Articles of Association, (x) removal or suspension from duties of individual or all members of the Management Board, (xi) defining the rules of remuneration of members of the Supervisory Board, (xii) appointment of liquidators, (xiii) decisions with respect to claims for redress of damage inflicted in the course of the Company's formation, its management or supervision, (xiv) sale or lease of, or creation of limited property rights in, the Company's business or an organised part thereof, (xv) acquisition or disposal of real property, perpetual usufruct rights or interest in real property, (xvi) issue of convertible bonds or bonds with pre-emptive rights and issue of subscription warrants, (xvii) other matters submitted to the General Meeting by the Management Board, as provided for in the Commercial Companies Code, other applicable laws or the Articles of Association.

Shareholders' rights and the manner in which they are exercised

The rights of shareholders and the manner in which they are exercised are provided for in the Commercial Companies Code, the Company's Articles of Association and in applicable laws governing the capital market. The Company's Articles of Association contain specific provisions relating to the appointment of members of the Supervisory Board, as discussed below.

The Company's Articles of Association do not provide for the adoption of rules of procedure for the Company's General Meetings, and no such rules of procedure were in place at the Company as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021.

Right to appoint members of the Supervisory Board in accordance with the rules set out in the Company's Articles of Association

The Company has in place a procedure for the appointment of Supervisory Board members, as discussed in detail in the Company's Articles of Association. Under the said procedure, the shareholders Sebastian Wojciechowski, Bartosz Kmita, Krzysztof Dolaś and Bartosz Biełuszko form the Group of Qualifying Shareholders who, from the date of admission of the Company shares to trading on the regulated market, have special personal rights to appoint Supervisory Board members. Such rights are vested jointly with the shareholders forming the Group of Qualifying Shareholders and must be exercised jointly by all of them, with the proviso that a member of the Group of Qualifying Shareholders will forfeit such personal right if that member ceases to be the Company's shareholder and his subsequent re-acquisition of Company shares will not reinstate that right. However, in the event that one or more members of the Group of Qualifying Shareholders forfeit their personal rights, the rights of the remaining shareholders will continue in effect unchanged for as long as the Group of Qualifying Shareholders consists of one or more members holding jointly or individually the number of shares in the Company representing at least 40% of total voting rights.

The special personal rights will exist for as long as the Group of Qualifying Shareholders hold at least 40% of total voting rights in the Company. If the total number of voting rights in the Company held by the Group of Qualifying Shareholders falls below that threshold, the Group of Qualifying Shareholders cannot exercise their personal rights; such rights will be reinstated when the threshold is achieved again. Therefore, if the share held by any member of the Group of Qualifying Shareholders in the Company's share capital falls (although that member continues to be the Company's shareholder), as a result of which the overall share held by the Group of Qualifying Shareholders falls below 40% of total voting rights, the Group will forfeit its special personal right. However, the right will be subsequently reinstated if the share held by all members of the Group of Qualifying Shareholders (who have been the Company's shareholders continuously since the effective date of the said provisions of the Articles of Association) increases to at least 40% of total voting rights.

Pursuant to Art. 17.5 of the Articles of Association, if the General Meeting determines that the Supervisory Board shall consist of five members (this provision was effective as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021), the Group of Qualifying Shareholders shall have the special personal right to appoint and remove three Supervisory Board members, including the Chairperson of the Supervisory Board to be appointed from among them.

Pursuant to Art. 17.6 of the Articles of Association, if the General Meeting determines that the Supervisory Board is to consist of six to seven members, the Group of Qualifying Shareholders will have the special personal right to appoint and remove four Supervisory Board members, including the Chairperson of the Supervisory Board to be appointed from among them.

The other Supervisory Board members shall be appointed and removed by the General Meeting. If the Group of Qualifying Shareholders does not exercise their special personal rights within the time limits specified in the Articles of Association, the General Meeting shall appoint and remove Supervisory Board members, with the proviso that so appointed Supervisory Board members may be removed from office at any time by the Group of Qualifying Shareholders and replaced by other Supervisory Board members appointed by the Group of Qualifying Shareholders. If the personal rights referred to in Art. 17.5 – 17.6 of the Articles of Association expire, the General Meeting shall appoint and remove all Supervisory Board members. The General Meeting may also remove a Supervisory Board member appointed by virtue of the special personal right which has since expired. Detailed rules for the exercise of special personal rights to appoint or remove Supervisory Board members are provided for in the Articles of Association.

