



PCF GROUP

SPÓŁKA AKCYJNA GROUP

**DIRECTORS' REPORT ON THE OPERATIONS OF
PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP**

IN 2020

WARSAW, APRIL 26TH 2021

This Directors' Report on the operations of PCF Group S.A. and its Group in 2020 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 2020 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 2020.

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 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

PCF Group S.A. was formed through transformation of the limited liability company PCF Group spółka z ograniczoną odpowiedzialnością of Warsaw into a joint-stock company PCF Group Spółka Akcyjna of Warsaw, in accordance with a transformation plan adopted on July 19th 2019 and subsequently amended on August 11th 2019. The Company was entered in the Business Register of the National Court Register on November 6th 2019.

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 2020, the PCF Group S.A. Group (the "Group") comprised PCF Group S.A. (the "Company"), being the parent of the Group, and its three fully-consolidated subsidiaries: (People Can Fly U.S., LLC, People Can Fly Canada Inc. and People Can Fly UK Limited). The Company holds directly 100% of shares in its subsidiaries, conferring 100% of total voting rights. All the subsidiaries of PCF Group S.A. are engaged in the business of video game development.

On May 4th 2020, a plan for the merger of PCF Group S.A. (the "Acquirer") with People Can Fly Sp. z o.o. (the "Acquiree") was signed. The Acquirer held 100% of shares in the Acquiree, conferring 100% of total voting rights. The merger was carried out pursuant to Art. 492.1.1 of the Commercial Companies Code, i.e. by transferring all the assets of the Acquiree to the Acquirer (merger by acquisition) (the "Merger"). As the Acquirer was the sole shareholder in the Acquiree, and pursuant to Art. 514.1 of the Commercial Companies Code the Acquirer could not acquire its own shares in exchange for shares held in the Acquiree, the Merger was effected without increasing the Acquirer's share capital and, consequently, without any shares in the Acquirer being acquired by the Acquiree's shareholder.

The Merger took effect on the date of its registration in the Business Register of the National Court Register by the court competent for the registered office of the Acquirer (the "Merger Date"). The Merger was effected on August 31st 2020.

As at the respective reporting dates, the Group comprised the parent and the following subsidiaries:

Subsidiary	Place of business and country of registration	Share capital as at December 31st 2020	Principal activity	Parent's ownership interest	
				December 31st 2020	December 31st 2019
People Can Fly Sp. z o.o.	Warsaw, Poland	-	development of video games	merger on August 31st 2020	100%
People Can Fly UK Limited	Gateshead, United Kingdom	GBP 10,000	development of video games	100%	100%
People Can Fly Canada Inc.	Montreal, Canada	CAD 10,000	development of video games	100%	100%
People Can Fly U. S. LLC	New York, USA	USD 2,010,000	development of video games	100%	100%

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 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 2020, there were no joint ventures or other companies outside the 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 the Company and other entities

As at December 31st 2020, PCF Group S.A. and its subsidiaries held no equity interests in other entities.

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 the Company or its subsidiaries on non-arm's length terms

In 2020 and from January 1st 2021 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 2020, the Company and its subsidiaries did not execute any material related-party transactions on non-arm's length terms.

For an overview of related-party transactions, see Note 24 to the full-year consolidated financial statements for the financial year ended December 31st 2020.



**PEOPLE
CAN FLY**

2. Key products

The Group's business is run through the following two operating segments, which are also its reportable segments: (i) contract development of video games; and (ii) copyrights to developed games (royalties).

The Group's 2020 revenue totalled PLN 103.8m, up 24% year on year. The major source of revenue was contract development of video games, contributing PLN 100.0m (96% of total revenue) in the reporting period. In 2020, contribution from the segment of copyrights to developed games (royalties) was 4%, or PLN 3.8m.

Contract development of video games (development segment)

In 2020, 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, 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).

Outriders is not a GaaS (game as a service), which means that it contains no micropayments, loot boxes or pay-to-win solutions. 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).

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 2020, the Group's key products in the copyrights segment included a remastered version of *Bulletstorm – 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. It sold more than 700 thousand copies by the end of 2020.

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.

BUSINESS ACTIVITIES OF THE 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 2020, The Group reported revenue broken down by geography, into Europe (PLN 87.8m) and Other countries (PLN 16.0m).

The key digital distribution channels for the Group's products are the Steam service (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 service streaming video games to players, operated by Google.

The Group is not engaged in the publishing business, nor is it a party to any distribution contracts. Such contracts are concluded directly by a publisher.

Except for the Company's dependence on the publishers of games produced by the Group, which provide the Group – as a non-publishing developer – with financing for the game development process, in the Company's opinion the Group does not depend in its principal business on any single or more customers or suppliers.

Group's revenue structure:

	Contract development of video games	Copyrights to developed games (royalties)	Total
January 1st – December 31st 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
January 1st – December 31st 2019			
Region			
Poland	24	-	24
Europe	82,398	46	82,444
Other countries	326	1,142	1,468
Total revenue	82,748	1,188	83,936
Product line			
Games	82,748	1,188	83,936
Total revenue	82,748	1,188	83,936
Timing of transfer of goods/services			
At a point in time	-	1,188	1,188
Over time	82,748	-	82,748
Total revenue	82,748	1,188	83,936

Parent's revenue structure:

	Contract development of video games	Copyrights to developed games (royalties)	Other	Total
January 1st – December 31st 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
January 1st – December 31st 2019				
Region				
European Union	46,152	46	-	46,198
Other countries	168	1,141	-	1,309
Total revenue	46,320	1,187	-	47,507
Product line				
Games	46,320	1,187	-	47,507
Total revenue	46,320	1,187	-	47,507
Timing of transfer of goods/services				
At a point in time	-	1,187	-	1,187
Over time	46,320	-	-	46,320
Total revenue	46,320	1,187	-	47,507

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 2020:

- on April 20th 2020, PCF U.S. entered into a USD 574 thousand loan agreement with Beverly Bank & Trust Company, N.A. The loan was granted under the 'Paycheck Protection Program' run by the US government's Small Business Administration to help save jobs during the COVID-19 pandemic. On February 13th 2021, PCF U.S. was notified by the Small Business Administration that its request to waive 100% of the loan amount had been processed and approved;
- on April 30th 2020, the parent entered into a subsidy agreement with Polski Fundusz Rozwoju S.A. 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 3.5m may be applied by the parent for purposes detailed in the Programme rules;
- launch of a start-up studio in Łódź;
- launch of a start-up studio in Montreal, Canada;
- on July 21st 2020, the Group entered into a development and publishing agreement with Take-Two Interactive Software, Inc., the world's leading publisher of Triple-A games, for the Group's latest title Project Dagger,
- on July 31st 2020, the Company and Square Enix Limited signed a term sheet setting out the terms under which the parties would cooperate 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 issued by the Company as part of a conditional share capital increase in the exercise of rights attached to the warrants,
- on August 12th 2020, the Group and Square Enix Limited entered into a development and publishing agreement for Project Gemini;
- on August 12th 2020, based on the agreement of February 16th 2016 concluded between the Company and Square Enix Limited for the development and publishing of Outriders, the Group and Square Enix Limited entered into a content rider providing for further development support and content expansion of Outriders;
- on December 18th 2020, Series A shares and rights to Series B shares in the parent were introduced to trading on the Warsaw Stock Exchange.