Operation of the Issuer's management and supervisory bodies and the Audit Committee, including composition of such bodies and any changes if their composition in 2021

Management Board

As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the Management Board of PCF Group S.A. consisted of one member, Sebastian Kamil Wojciechowski, who was appointed President of the Management Board for a three-year term of office.

In the reporting period, there were no changes in the composition of the Company's Management Board.

The current term of office of the President of the Management Board started on November 6th 2019 and shall end on November 6th 2022. The mandate of the President of the Management Board will expire on or before the date of the General Meeting convened to approve the financial statements for the most recent full financial year in which the President held the office.

Under the Articles of Association, the Management Board is composed of one or more members, including President of the Management Board. The number of Management Board members is determined by the Supervisory Board. If the Management Board is composed of more than one member, it may include Vice Presidents or other Management Board members in addition to the President of the Management Board. The Management Board members are appointed for a joint term of three years.

Pursuant to Art. 13.5 of the Company's Articles of Association, for as long as Sebastian Wojciechowski holds at least 25% of total voting rights in the Company, he will hold the special personal right to appoint and remove a member of the Company's Management Board acting as President of the Management Board. The said right will expire if Sebastian Wojciechowski ceases to be the Company's shareholder and his subsequent re-acquisition of Company shares will not reinstate that right. If Sebastian Wojciechowski's shareholding falls below the threshold of 25% of total voting rights in the Company, but he continuously remains the Company's shareholder, then upon his re-acquisition of Company shares and reaching the required threshold his special personal right will be reinstated. The other Management Board members are appointed and removed from office by the Supervisory Board. The Supervisory Board may appoint one or more Management Board members to serve as a Vice President of the Management Board.

The Management Board represents the Company in relations with third parties and manages all the Company's affairs not reserved for the General Meeting or the Supervisory Board under the Commercial Companies Code and the Company's Articles of Association. If the Management Board has only one member, the Company is represented by the President of the Management Board; and if the Management Board has more than one member, the Company is represented by the President of the Management Board acting jointly with another Management Board member.

Rules governing the operation of the Management Board are set out in the Commercial Companies Code, the Articles of Association and the Rules of Procedure for the Management Board adopted by the Supervisory Board.

The time and venue of the Management Board meeting are specified by the President of the Management Board. The Management Board meetings may be held without being formally convened, provided that all members of the Management Board are present and none of them objects to the holding of a meeting and to including specific matters on its agenda. The Management Board meeting may also be attended via means of remote communication.

If the Management Board is composed of more than one member, the Management Board takes decisions by way of written resolutions. Subject to applicable laws, in the case of a Management Board composed of more than one member, a resolution of the Management Board is required for matters falling outside the ordinary course of business. If the Management Board is composed of more than one member, each member of the Management Board may request a prior resolution to be passed by the Management Board before any action is taken.

If the Management Board is composed of more than one member, resolutions of the Management Board are passed by a simple majority of votes, which means that abstaining votes are not taken into account in determining the results of a vote. If the votes cast in favour and against a resolution are tied, the President of the Management Board will have the casting vote.

The Management Board is deemed to have the capacity to pass resolutions if each of its members has been effectively notified of a meeting and at least half of the members of the Management Board are present at the meeting, with the proviso that resolutions may also be passed without holding a meeting. The Management Board may vote on and pass resolutions in the following manner: (i) by written ballot, with each member of the Management Board casting a vote in writing; a resolution passed in this manner is only valid if all Management Board members have been notified of the contents of the draft resolution. (ii) via means of remote communication (by telephone or otherwise, in a manner enabling communication among all members of the Management Board); a resolution passed in this manner is only valid if all Management Board members have been notified of the contents of the draft resolution. (iii) by voting in writing through another member of the Management Board; (iv) via a mixed system, combining the voting by members of the Management Board present at the meeting with any of the above methods used by members of the Management Board not present at the meeting.

A Management Board member should refrain from undertaking any professional or non-professional activities that could lead to a conflict of interest or otherwise adversely affect their reputation as a Management Board member. If a conflict of interest has arisen or may arise, a Management Board member should notify the other Management Board members thereof, and should refrain from taking part in any discussion and from voting on a resolution concerning the matter with respect to which a conflict of interest has arisen or may arise.

The Rules of Procedure for the Management Board and the Company's Articles of Association are available on the Company's website at:

https://peoplecanfly.com/investors/#lad-korporacyjny

Supervisory Board

As at January 1st 2021, the Company's Supervisory Board consisted of five members:

- Mikołaj Wojciechowski – Chairman of the Supervisory Board,
- Krzystof Dolaś – Member of the Supervisory Board,
- Bartosz Biełuszko – Member of the Supervisory Board,
- Jacek Pogonowski – Member of the Supervisory Board,
- Aleksander Ferenc, PhD – Member of the Supervisory Board.

Among the Supervisory Board members, Jacek Pogonowski and Aleksander Ferenc, PhD, satisfied the independence criteria under the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and the Best Practice for GPW Listed Companies 2021.

At the same time, in accordance with Art. 18.1 of the Company's Articles of Association, on January 14th 2021 the Group of Qualifying Shareholders made a statement to the Company to the effect that the Supervisory Board members Mikołaj Wojciechowski, Bartosz Biełuszko and Krzysztof Dolaś were appointed through the exercise of the special personal right vested with the Group of Qualifying Shareholders.

As at the reporting date (December 31st 2021), the Company's Supervisory Board consisted of five members:

- Mikołaj Wojciechowski – Chairman of the Supervisory Board,
- Barbara Sobowska – Member of the Supervisory Board,
- Kuba Dudek – Member of the Supervisory Board,
- Jacek Pogonowski – Member of the Supervisory Board,

Aleksander Ferenc, PhD – Member of the Supervisory Board.Among the Supervisory Board members, Jacek Pogonowski and Aleksander Ferenc, PhD, satisfied the independence criteria under the Act on

Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and the Best Practice for GPW Listed Companies 2021.

As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the Company's Supervisory Board consisted of five members:

- Mikołaj Wojciechowski – Chairman of the Supervisory Board,
- Barbara Sobowska – Member of the Supervisory Board,
- Kuba Dudek – Member of the Supervisory Board,
- Jacek Pogonowski – Member of the Supervisory Board,
- Dagmara Zawadzka – Member of the Supervisory Board.

Among the Supervisory Board members, Jacek Pogonowski and Dagmara Zawadzka satisfied the independence criteria within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and the Best Practice for GPW Listed Companies 2021.

In the reporting period and after the reporting date, the composition of the Company's Supervisory Board changed as discussed below.

In connection with Art. 387.2 of the Commercial Companies Code, which prohibits cumulation of positions held in a joint-stock company (whereunder a Supervisory Board member may not at the same time report directly to a Management Board member), and in connection with doubts raised by the Polish Financial Supervision Authority as to whether the Company was in breach of the above prohibition given that two members of its Supervisory Board, Krzysztof Dolaś and Bartosz Biełuszko, held game development functions as Technical Art Director and Art Director, respectively (the "**Directors**"), under the contracts for the provision of services and transfer of intellectual property rights signed by the Directors as sole traders with the Company, the Directors agreed to resign from the Supervisory Board, and the four major Company shareholders forming the Group of Qualifying Shareholders undertook to procure the appointment of two new Supervisory Board members to replace the resigning members, within 60 days from the date of introduction of Series B shares in the Company to trading on the regulated market of the Warsaw Stock Exchange, i.e. by April 4th 2021.

Two Supervisory Board members, Krzysztof Dolaś and Bartosz Biełuszko, resigned from the Supervisory Board on April 1st 2021. On the same date, the Group of Qualifying Shareholders exercised their special personal rights to appoint and remove Supervisory Board members and appointed Barbara Sobowska and Kuba Dudek as members of the Supervisory Board of PCF Group S.A., with effect from April 1st 2021.

Aleksander Ferenc, PhD, resigned from the position of member of the Supervisory Board on March 3rd 2022, with effect from the same date. On March 7th 2022, pursuant to Art. 23 of the Company's Articles of Association, the Company's Supervisory Board co-opted Dagmara Zawadzka onto the Supervisory Board of PCF Group S.A., with effect from March 7th 2022 until the end of the current three-year joint term of office of the Company's Supervisory Board, subject to approval of the appointment of Dagmara Zawadzka by the Company's General Meeting. On April 13th 2022, the Extraordinary General Meeting approved the appointment of Dagmara Zawadzka to the Supervisory Board.

Supervisory Board members are appointed for a joint three-year term of office. The current term of office of the Supervisory Board commenced on November 6th 2019 and ends on November 6th 2022. The mandates of all Supervisory Board members holding the office as at December 31st 2021 will expire on or before the date of the General Meeting convened to approve the financial statements for the most recent full financial year in which the Supervisory Board member held the office.