5. Major research and development achievements

The Group does not have any specific research and development strategy and does not incur any expenditure on research and development activities within the meaning of IAS 38 *Intangible Assets*. As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2020, the Group was not engaged in any research work nor did it conduct any such work in the period covered by the financial statements for 2020, but it did conduct and remained engaged in development work within the meaning of IAS 38 *Intangible Assets*, which it had commenced and on which it had incurred expenditure in the period to December 31st 2019 (in the period from January 1st 2020 to the date of this report, the Group did not commence any new development work nor did it incur any expenditure on continued development work).

6. Development policy for the Group

The Company 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 Company 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. PCF S.A. 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 Company 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 Company will also seek to launch self-publishing of internally developed AAA games, which means it would publish games developed by the Group based on existing or new IP. Back in 2020, the Group took the first steps to gain publishing capabilities, with the process due to continue in 2021.

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

Strategy

As at the reporting date, the strategic objectives defined by the Group were divided by the Company's Management Board into two time horizons. Short-term objectives (12 to 24 months) include the following (not in chronological order):

- to move forward with development work on the new games *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. To that end, within approximately 12 to 18 months from the reporting date, the Management Board intends to expand its development teams in New York and Montreal (operating within People Can Fly U.S., LLC and People Can Fly Canada Inc., respectively) from around 30 to 60 persons. The Management Board also intends to expand the development team based in Poland by acquiring the most talented developers available on the Polish market to support the Group's studio in implementing its projects. In this respect, the Management Board wants to expand the development team working in Poland from over 150 to around 230 persons within approximately 12 to 18 months from the reporting date. Ultimately, within three years the Company plans to expand the Group's development team working on existing projects alone to approximately 300 people;
- to further develop the PCF Framework (the proprietary, unique game development software and tools) both through development of existing modules and new modules, particularly online services (an online service package comprising, among other things, servers acting as a central database access intermediary for video games, a set of libraries for server communication, tools enabling database access for customer service purposes, and tools enabling players to interact with each

other in real time in the game world), as a platform enabling the Company to expand its multiplayer capabilities;

- 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 Management Board intends to strengthen the Group with a new development team or teams within approximately 18 to 24 months from the reporting date. The Company's objective is 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 (over 24 months) include the following (not in chronological order):

- within approximately 24 to 36 months from the reporting date – to leverage the proprietary or new IP potential, provided that a competent development team is set up and a new game concept is developed by the Group. After the Group has strengthened its development team, gained more experience, acquired publishing capabilities, developed additional functionalities of the PCF Framework, and raised sufficient funding, the Management Board wants it to start self-publishing the titles mentioned above;
- 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 that end, the Group intends to release two AAA games Project Dagger and Project Gemini in collaboration with two independent global publishers by the end of 2024;
- 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.

Business growth prospects of the Company 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:

- further expand the Group's development teams across all locations,
- develop new game concepts, acquire new development team or teams, launch new in-house development studios or acquire businesses involved in the development of video games or their elements,
- devise a concept to exploit proprietary IP potential or create new IP, and
- acquire publishing capabilities.

8. Agreements significant to the Company's business, including shareholder, insurance, partnership or cooperation agreements known to the Company

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 agreed to develop the game and to deliver 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 Company is also entitled to additional consideration if the game achieves a specific metacritic score.

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 for Outriders

In connection with work related to the provision of further development support for Outriders and expansion of the game content, 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.

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. The first schedule for Project Dagger was signed simultaneously with the execution of the agreement. Further schedules may be signed in the future if the parties agree on the terms under which they would collaborate on subsequent development milestones.

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's total budget for the game development by the Group is EUR 40–60m.

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 2020, the shareholders who were parties to the Qualifying Shareholders Agreement held an aggregate of 21,063,804 shares, representing 71.25% of the share capital of PCF Group S.A., and 21,063,804 voting rights, representing 71.25% 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, on February 4th 2021 the Company 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 February 3rd 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 an insurance policy from Beazley USA Services, Inc. comprising: (i) commercial general liability insurance with a sum insured of USD 1m in respect of a single event and USD 2m in respect of all events; and (ii) professional liability insurance 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 2021. 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 2021.

In connection with the agreement concluded with the publisher Gearbox Publishing, LLC to develop and publish the Bulletstorm – Bulletstorm: Full Clip Edition, on April 1st 2021 the Company took out an insurance policy from Colonnade Insurance S.A. Branch in Poland comprising professional indemnity insurance, with a sum insured of USD 1m with respect to one and all events. The insurance cover expires on March 31st 2022. The policy also includes retroactive cover held from the retroactive date of October 24th 2016. In addition, on April 1st 2021 the Company took out an insurance policy from Colonnade Insurance S.A. Branch in Poland comprising commercial general liability insurance, with a sum insured of USD 1m with respect to one and all events. The insurance cover expires on March 31st 2022.

The equipment and other property located at the Company's offices in Warsaw at Al. Solidarności 171 is covered by all-risk insurance under a contract with InterRisk Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group. The highest sum insured (of more than PLN 5m) relates to stationary electronic equipment. The Group is also a client of another insurance provider – Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A., from which it has taken out all-risk property insurance covering electronic equipment located at the Company's offices in Rzeszów. The policy provides for various sums insured depending on the category of an insured event, of which the highest one of just under PLN 0.7m relates to stationary electronic equipment.

In connection with operating lease contracts between the Company and Pekao Leasing sp. z o.o., the Company is required to maintain insurance for the benefit of the lessor, throughout the lease term, covering equipment made available for use to the Company under the lease contracts. The insurance cover provided by Generali Towarzystwo Ubezpieczeń S.A., Powszechny Zakład Ubezpieczeń S.A. and other insurers protects the property (capital expenditures) against fortuitous events and third party liability, including tenant liability. The Company is covered by tort liability insurance in connection with its business, contractual liability insurance (against claims that may arise from its failure to perform or properly perform a contract) and tenant liability insurance.

Lease contract for office space in Warsaw

Under a lease contract of October 4th 2019, as amended, with A11 Bis sp. z o.o. as the lessor, the Company has leased office space of approximately 1,900 square metres, as well as warehouse space and parking spaces in the SPARK building, at Al. Solidarności 171 in Warsaw. The leased premises house the Company's registered office.

The lease term is 60 months from March 16th 2020, i.e. it expires on March 16th 2025. The Company has the right to extend the lease for another period provided that it gives notice to that effect no later than 14 months prior to the expiry of the original lease term, and that within another eight weeks the Company concludes negotiations with the lessor over the terms of the extended lease, including the rent rate and extension period. In addition, the Company has the right of first refusal to lease certain additional premises if the lessor offers those premises for rent by third parties. The rent is expressed as the PLN equivalent of an agreed EUR-denominated amount. As of January 1st 2021, the rent is adjusted upwards by a percentage amount corresponding to the consumer price index. In addition to the rent, the Company is required to pay service charges. In the event of certain breaches by the Company of the contractual provisions, the lease contract may be terminated by the lessor with immediate effect after it has first given a written notice setting a deadline of 14 or 40 days (depending on the breach of the contractual provisions committed by the Company) for remedying that breach. If the lease contract is terminated by the lessor, the Company will be obliged to pay liquidated damages equal to 12 monthly rent payments and to reimburse the lessor for certain expenses. In addition, the lessor will have the right to terminate the contract with immediate

effect if the Company is in arrears with rent payments for at least two months and – despite having received the lessor's written notice allowing it an additional period of one month to pay the outstanding amounts – fails to settle the arrears within that period. As security under the contract, the Company provided the lessor with a bank guarantee for an amount equal to 105% of the PLN equivalent of the aggregate of rent payments for a three-month period and service charges for the same period. Also, in connection with the lease contract, the Company entered into an insurance contract protecting it against any capital expenditure-related losses with a sum insured of approximately PLN 2.0m, as well as liability insurance with a sum insured of PLN 5.0m.