The procedure for appointment of Supervisory Board members is described above in '*Right to appoint members of the Supervisory Board in accordance with the rules set out in the Company's Articles of Association'.* In addition, pursuant to Art. 23 of the Company's Articles of Association, members of the Supervisory Board have the right to temporarily appoint a new Supervisory Board member by co-optation if the number of Supervisory Board members falls below the required level.

The Supervisory Board exercises ongoing supervision over the Company's business in each area of its activity.

The scope of powers of the Supervisory Board is specified in the Commercial Companies Code and the Company's Articles of Association. Powers of the Supervisory Board include assessment of the Directors'

Report on the Company's operations and the financial statements for the previous financial year, and assessment of the Directors' Report on the Group's operations and the Group's consolidated financial statements for the previous financial year, in terms of their consistency with the accounting books, underlying documents and facts, as well as assessment of the Management Board's proposals concerning distribution of profit or offset of losses and submission to the General Meeting of annual written reports on the results of such assessment.

Members of the Supervisory Board perform their supervisory duties collectively. The Supervisory Board may delegate one of its members to individually perform specific supervisory duties. A Supervisory Board member so delegated must report to the Supervisory Board in writing on the performance of their individual supervisory duties.

Rules governing the operation of the Supervisory Board are set out in the Commercial Companies Code, the Articles of Association and the Rules of Procedure for the Supervisory Board adopted by the General Meeting.

Supervisory Board meetings are held on an as-needed basis, at least four times in a financial year, at a time and venue specified in the respective notice of a Supervisory Board meeting. Supervisory Board meetings may also be attended, without the right to vote, by President of the Management Board, experts, or other persons whose presence is required to take decisions on a given matter. The President of the Management Board is obliged attend Supervisory Board meetings whenever the Supervisory Board so requests.

In 2021, the Supervisory Board held four meetings and passed resolutions without convening a meeting. The activities conducted by the Supervisory Board during its meetings and/or for the purposes of passing resolutions included in particular reviewing financial statements, providing opinion on the proposed distribution of net profit, adopting the 'Policy and procedure for selection of the audit firm to audit statutory financial statements of PCF Group S.A. and the PCF Group S.A. Group and the policy for provision of permitted non-audit services by the audit firm, its affiliates and members of the audit firm's network' as authorised by the Audit Committee of the Supervisory Board, adopting the consolidated text of the Company's Articles of Association, granting consent to the Company's concluding a contract with President of the Company's Management Board and authorising a Supervisory Board member to represent the Company in connection with the execution of that contract, appointing a qualified auditor to audit the financial statements of the Company and the consolidated financial statements of the Group, summarising its own activities in 2021, discussing the Company's standing on a consolidated basis, including assessment of the internal control, risk management and compliance systems and the internal audit function, reviewing reports on the Company's compliance with disclosure obligations, and amending the Rules of Procedure for the Company's Management Board.

Supervisory Board resolutions are passed with an absolute majority of votes. In the event of a voting tie, the Chairperson of the Supervisory Board will have the casting vote. Resolutions of the Supervisory Board will be valid if all the Supervisory Board members have been invited to the meeting and at least half of them are present at the meeting, subject to the possibility of passing resolutions also without holding a meeting, as described below. Supervisory Board members may also participate in passing resolutions by casting their votes in writing through another member of the Supervisory Board. Matters placed on the agenda during a meeting of the Supervisory Board may not be voted on in writing. Supervisory Board resolutions may be voted on by written ballot or via means of remote communication (by telephone or otherwise, in a manner enabling communication among all members of the Supervisory Board). A resolution so passed will only be valid if all Supervisory Board members have been notified of the contents of the draft resolution and at least half of the Supervisory Board members participated in voting on the resolution.

A Supervisory Board member should refrain from undertaking any professional or non-professional activities which could lead to a conflict of interest or otherwise adversely affect their reputation as a Supervisory Board member. A Supervisory Board member must inform the Supervisory Board of any conflict of interest which has arisen or may arise between the Company and that Supervisory Board member. A Supervisory Board member should refrain from taking part in any discussion and from voting on a resolution concerning the matter with respect to which a conflict of interest has arisen or may arise.