Term sheet related to the issue of subscription warrants to be offered to Square Enix Limited

On July 31st 2020, the Company and Square Enix Limited signed a term sheet setting out the terms under which the parties would cooperate 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 issued by the Company as part of a conditional share capital increase in the exercise of rights attached to the warrants (the "Term Sheet").

Under the Term Sheet, the Company agreed to offer to Square Enix Limited subscription warrants issued pursuant to Art. 453.2 of the Commercial Companies Code. The warrants would be issued within Series A, in tranches. As a rule, each tranche of warrants would be offered to Square Enix Limited after the end of a settlement period ("Settlement Period"). A Settlement Period would be each period in which specific revenue generated by the Company under its agreements with Square Enix Limited reached a threshold of PLN 45.0m. The time interval for determining the Settlement Periods would run from January 1st 2020 to September 30th 2024 (the "Last Settlement Day"). If the revenue amount exceeded the threshold specified above, the current Settlement Period would end, triggering the Company's obligation to offer to Square Enix Limited a tranche of warrants due for the ended Settlement Period in a number equal to the quotient of PLN 4.5m and PLN 50, corresponding to the final price of shares offered to institutional investors as part of the public offering of Company shares carried out on the basis of a prospectus approved by the Polish Financial Supervision Authority on November 25th 2020 ("Relevant Tranche Warrants"). The maximum number of Settlement Periods (and the maximum number of tranches of warrants) would be six. Should Square Enix Limited not acquire six tranches of warrants by the Last Settlement Day, the Company would be required to offer to Square Enix Limited warrants for the last outstanding Settlement Period in proportion to the amount of revenue generated in that outstanding period to the number of Relevant Tranche Warrants. Square Enix Limited would be entitled to acquire warrants free of charge. Each warrant would entitle it to subscribe for one Series C share at a price of PLN 50, i.e. at an issue price equal to the final price of shares offered to institutional investors. Square Enix Limited's rights to subscribe for Series C shares would first vest after it has acquired the fourth tranche of warrants (in which case Square Enix Limited would be entitled to exercise its rights to subscribe for such shares under the first to fourth tranches of warrants), and thereafter upon the acquisition of each subsequent tranche of warrants, i.e. the fifth and sixth tranches, provided that Square Enix Limited acquired the fourth, fifth or sixth tranche of warrants, as appropriate, by the Last Settlement Day. Should Square Enix Limited not acquire the fourth tranche of warrants by the Last Settlement Day due to non-achievement of the revenue threshold, the rights attached to warrants acquired until that date would be exercisable from January 1st 2025. The rights to subscribe for Series C shares from all warrants would be exercisable until December 31st 2025. In certain cases, especially in the event of acquisition of control of the Company or steps having been taken to delist Company shares from the Warsaw Stock Exchange, the time limits for the Company to offer warrants to Square Enix Limited and the time limits for Square Enix Limited to subscribe for Series C shares could be accelerated.

In accordance with the Term Sheet, the Company and Square Enix Limited agreed to negotiate in good faith with a view to concluding an agreement that would set out the respective rights and obligations of the parties in connection with the issue of subscription warrants (the "Warrants Agreement"). The offering of each successive tranche of subscription warrants to Square Enix Limited is conditional on the execution

of the Warrants Agreement and on the Warrants Agreement and the development and publishing agreements for *Outriders* and *Project Gemini* (and – if other agreements with Square Enix Limited are concluded in the future – such other agreements) remaining in force on the date of submission of each offer to acquire 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 2020, negotiations between the Company and Square Enix Limited to execute the Warrants Agreement were at a very advanced stage.

In connection with the negotiations with Square Enix Limited concerning the Term Sheet, on June 26th 2020 the Extraordinary General Meeting of PCF Group S.A. 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"). The conditional share capital increase through the issue of Series C shares pursuant to the Warrants Issue Resolution was registered in the Business Register of the National Court Register on August 18th 2020. The maximum number of warrants that may be issued and the maximum number of Series C shares that may be subscribed for in the exercise of rights attached to the warrants is 1,555,922, while the amount of the conditional share capital increase through the issue of Series C shares is PLN 31,118.44. Warrants to be offered to Square Enix Limited are designated as Series A warrants. Under the Warrants Issue Resolution, it is also possible to issue Series B warrants to a publisher other than Square Enix Limited, provided that the Company 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 Series B warrants. Series B warrants may be issued up to the maximum number of warrants specified above. As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2020, the Company 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 Company.

The Company believes that the maximum number of Series C shares that could be acquired by Square Enix Limited would represent approximately 1.8227% of the Company's share capital.

As at December 31st 2020, the Company's revenue from agreements with Square Enix Limited exceeded the threshold of PLN 45.0m. This means that if the Warrants Agreement, substantially consistent with the Term Sheet, is entered into between the Company and Square Enix Limited, the Company will be obliged to offer to Square Enix Limited, and Square Enix Limited will be entitled to acquire, the first tranche of warrants. The Company expects that the first tranche of warrants may be acquired within two months of the execution of the Warrants Agreement. If the warrants are acquired by Square Enix Limited, the rights to subscribe for Series C shares attached to the warrants will be exercisable within the time limit and on the terms set forth in the Warrants Agreement.

Agreement for the assignment of intellectual property rights to People Can Fly U.S., LLC

On July 20th 2020, People Can Fly U.S., LLC, as the assignee, entered into an agreement with the entities owning intellectual property rights to *Project Dagger*, as assignors, for the assignment of those rights. In consideration of the transfer of the intellectual property rights, the assignors were entitled to a one-off payment of USD 500 thousand.

In addition, the assignment agreement provides for the assignors' obligation to assist People Can Fly U.S., LLC in its activities aimed at registering the transfer of the intellectual property rights covered by the assignment agreement, by providing the necessary information to People Can Fly U.S., LLC and supporting it in the preparation of relevant applications for patents, trademarks and copyrights in the USA and other jurisdictions, as well as the obligation to sign and file the necessary documents. The agreement also gives authorisation to People Can Fly U.S., LLC to act on behalf of the assignors within this scope. In addition,

except to the extent indicated in the agreement, the assignors agreed to cooperate with People Can Fly U.S., LLC on development of the intellectual property rights related to *Project Dagger* for one year from the date of the assignment agreement.

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

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	
	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019
Financial liabilities measured at amortised cost:				
Borrowings and subsidies	583	-	1,167	-
Financial liabilities measured at amortised cost	583	-	1,167	-
Total borrowings, other debt instruments	583	-	1,167	-

Parent

	Current liabilities		Non-current liabilities	
	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019
Financial liabilities measured at amortised cost:				
Non-bank borrowings	583	-	1,167	-
Financial liabilities measured at amortised cost	583	-	1,167	-
Total borrowings, other debt instruments	583	-	1,167	-

Loan agreement

On April 20th 2020, People Can Fly U.S., LLC entered into a USD 573,612 loan agreement with Beverly Bank & Trust Company, N.A. The loan was granted under the 'Paycheck Protection Program' 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 and (up to 25% of the loan amount) to cover other costs of People Can Fly U.S., LLC's day-to-day operations (such as rent under lease contracts or service charges). The loan is unsecured and bears a fixed interest rate of 1%. The maturity of the loan is two years from the disbursement date. The provisions of the Coronavirus Aid, Relief, and Economic Security Act of March 27th 2020, also known as the CARES Act, apply directly to the loan.

In connection with the loan, People Can Fly U.S., LLC agreed, among other things, that, to the extent feasible, it would only purchase American-made products, it would pay taxes in a timely manner, it would not distribute assets in a manner that could adversely affect its financial condition, and it would not change ownership without the lender's consent. The loan agreement is governed by the laws of the State of Illinois, USA.

People Can Fly U.S., LLC applied for the principal amount of the loan to be waived in full. The loan was cancelled on February 19th 2021.

On March 5th 2021, People Can Fly U. S., LLC entered into a USD 841,524 loan agreement with Beverly Bank & Trust Company, N.A. The loan was granted 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. 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. The loan is unsecured and bears a fixed interest rate of 1%. The maturity of the loan is five years from the disbursement date.

In connection with the loan, People Can Fly U.S., LLC agreed, among other things, that, to the extent feasible, it would only purchase American-made products, it would pay taxes in a timely manner, it would not distribute assets in a manner that could adversely affect its financial condition, and it would not change ownership without the lender's consent. The loan agreement is governed by the laws of the State of Illinois, USA.

Agreement for award and payment of tax credits to PCF Canada

In May 2020, People Can Fly Canada Inc. received CAD 454.6 thousand from the Quebec Revenue Agency (Revenu Québec) on account of a multimedia tax credit comprising partial reimbursement of the costs of outsourcing production of cutscenes, dialogues and other programming and game design services. The amount received in May 2020 represented 80% of the amount applied for by People Can Fly Canada Inc. for January 1st to December 31st 2018. Checks performed by the Quebec Revenue Agency were temporarily suspended due to the COVID-19 pandemic and resumed in late 2020. The remaining 20% of the requested amount will be transferred to People Can Fly Canada Inc. if the findings of the checks are positive. No information regarding the matter was received by People Can Fly Canada Inc. as at the date of this report.

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 credit comprising partial reimbursement of the costs of outsourcing production of cutscenes, dialogues and other programming and game design services. The received amount represented 100% of the amount applied for by PCF Canada Inc. for January 1st 2019 to December 31st 2019.

Subsidy agreement signed with Polski Fundusz Rozwoju S.A. under the government's COVID-19-related programme

On April 30th 2020, the Company entered into a subsidy agreement with Polski Fundusz Rozwoju S.A. ("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 PLN 3.5m subsidy received by the Company may be used for purposes detailed in the Programme rules, particularly to cover the costs of day-to-day operations, including wages and salaries, cost of merchandise and materials, cost of third party services, current borrowing costs, lease expenses (or other similar expenses) relating to property used to conduct business activities, public charges, purchase of equipment and other fixed assets necessary to conduct business activities.

The subsidy received by the Company is repayable in the following amounts:

- if the Company discontinues business operations or enters liquidation in the 12 months from the grant date – 100% of the subsidy amount,
- if the Company continues business operations for the full 12 months from the grant date: (i) 25% of the subsidy amount unconditionally; and (ii) up to an additional 25% of the subsidy amount less accumulated cash loss on sales disclosed by the Company for the 12 months from the first month after February 1st 2020 in which the Company reported a loss or from the month in which the financial subsidy was granted; (iii) if the average employment level at the Company is maintained for the 12 full calendar months from the end of the calendar month preceding the date of the agreement, relative to the average employment level in 2019: (x) at between 50% and 100% – an additional 0% to 25% of the subsidy amount, pro rata to the employment level reduction; (y) at below 50% – an additional 50% of the subsidy amount.

The decision on the amount of the financial subsidy to be repaid will be taken by PFR, on the basis of a statement of settlement of the financial subsidy, which the Company is obliged to submit within 20 working days from the expiry of the 12 months from the date of disbursement of the subsidy. The Company estimates that it will be obliged to repay an amount representing 50% of the subsidy.

Pending full repayment of the subsidy by the Company, PFR may verify the truthfulness and accuracy of information and representations submitted by the Company in connection with the subsidy agreement. If any information or representations contained in the agreement are found to be false or inaccurate, PFR may decide to demand repayment of the subsidy in full or in part. In such a case, the subsidy will become due for repayment within 14 working days of the date when PFR's decision is announced.

The subsidy does not bear interest. Repayment of the subsidy will begin in the 13th month from the first full calendar month after the disbursement, and will be made in 24 equal monthly instalments.

Operating lease contracts

Within the limit of PLN 2.0m granted to the Company by Pekao Leasing sp. z o.o. (the "Lessor"), the Company enters into operating lease contracts with the Lessor under which it can use certain equipment, including mainly computer equipment (such as computer sets and network hardware), furniture and other office essentials. As at December 31st 2020, the Company was a party to 19 operating lease contracts with the lessor, and the total value of the equipment delivered to the Issuer (at purchase prices) was approximately PLN 1.9m. As disclosed in the full-year consolidated financial statements for the financial year ended December 31st 2020, the total amount of liabilities under operating lease contracts as at December 31st 2020 was approximately PLN 1.1m. All lease contracts are concluded on the basis of standard documentation used by the lessor, with the key terms and conditions of each of the contracts essentially unchanged. A typical lease contract with the Lessor is described below.

Under a lease contract, the Lessor, as the financing entity, undertakes to purchase certain equipment from its vendor in order to make it available for use to the Company and possibly derive benefits therefrom. The consideration payable in return for these services by the Company to the Lessor consists of an upfront fee and lease payments, in the amounts and as per the schedule specified in the lease contract. Such consideration is equal to the equipment purchase price (including finance costs and other costs incurred by the Lessor) plus an additional amount determined based on the agreed WIBOR rate. During the term of the lease contract (lease term), the equipment remains the Lessor's property, with the proviso that the Company has the option, upon expiry of the lease term, to purchase it for a price specified in the contract. The Company is obliged to insure the equipment covered by the lease contract for the benefit of the Lessor, and maintain such insurance for the entire lease term. Upon the execution of the lease contract, sale agreements are concluded under which the Lessor purchases relevant equipment from a specific vendor to make it available for use to the Company. Lease contracts are secured with promissory notes issued by the Company.

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

In the financial year 2020, PCF Group S.A. did not advance any loans, including loans to its related parties. Also, the subsidiaries of PCF Group S.A. did not advance any loans to each other or to PCF Group S.A.

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

Save for the guarantee agreement described below, in 2020 PCF Group S.A. did not issue or receive any sureties or guarantees, including guarantees issued in favour of the Company's related parties.

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 U.S., 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 2020 and December 31st 2019 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 the Company and its Group

In 2020, 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 2020 and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2020, 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 2020, 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 2020, neither PCF Group S.A. nor the Company's subsidiaries adopted any equity-based incentive or bonus schemes for serving as members of the Company'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 a single publisher

Given that the Company is not engaged in the publishing business, 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 2020, the consideration received from Square Enix Limited accounted for over 80% of the Group's total revenue. The Company believes that payments from Square Enix Limited will remain the primary source of the Group's revenue at least until the end of 2021, with the share of the consideration from Square Enix Limited in the Group's

total revenue expected to steadily decline in the coming years starting from 2020 in connection with the Project Dagger development and publishing agreement concluded in July 2020 between the Group and Take-Two Interactive Software, Inc. However, no assurance can be given that the consideration the Group expects to receive from Square Enix Limited until that time will not be reduced or postponed. Any decline in revenue from Square Enix Limited 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 Square Enix Limited be significantly lower. On the other hand, the Company believes that the business partnership between the Group and Square Enix Limited is of a long-term nature, as evidenced, for instance, by the fact that Square Enix Limited was granted the right to subscribe for Series C shares under Resolution No. 5 of the Company'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 subscription warrants and 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, as well as the Term Sheet, i.e. a preliminary agreement of July 31st 2020 between the Company and Square Enix Limited setting out the terms under which the parties would cooperate 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 issued by the Company as part of the conditional share capital increase in the exercise of rights attached to the warrants.