The Rules of Procedure for the Supervisory Board and the Company's Articles of Association are available on the Company's website at: https://peoplecanfly.com/investors/#lad-korporacyjny

Audit Committee

The Audit Committee consists of at least three members appointed by the Supervisory Board from among its members for the term of office of the Supervisory Board.

In the reporting period and as at the reporting date, the Audit Committee consisted of:

- Jacek Pogonowski – Chairman of the Audit Committee
- Aleksander Ferenc, PhD – Member of the Audit Committee
- Mikołaj Wojciechowski – Member of the Audit Committee

Among the Audit Committee members, as at December 31st 2021 Mikołaj Wojciechowski satisfied the criteria of possessing the knowledge and skills relevant to the industry in which the Company operates, as set out in Art. 129.5 of the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and Aleksander Ferenc satisfied the criteria of possessing the knowledge and skills in accounting or financial auditing as set out in Art. 129.1 thereof. Among the Supervisory Board members, Jacek Pogonowski and Aleksander Ferenc, PhD, satisfied the independence criteria under the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and the Best Practice for GPW Listed Companies 2021.

As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, the Audit Committee consisted of:

- Jacek Pogonowski – Chairman of the Audit Committee
- Dagmara Zawadzka, CFA – Member of the Audit Committee
- Mikołaj Wojciechowski – Member of the Audit Committee

Among the Audit Committee members, as at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, Mikołaj Wojciechowski satisfied the criteria of possessing the knowledge and skills relevant to the industry in which the Company operates, as set out in Art. 129.5 of the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and Dagmara Zawadzka satisfied the criteria of possessing the knowledge and skills in accounting or financial auditing as set out in Art. 129.1 thereof. Among the Supervisory Board members, Jacek Pogonowski and Dagmara Zawadzka satisfied the independence criteria under the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and the Best Practice for GPW Listed Companies 2021.

Since 2008, **Jacek Pogonowski** has been involved with V4C Eastern Europe fund (formerly: Baring Central European Fund), and since 2018 also with V4C Poland Plus fund, as a partner and director. From 1997, he was a Management Board member for M&A at Erste Investments. From 1995, he worked at the Bank Austria Group branch in Poland – IB Austria Financial Advisor. He began his professional career at Arthur Andersen in Warsaw in 1991. Jacek Pogonowski graduated from St. John's University of New York in 1991 with a bachelor's degree in finance. In 2012, he completed the IESE Advanced Management Program course at the University of Navarra, and later the 'Become a Positive Leader to Accelerate Positive Change' course at the same university in 2017.

In 2020-2021**, Dagmara Zawadzka** served as Head of the Aerotropolis and Development Division at Centralny Port Komunikacyjny Sp. z o.o. In 2017–2020, she worked for Bank Gospodarstwa Krajowego as Head of BGK' Representative Office in London (2019–2020) and previously as Managing Director of the Banking Product Sales Division, responsible for the oversight of banking product sales to strategic customers as well as for the provision and structuring of financing. She also served as a permanent member of the Bank's Credit Committee. In 2015–2017, she was Chief Finance and Procurement Officer at PKP Intercity S.A., where she also chaired the Investment Committee. She oversaw the management control, financing, accounting and procurement functions, as well as being responsible for the process to recapitalise the company. In 2011–2014, she worked for the ORLEN Group, including as Head of the Office for Strategic Projects of PKN Orlen S.A., member of the Supervisory Board of IKS Solino, and President of the Management Board of Kopalnia Soli Lubień. She began her professional career in 2001 as a consultant at BRE Corporate Finance, where she was later promoted to manager and Deputy Head of the Corporate Finance Advisory Team. In 2007–2011, she was Deputy Head of the Corporate Finance Advisory Team at Pricewaterhouse Coopers. While working for advisory firms, she was involved in conducting a number of M&A transactions and IPOs. Dagmara Zawadzka graduated from the Warsaw School of Economics and the

Aarhus School of Business in Denmark, majoring in Finance and Banking and International Finance and Business, respectively. She also completed a post-graduate programme in International Financial Reporting Standards at the Warsaw School of Economics. She was on a scholarship to California Polytechnic University, USA, and holds the International Chartered Financial Analyst (CFA) certificate.