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 already 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 2020, development work on the Group's games (*Project Gemini* and *Project Dagger*) was still at an early stage, and their releases were scheduled to take place by the end of 2024 without specifying any exact dates. Given the 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 relevant royalties 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 2020, the Group was a non-publishing developer, 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 2020, Sebastian Wojciechowski was the only member of the Company Management Board and the management boards of all the other Group companies. 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 the Company's majority shareholder, holding 50.31% of its shares conferring 50.31% of total voting rights. As a result, he may have decisive influence on resolutions passed by the General Meeting on such material matters as dividend payment, amendments to the Articles of Association or increase in the Company's share capital. 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 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 2020, respectively, 8.73%, 6.11% and 6.11% of the Company shares and voting rights, and together with Sebastian Wojciechowski – an aggregate of 71.25%

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 as the Lead Producer 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 the Group is not involved in the publishing business, its 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 game development and publishing agreements while not yet being able to launch its own publishing arm, 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 Company's work as well as the form and timing of consideration payment by the publisher (as agreed to by the Company in the course of negotiations), there is still a risk of the Company'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 is the case for both *Outriders* and *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 two ongoing projects are still at an 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.

Games developed by the Group are budget-intensive high-quality products, which should make them very attractive to players. They also belong to highly popular genres of video games (shooter RPGs and action RPGs), both from the perspective of players and the online gaming audience. In addition, Outriders, which premiered on April 1st 2021, was well received (Metascore 76/100 based reviews of 21 industry critics (source: metacritic.com, April 15th 2021, for PC release). During opening weekend, the number of users playing Outriders on the Stam platform peaked at 125 thousand. As at the date of this report, the players' interest in the game remains strong. In the past, the Group's games have also received very solid feedback from both reviewers and players. However, any events undermining the Group's image could require it to undertake dedicated marketing activities or boost its development talent pipeline, which would entail additional costs and, consequently, 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 of the Group's inability to deliver its strategy

The Group's strategy envisages the delivery of strategic objectives set out by the Management Board within two time horizons – namely, short-term and long-term objectives (see 'The Company's and the Group's strategy and steps taken to advance that strategy in the reporting period; information on the Company's growth prospects in the next financial year or beyond').

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. It cannot be ruled out that – as a result of changes in the Group's external environment, including deteriorating market conditions in the wake of the COVID-19 pandemic – the Group will need to adjust or revise its objectives and strategy. A similar scenario could take place if the costs of delivering the Group's strategy exceed the planned expenditure, for example in connection with the need to recruit additional members of the game development team or difficulties in finding good candidates, or due to changes in the scope of planned operations caused by potential economic developments resulting in a significant increase in operating expenses. Such situations could adversely affect the delivery of the Group's strategy 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

As at the end of 2020 and until the end of 2021 (as expected by the Group), a significant portion of the Group's costs are and will continue to be denominated in PLN, while a major part of the Group's revenue is denominated in foreign currencies, mainly in EUR and USD. The Outriders development and publishing agreement contains certain provisions to hedge the Group against the EUR/PLN exchange rate risk. Under the Project Dagger development and publishing agreement, the Group will be exposed to currency risk, as all contract revenue will be denominated in USD while the related costs will be incurred by the Group both in USD and PLN. Therefore, the Group is exposed to currency risks related to exchange rate changes, especially for the USD/PLN currency pair. Any exchange rate fluctuations may reduce the Group's receivables or increase its liabilities, resulting in exchange differences charged to the Group's profit or loss. While the Company monitors movements in exchange rates, it does not use any financial instruments to hedge its currency risk exposure. 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). If there is a risk of significant exchange rate fluctuations unfavourable to the Group, the Management Board will consider using financial instruments to mitigate the adverse financial impact of such changes.

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 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

Since January 2020, the global market has experienced major disturbance caused by the COVID-19 crisis. In the wake of the unfolding pandemic, both Poland and other countries where the Group operates, namely the USA, Canada and the United Kingdom, had taken wide-ranging measures to contain the pandemic and mitigate its effects. The governments of individual countries and the European Union launched various programmes to counteract the adverse economic impacts of COVID-19. Still, the pandemic has plunged both local (including Poland) and international markets into the worst economic crisis in decades, which has impaired the purchasing power of consumers, dampened demand for consumer goods, changed consumer preferences (also in the overall entertainment market), and affected the general public sentiment due to a deterioration of the people's economic security and uncertainty as to the future.

The spread of COVID-19 has had a major impact on the video games market and game development industry, in which the Group operates. In 2020, a number of important marketing events were cancelled, including the largest conference for video game developers (Game Developers Conference (GDC) held in San Francisco) and the largest E3 trade show in Los Angeles. Other industry events, such as Gamescom 2020 or the releases of new generation consoles, moved to virtual space. Industry operators have been forced to switch to remote work, either temporarily or for longer periods. The release dates of some games have been postponed, although to a limited extent. As in the case of other industries, in 2021 the capacities of game developers may continue to be affected by the pandemic if their team members contract COVID-19 or are quarantined. On the other hand, the video games industry has shown considerable resilience to the economic crisis caused by COVID-19 compared with many other sectors.

As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2020, there was no way of predicting how the COVID-19 would continue to unfold and to what extent the video game industry would be impacted. Accordingly, there is a risk that the aggravating economic crisis and a pandemic-induced increase in unemployment and inflation could have an adverse effect on the international video game industry. This may drive down consumer spending on gaming software or hardware. Should the global COVID-19 crisis continue to deteriorate, it could affect the quality of video games, especially if game-savvy testers become less available to test and find bugs in the software, as a result of which the risk of launching and selling games containing bugs or technical glitches that could undermine user experience and reduce the metacritic score from reviewers or players would increase, translating into lower game sales and, consequently, lower post-release royalties payable to developers. The persisting or worsening pandemic could also affect game development processes, as the normal production rate would be difficult to maintain in the new remote work reality, or due to a lower number of available staff or reduced capacity of development teams due to factors such as ill health, quarantine or work from home. Moreover, should the global COVID-19 crisis continue or deteriorate any further, sales of game box sets would be affected due to difficulties in the production of such games and restrictions on the transport of goods, as seen during the first wave of the pandemic.

There is also no assurance that such potential decline in sales of boxed games would or could be compensated by higher sales of games in digital formats.

So far, the video games market has been perceived as a market showing greater resilience to potential crises compared with other industries. In addition, the Group adjusted to the changing conditions as needed, embracing a remote work system, which had no material effect on the Group's operating efficiency. However, there is no assurance that the risks described above, which have not materialised until the date of issue of this Report, will not materialise at a later date. Such scenarios 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 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 PCF Group S.A. nor any of the Group companies are the subject of or a party to any material proceedings before a court, a competent arbitration body or a public administration authority.



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FINANCIAL CONDITION OF THE PARENT AND ITS GROUP

19. Financial results of the parent and its Group in 2020

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 2019 and 2020.

20. Consolidated statement of profit or loss

	January 1st – December 31st 2020	January 1st – December 31st 2019	Change	Change in %
Continuing operations				
Revenue	103,769	83,936	19,833	24%
Revenue from sales of services	103,769	83,936	19,833	24%
Cost of sales	66,268	64,259	2,009	3%
Cost of services sold	66,268	64,259	2,009	3%
Gross profit (loss)	37,501	19,676	17,825	91%
General and administrative expenses	19,602	16,292	3,310	20%
Other income	8,498	3,136	5,362	171%
Other expenses	808	1,217	(409)	-34%
Operating profit (loss)	25,589	5,302	20,287	383%
Finance income	1,480	28	1,452	5278%
Finance costs	411	478	(67)	-14%
Profit (loss) before tax	26,658	4,852	21,806	449%
Income tax	2,079	23	2,056	8,763%
Net profit (loss) from continuing operations	24,579	4,828	19,751	409%
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	24,579	4,828	19,751	409%
Net profit (loss) attributable to:				
- owners of the parent	24,579	4,828	19,751	409%
- non-controlling interests	-	-	-	-

Revenue

Revenue for 2020 and 2019 amounted to PLN 103.8m and PLN 83.9m, respectively. The 24% year-on-year increase was attributable to:

- recognition of revenue from work performed for Square Enix, including continued development of *Outriders* and further development support provided in connection with *Outriders*,
- recognition of revenue from work performed for Square Enix on the development of *Project Gemini*,
- recognition of revenue from work performed for Take-Two Interactive Software, Inc. on the development of *Project Dagger*,
- growth in the period under review of revenue from copyrights to developed games (royalties).

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 in Poland (not directly involved in games development), costs of incentive schemes, lease of office space and services not related to games development. The year-on-year increase in general and administrative expenses in 2020 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,
- increase in the cost of office space leasing, largely in connection with the launch of the Group's studio in New York between May and June 2019, and transfer of the Parent's registered office to a new location in Warsaw,
- need to incur costs related to the public offering and the issue of shares by the parent (PLN 1.2m).

Other income

Other income includes income from the waiver of loans, sublease of office space and costs of technical infrastructure, medical services and other benefits re-charged to the Group's independent contractors (mainly the development team in Poland). The year-on-year increase in other income in 2020 was mainly attributable to the waiver of 50% of the loan received from PFR, waiver of 100% of the loan received under the 'Paycheck Protection Program' operated in the USA, waiver of 50% of the employer-funded social security contributions for March–May 2020 (the combined effect of these factors was PLN 4.0m).

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.

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 2020 represented the key positive contributor to net finance income (PLN +1.5m) relative to 2019 (PLN -0.4m).

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 2019 and 2020, 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 2020 and 2019 was 7.8% and 0.5%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 0.8m and PLN 1.0m in 2020 and 2019, while deferred income tax amounted to PLN 1.3m and PLN -1.0m, respectively.

21. Consolidated statement of financial position

ASSETS	December 31st 2020	December 31st 2019	Change	Change in %
Non-current assets				
Intangible assets	5,020	4,524	496	11%
Property, plant and equipment	3,308	1,665	1,643	99%
Right-of-use assets	11,595	987	10,608	1,075%
Other non-current financial assets	-	178	(178)	-100%
Non-current prepayments and accrued income	83	-	83	-
Non-current assets	20,006	7,353	12,653	172%
Current assets:				
Contract assets	24,019	5,787	18,232	315%
Trade and other receivables	7,083	14,838	(7,755)	-52%
Current tax assets	1,717	1,495	222	15%
Other current financial assets	171	-	171	-
Current prepayments and accrued income	1,399	132	1,267	960%
Cash and cash equivalents	41,302	29,125	12,177	42%
Current assets:	75,691	51,377	24,314	47%
Total assets	95,697	58,730	36,967	63%

The Group's assets rose 63%, by PLN 37.0m, to PLN 95.7m as at December 31st 2020, from PLN 58.7m as at December 31st 2019.

As at December 31st 2020, key items of the Group's assets were:

- right-of-use assets, representing 12% of total assets,
- contract assets, representing 25% of total assets,
- cash and cash equivalents, representing 43% of total assets.

As at December 31st 2020 and December 31st 2019, right-of-use assets amounted to PLN 11.6m and PLN 1.0m, respectively (up by PLN 10.6m). The change was largely attributable to the recognition in 2020, under the IFRS 16 regime, of lease contracts for the parent's new office in Warsaw and offices in New York and Łódź.

As at December 31st 2020 and December 31st 2019, contract assets amounted to PLN 24.0m and PLN 5.8m, respectively (up by PLN 18.2m). 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 and work performed for Square Enix 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.

EQUITY AND LIABILITIES	December 31st 2020	December 31st 2019	Change	Change in %
Equity				
Equity attributable to owners of the Parent				
Share capital	550	550	-	0%
Other components of equity	47,453	47,267	186	0%
Retained earnings:	28,516	3,913	24,603	629%
- profit (loss) from prior years	3,937	(915)	4,852	-530%
-net profit (loss) attributable to owners of the parent	24,579	4,828	19,751	409%
Equity attributable to owners of the parent	76,519	51,731	24,788	48%
Non-controlling interests	-	-	-	-
Equity	76,519	51,731	24,788	48%
Liabilities				
Non-current liabilities				
Borrowings, other debt instruments	1,167	-	1,167	-
Leases	8,001	545	7,456	1,369%
Deferred tax assets	1,260	10	1,250	12,500%
Non-current liabilities	10,428	555	9,873	1779%
Current liabilities				
Trade and other payables	3,816	5,594	(1,778)	-32%
Current tax liabilities	54	161	(107)	-66%
Borrowings, other debt instruments	583	-	583	-
Leases	3,990	455	3,535	777%
Employee benefit obligations and provisions	307	235	72	31%
Current liabilities	8,750	6,445	2,305	36%
Total liabilities	19,178	6,999	12,179	174%
Total equity and liabilities	95,697	58,730	36,967	63%

As at December 31st 2020, the Group's equity increased by PLN 24.8m (48%) relative to December 31st 2019. The increase was mainly attributable to net profit recorded in the period under review.

22. Consolidated statement of cash flows

	January 1st – December 31st 2020	January 1st – December 31st 2019	Change	Change in %
Cash at beginning of period	29,125	37,131	(8,006)	-22%
Cash flows from operating activities	15,762	1,898	13,864	730%
Cash flows from investing activities	(6,568)	(3,818)	(2,750)	72%
Cash flows from financing activities	2,191	(5,953)	8,144	-137%
Total net cash flows	11,385	(7,873)	19,258	-245%
Effect of foreign currency translation on cash	792	(133)	925	-697%
Cash and cash equivalents at end of period	41,302	29,125	12,177	42%

Cash increased by PLN 12.2m, from PLN 29.1m as at December 31st 2019 to PLN 41.3m as at December 31st 2020.

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 2020, the Group generated positive operating cash flows (of PLN 15.8m), driven mainly by pre-tax profit (PLN 26.7m). The pre-tax profit was partly offset by a negative change in working capital (of PLN -12.5m), which in turn was mainly attributable to a change in contract assets and liabilities (PLN -18.2m).

Investing activities

The Group recorded negative cash flows from investing activities (PLN -6.6m), attributable almost in full to the Group's acquisitions of intangible assets and property, plant and equipment. The major asset acquisitions were made to develop the Group's IT infrastructure, upgrade the Group's equipment and furnish the new office in Warsaw, as well as assign intellectual property rights associated with *Project Dagger* to PCF U.S.