Mikołaj Wojciechowski is an attorney-at-law, running his own law practice in Warsaw since 2010. From August 17th 2017 he was a member of the Supervisory Board and from November 28th 2017 – Chairman of the Supervisory Board of the Company's legal predecessor, i.e. PCF Group sp. z o.o. Since the date of the Company's registration in the Business Register of the National Court Register, i.e. since November 6th 2019, Mikołaj Wojciechowski has served as Chairman of the Company's Supervisory Board. In 2006–2010, he completed legal training as a trainee attorney-at-law at Igor Magiera's law firm in Warsaw. In 2003, he graduated from the Faculty of Law of the European School of Law and Administration in Warsaw.

Rules governing the operation of the Audit Committee

The rules of operation of the Audit Committee are set out in the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, the Company's Articles of Association, and the Rules of Procedure for the Audit Committee adopted by the Supervisory Board.

The Audit Committee is responsible for, in particular: (i) monitoring of the financial reporting process, effectiveness of the internal control and risk management systems and the internal audit function, including with regard to financial reporting and financial audits; (ii) controlling and monitoring of the independence of the auditor and audit firm; (iii) informing the Supervisory Board of the audit findings and explaining how the audit contributed to reliability of the Company's financial reporting and what role the Audit Committee played in the audit; (iv) assessing the auditor's independence and approving the provision of permitted non-audit services by the auditor; (v) developing a policy for selection of an audit firm to perform audits; (vi) determining the procedure for selecting an audit firm by a public-interest entity; (vii) submitting recommendations to ensure reliability of the financial reporting process at the Company.

In order to perform its duties, the Audit Committee may, without the Supervisory Board's intermediation, request: (i) explanations, information and documents necessary for the performance of the Audit Committee's tasks, to be provided by the Company; (ii) work schedules of internal auditors, statutory auditors or audit firms, to be provided by the Company; and (iii) review of the Company's full-year and interim financial statements in due time. The Audit Committee may, within its remit, present recommendations and assessments to the Supervisory Board; recommendations and assessments presented to the Supervisory Board must be notified to the President of the Company's Management Board.

The Audit Committee may request that the auditor or audit firm discuss with the Audit Committee, the Company's Management Board or the Supervisory Board the key matters and findings of the audit which have been mentioned in the additional report to the Audit Committee referred to in Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16th 2014.

Audit Committee meetings are held on an as-needed basis, at least four times a year, on dates set by the Chairperson of the Audit Committee. Meetings of the Audit Committee are convened by its Chairperson, who invites the Audit Committee members to attend the meeting and notifies all other Supervisory Board members of the meeting. Other members of the Supervisory Board may also attend meetings of the Audit Committee. The Chairperson of the Audit Committee or another member of the Audit Committee designated by the Chairperson may decide to invite persons other than members of the Audit Committee to a meeting, in particular members of the Company's Management Board, statutory auditor or representatives of the Company's audit firm, as well as other employees or independent contractors of the Company, to attend the meeting. The Audit Committee must notify the Company's Management Board of any planned meetings with the Company's employees or independent contractors, and the Company's Management Board may not oppose any such meetings.

Opinions and recommendations of the Audit Committee are adopted by way of resolutions. Resolutions of the Audit Committee are passed by an absolute majority of votes cast. In the event of a voting tie, the Chairperson of the Audit Committee will have the casting vote.

The Audit Committee submits to the Supervisory Board: (i) resolutions passed and other documents prepared as a result of the Audit Committee's work in good time for the Supervisory Board to take appropriate action; and (ii) a written report on its activities in a given financial year. Furthermore, the Audit Committee must keep the Supervisory Board informed of its activities and outcomes of its work on an ongoing basis. The Audit Committee's tasks also include participation in meetings of the Supervisory Board, Management Board and General Meetings of the Company, on invitation from the relevant bodies, in order to provide detailed explanations on the Audit Committee's activities.

The Rules of Procedure for the Audit Committee and the Company's Articles of Association are available on the Company's website at:

https://peoplecanfly.com/investors/#lad-korporacyjny

Permitted non-audit services

In the financial year 2021, the audit firm Grant Thornton Frąckowiak Sp. z o.o. sp.k. provided to the Company a permitted non-audit service consisting in an assessment of the Report on the remuneration of members of the Management Board and Supervisory Board for the period January 1st–December 31st 2019 and January 1st–December 31st 2020 in terms of completeness of the disclosures made therein as required under applicable laws and regulations; the assessment was expressed in the form of an assurance engagement report. The Audit Committee granted its consent to the provision of the service in Audit Committee Resolution No. 4/2021 of May 24th 2021.