Financing activities

Cash flows provided by the Group's financing activities were positive (at PLN 2.2m). They were achieved thanks to the receipt of:

- subsidy from Polski Fundusz Rozwoju S.A. under the government-run 'Polish Development Fund's Financial Shield for Micro, Small and Medium-Sized Enterprises' programme providing financial support to businesses as relief against the consequences of COVID-19;
- loan from Beverly Bank & Trust Company, N.A. under the 'Paycheck Protection Program' run by the US government's Small Business Administration to help save jobs during the COVID-19 pandemic.

The proceeds from the subsidy and the loan (of PLN 5.7m) were partially offset by repayment of lease liabilities (PLN -2.5m) and costs related to the issue of Series B shares (PLN -1.1m).

23. Consolidated profitability ratios

	December 31st 2020	December 31st 2019
Gross profit (loss) margin	36.14%	23.44%
EBITDA	31,940	9,789
EBITDA margin	30.78%	11.66%
EBITDA adjustments:		
incentive scheme (1)	-	3,212
costs of offering / issue of Series B shares (2)	1,168	531
legal advisory costs (3)	-	414
non-recognition of revenue (4)	-	4,500
waiver of 50% of PFR subsidy (5)	(1,750)	-
waiver of PPP loan (6)	(2,156)	-
issue of warrants (7)	3,399	-
Adjusted EBITDA	32,601	18,446
Adjusted EBITDA margin	31.42%	21.98%
Operating profit margin	24.66%	6.32%
Net profit (loss) margin	23.69%	5.75%
Return on equity (ROE)	32.12%	9.33%
Return on assets (ROA)	25.68%	8.22%

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) non-cash costs related to the incentive scheme,
- (2) one-off costs classified as costs of the issue of parent shares,
- (3) one-off advisory costs related to the launch of the New York office,
- (4) non-recognition of revenue in connection with the provision in one of the content riders under the *Outriders* development and publishing agreement with Square Enix for a variable component of the consideration due under that rider (conditional consideration, payable partially subject to and upon the achievement of a specific milestone of the *Outriders* development process within a prescribed time limit, and partially subject to and upon the achievement by the game of a specific metacritic score,
- (5) waiver 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,
- (6) waiver of the loan granted to PCF U.S. under the US government's 'Paycheck Protection Program',
- (7) non-cash 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.

24. Consolidated liquidity ratios

	December 31st 2020	December 31st 2019
Working capital	66,941	44,932
Current ratio	8.65	7.97
Quick ratio	8.65	7.97
Cash ratio	4.72	4.52

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

	December 31st 2020	December 31st 2019
Equity to assets ratio	0.80	0.88
Equity to non-current assets ratio	3.82	7.04
Total debt ratio	0.20	0.12
Debt to equity ratio	0.25	0.14

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

26. Separate statement of profit or loss

	January 1st – December 31st 2020	January 1st – December 31st 2019	Change	Change in %
Continuing operations				
Revenue	83,528	47,507	36,021	76%
Revenue from sales of services	83,528	47,507	36,021	76%
Cost of sales	43,997	34,556	9,441	27%
Cost of services sold	43,997	34,556	9,441	27%
Gross profit (loss)	39,531	12,951	26,580	205%
General and administrative expenses	15,814	13,025	2,789	21%
Other income	7,039	3,218	3,821	119%
Other expenses	808	652	156	24%
Operating profit (loss)	29,948	2,492	27,456	1102%
Finance income	1,471	1	1,470	147,000%
Finance costs	401	282	119	42%
Profit (loss) before tax	31,018	2,211	28,807	1,303%
Income tax	1,922	(174)	2,096	-1,205%
Net profit (loss) from continuing operations	29,096	2,385	26,711	1,120%
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	29,096	2,385	26,711	1,120%

Revenue

Revenue for 2020 and 2019 amounted to PLN 83.5m and PLN 47.5m, respectively. The 76% year-on-year increase was attributable to:

- recognition of revenue from work performed for Square Enix, including continued development of *Outriders* and further development support provided in connection with *Outriders*,
- recognition of revenue from work performed for Square Enix on the development of *Project Gemini*,
- growth in the period under review of revenue from copyrights to developed games (royalties),
- recognition of 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), costs of incentive schemes, lease of office space and services not related to games development. The year-on-year increase in general and administrative expenses in 2020 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,
- increase in the cost of office space leasing, largely in connection with the transfer of the parent's registered office to a new location in Warsaw,
- need to incur costs related to the public offering and the issue of shares by the parent (PLN 1.2m).

Other income

Other income includes income from the loan waiver, sublease of office space and costs of technical infrastructure, medical services and other benefits re-charged to the parent's independent contractors.

The year-on-year increase in other income in 2020 was mainly attributable to the waiver of 50% of the loan received from PFR and waiver of 50% of the employer-funded social security contributions for March–May 2020 (the combined effect of these factors was PLN 1.9m) and the sale of a licence for the Unreal Engine 4 game engine to the subsidiary People Can Fly U.S., LLC (the gain on the sale was PLN 0.7m).

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 (as income) and interest on leases (as costs). In addition, it accounts for exchange differences, which in 2020 represented the key positive contributor to net finance income (PLN +1.5m) relative to 2019 (PLN -0.2m).

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 2019 and 2020, 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 parent's effective tax rate for 2020 and 2019 was 6.2% and -7.9%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 0.8m and PLN 0.8m in 2020 and 2019, while deferred income tax amounted to PLN 1.2m and PLN -1.0m, respectively.

27. Separate statement of financial position

ASSETS	December 31st 2020	December 31st 2019	Change	Change in %
Non-current assets				
Intangible assets	2,586	4,177	(1,591)	-38%
Property, plant and equipment	2,860	1,192	1,668	140%
Right-of-use assets	10,143	987	9,156	928%
Investments in subsidiaries	7,862	2,036	5,826	286%
Non-current prepayments and accrued income	83	-	83	-
Non-current assets	23,534	8,392	15,142	180%
Current assets:				
Contract assets	21,577	5,787	15,790	273%
Trade and other receivables	10,101	11,409	(1,308)	-11%
Current tax assets	1,663	1,495	168	11%
Current prepayments and accrued income	1,368	55	1,313	2,387%
Cash and cash equivalents	32,940	23,365	9,575	41%
Current assets:	67,649	42,111	25,538	61%
Total assets	91,183	50,503	40,680	81%

The parent's assets rose 81%, by PLN 40.7m, to PLN 91.2m as at December 31st 2020, from PLN 50.5m as at December 31st 2019.

As at December 31st 2020, key items of the Group's assets were:

- right-of-use assets, representing 11% of total assets,
- contract assets, representing 24% of total assets,
- cash and cash equivalents, representing 36% of total assets.

As at December 31st 2020 and December 31st 2019, right-of-use assets amounted to PLN 10.1m and PLN 1.0m, respectively (up by PLN 9.2m). The change was largely attributable to the recognition in 2020, under the IFRS 16 regime, of lease contracts for the parent's new offices in Warsaw and Łódź.

As at December 31st 2020 and December 31st 2019, contract assets amounted to PLN 21.6m and PLN 5.8m, respectively (up by PLN 15.8m). 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 and work performed for Square Enix 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*.