Supervision of the Audit Committee over the selection of an audit firm

The main objectives of the "Policy and procedure for selection of the audit firm to audit statutory financial statements of PCF Group S.A. and the PCF Group S.A. Group and the policy for provision of permitted non-audit services by the audit firm, its affiliates and members of the audit firm's network" adopted by the Audit Committee and approved by the Supervisory Board ("Policy") are to ensure that the Company and the Group comply with the applicable legal regulations, including with respect to:

- independence of the audit firm and of the lead auditor;
- the application of transparent and non-discriminatory assessment criteria in the selection of the audit firm during the bidding process,
- the principles of proper rotation of audit firms and lead auditors, including grace periods.

The fundamental purpose of the Policy is to analyse the compliance of the additional services with legal regulations as well as to assess the threats to and safeguards of the independence of the audit firm and the lead auditor. The policy allows for the provision of permitted services, to the extent not related to the Company's tax policy, following an analysis of the audit firm's independence and subject to a prior consent.

On March 6th 2020, the Extraordinary General Meeting of the Company passed a resolution to Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Spółka komandytowa as the audit firm authorised to audit the financial statements of the Company and the consolidated financial statements of the Group for the periods January 1st–December 31st 2019 and January 1st 2020–December 31st 2020, as well as to review the interim financial statements of the Company and the interim consolidated financial statements of the Group for the period January 1st–June 30th 2020. At the same time, under the Supervisory Board's Resolution No. 17 of June 29th 2021: (i) Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Spółka komandytowa was appointed the audit firm authorised to (i) review the parent's interim financial statements and the Group's interim consolidated financial statements for the six months ended June 30th 2021 and for the six months ended June 30th 2022 prepared in accordance with IFRS/IAS, and (ii) to audit the parent's financial statements and the Group's consolidated financial statements for the financial years 2021 and 2022 prepared in accordance with IFRS/IAS.

At the time of appointment of the auditor, the Company was not subject to the provisions of the Statutory Auditors Act, Audit Firms and Public Oversight of May 11th 2017 and therefore was not legally required to develop and maintain a policy governing (i) selection and appointment an audit firm to audit its financial statements; and (ii) provision by the audit firm, its affiliates and members of the audit firm's network of permitted non-audit services; and to define the procedure for selecting an audit firm by an entity of public interest.

In reappointing Grant Thornton as the audit firm authorised to audit the parent's financial statements and the Group's consolidated financial statements for the financial years 2021 and 2022 prepared in accordance with IFRS/IAS, the Company did not comply with the procedure provided for under Art. 130 of the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017 for appointing an audit firm authorised to audit the entity's financial statements as it does not apply to extensions of existing agreements for the audit of financial statements.

In the financial year 2021, the audit firm Grant Thornton Frąckowiak Sp. z o.o. sp.k. provided to the Company a permitted non-audit service consisting in an assessment of the Report on the remuneration of members of the Management Board and Supervisory Board for the period January 1st–December 31st 2019 and January 1st–December 31st 2020 in terms of completeness of the disclosures made therein as required under applicable laws and regulations; the assessment was expressed in the form of an assurance engagement report. The Audit Committee granted its consent to the provision of the service in Audit Committee Resolution No. 4/2021 of May 24th 2021.

Number of Audit Committee meetings

In 2021, the Audit Committee held six meetings during which it:

- reviewed the summaries of the processes carried out at the start and close of the audits of the full-year separate and consolidated financial statements for 2020 and of the interim separate and consolidated financial statements for the first half of 2021, as prepared by the Company's auditor;
- reviewed the additional report for the Audit Committee and submitted it to the Supervisory Board and the Management Board;
- adopted the 'Policy and procedure for selection of the audit firm to audit statutory financial statements of PCF Group S.A. and the PCF Group S.A. Group and the policy for provision of permitted non-audit services by the audit firm, its affiliates and members of the audit firm's network';
- reviewed the draft interim financial statements prepared in 2021;
- approved, at the Company's request, a list of audit firms qualified to audit the Company's and its Group's statutory financial statements;
- granted consent to the provision by the entity authorised to audit the financial statements of the Company and its Group of services other than auditing or reviewing financial statements;
- adopted the report of the Audit Committee of the Supervisory Board on its activities in 2020.

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PCF GROUP
SPÓŁKA
AKCYJNA
GROUP

2021

DIRECTOR'S REPORT ON THE OPERATIONS
OF PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP
IN 2021