EQUITY AND LIABILITIES	December 31st 2020	December 31st 2019	Change	Change in %
Equity				
Share capital	550	550	-	0%
Other components of equity	47,204	47,204	-	0%
Retained earnings:	28,747	(358)	29,105	-8,130%
- profit (loss) from prior years	(349)	(2,743)	2,394	-87%
- net profit (loss)	29,096	2,385	26,711	1,120%
Equity	76,501	47,396	29,105	61%
Liabilities				
Non-current liabilities				
Borrowings, other debt instruments	1,167	-	1,167	-
Leases	8,001	545	7,456	1,368%
Deferred tax assets	1,163	10	1,153	11,530%
Non-current liabilities	10,331	555	9,776	1,761%
Current liabilities				
Trade and other payables	985	1,897	(912)	-48%
Borrowings, other debt instruments	583	-	583	-
Leases	2,538	455	2,083	458%
Employee benefit obligations and provisions	245	200	45	23%
Current liabilities	4,351	2,552	1,799	70%
Total liabilities	14,682	3,107	11,575	373%
Total equity and liabilities	91,183	50,503	40,680	81%

As at December 31st 2020, the Group's equity increased by PLN 29.1m (61%) relative to December 31st 2019. The increase was mainly attributable to net profit recorded in the period under review.

28. Separate statement of cash flows

	January 1st – December 31st 2020	January 1st – December 31st 2019	Change	Change in %
Cash at beginning of period	23,365	28,266	(4,901)	-17%
Cash flows from operating activities	19,065	5,988	13,077	218%
Cash flows from investing activities	(10,232)	(4,801)	(5,431)	113%
Cash flows from financing activities	(50)	(5,955)	5,905	-99%
Total net cash flows	8,783	(4,768)	13,551	-284%
Effect of foreign currency translation on cash	792	(133)	925	-695%
Cash and cash equivalents at end of period	32,940	23,365	9,575	41%

Cash increased by PLN 9.6m, from PLN 23.4m as at December 31st 2019 to PLN 32.9m as at December 31st 2020.

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 2020, the parent generated positive operating cash flows (of PLN 19.1m), driven mainly by pre-tax profit (PLN 31.0m). The pre-tax profit was partly offset by a negative change in working capital (of PLN -14.1m), which in turn was mainly attributable to a change in contract assets and liabilities (PLN -15.8m).

Investing activities

The parent recorded negative cash flows from investing activities (of PLN -10.2m), attributable to:

- acquisitions by the parent of intangible assets and property, plant and equipment – the major asset acquisitions were made to develop the parent's IT infrastructure, upgrade its equipment and furnish the new office in Warsaw (PLN -4.4m),
- share capital increase at People Can Fly U.S. LLC, covered by the parent's cash contribution (PLN -5.8m).

Financing activities

Proceeds from the subsidy received from Polski Fundusz Rozwoju S.A. under the government-run 'Polish Development Fund's Financial Shield for Micro, Small and Medium-Sized Enterprises' programme providing financial support to businesses as relief against the consequences of COVID-19 (PLN 3.5m) were offset by repayment of lease liabilities (PLN -2.4m) and costs related to the issue of Series B shares (PLN -1.1m).

29. Separate profitability ratios

	December 31st 2020	December 31st 2019
Gross profit (loss) margin	47.33%	27.26%
EBITDA	35,829	6,863
EBITDA margin	42.89%	14.45%
EBITDA adjustments:		
incentive scheme (1)	-	3,212
costs of offering / issue of Series B shares (2)	1,168	531
non-recognition of revenue (3)	-	4,500
waiver of 50% of PFR subsidy (4)	(1,750)	-
issue of warrants (5)	3,399	-
Adjusted EBITDA	38,646	15,106
Adjusted EBITDA margin	46.27%	31.80%
Operating profit margin	35.85%	5.25%
Net profit (loss) margin	34.83%	5.02%
Return on equity (ROE)	38.03%	5.03%
Return on assets (ROA)	31.91%	4.72%

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) non-cash costs related to the incentive scheme,
- (2) one-off costs classified as costs of the issue of parent shares,
- (3) non-recognition of revenue in connection with the provision in one of the content riders under the *Outriders* development and publishing agreement with Square Enix for a variable component of the consideration due under that rider (conditional consideration, payable partially subject to and upon the achievement of a specific milestone of the *Outriders* development process within a prescribed time limit, and partially subject to and upon the achievement by the game of a specific metacritic score,
- (4) waiver 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,
- (5) 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.

30. Separate liquidity ratios

	December 31st 2020	December 31st 2019
Working capital	63,298	39,559
Current ratio	15.55	16.50
Quick ratio	15.55	16.50
Cash ratio	7.57	9.16

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

31. Separate funding structure ratios

	December 31st 2020	December 31st 2019
Equity to assets ratio	0.84	0.94
Equity to non-current assets ratio	3.25	5.65
Total debt ratio	0.16	0.06
Debt to equity ratio	0.19	0.07

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 2020.

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 Company 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

Impact of the COVID-19 pandemic on the Group's and the parent's business

As at the date of this report, in the opinion of the parent's Management Board, the COVID-19 pandemic should not have a material effect on financial results of the Group and the parent, and should not pose a threat to the ability of the Group and the parent to continue as a going concern within 12 months from the end of the reporting period. As a positive aspect, the vast majority of the Group's and the parent's revenue is derived from development of video games under contract with independent publishers. This operating model provides the Group and the parent 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 and the parent is sufficient to cover operating expenses, and the earned margin enables the Group and the parent 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 game 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.

Measures taken

In 2020, in view of the growing threat caused by the coronavirus pandemic, the Group took 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 accordingly, and communications were put in place to inform employees of the current situation and the recommendations made by government authorities in

relation to the threat and subsequent outbreak 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 does not eliminate the risk of infection by team members but reduces 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 date of this report, the Group and the parent remained on a solid financial footing. The Group also received financial support from governments against negative effects of the COVID-19 pandemic in Poland and the United States.

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.

	January 1st – December 31st 2020	January 1st – December 31st 2019
Beginning of period	186	154
New hires/new independent contractors in period (+)	73	74
Employee/contractor terminations in period (-)	(23)	(42)
End of period	236	186

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.

	January 1st – December 31st 2020	January 1st – December 31st 2019
Beginning of period	219	162
New hires/new independent contractors in period (+)	93	104
Employee/contractor terminations (-)	(31)	(47)
End of period	281	219



**PEOPLE
CAN FLY**

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 2020, the share capital of PCF Group S.A. amounted to PLN 591,250.24 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.

The shares were paid up in full.

Pursuant to the resolution of the Company'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 Company's Articles of Association (the "Warrants Issue Resolution"), the Company'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 Company'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 Company 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 2020, the Company 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 Company. The Company believes that the maximum number of Series C shares that could be acquired by Square Enix Limited would represent approximately 2.5% of the Company's share capital.

Until the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2020, the warrants were not offered for acquisition.

Ownership structure of PCF Group S.A.

In the reporting period, there were changes in the shareholding structure of PCF Group S.A., resulting from a public offering of Company shares based on the Company's prospectus 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 Company shares as at the date of the prospectus) and up to 2,062,512 new Series B ordinary bearer shares issued by the Company and offered to the public under the prospectus.

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.

Shareholder	As at November 25th 2020			
	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
<i>jointly parties to the Qualifying Shareholders' Agreement*</i>	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 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 2020, taking into account the Company shares held by its management personnel. No Company shares were held by members of the supervisory bodies.

Shareholder	As at April 26th 2021			
	Number of shares held	(%)	Number of voting rights	(%)
Sebastian Wojciechowski – President of the Management Board	14,872,022	50.31	14,872,022	50.31
Bartosz Kmita	2,579,910	8.73	2,579,910	8.73
Bartosz Biełuszko	1,805,936	6.11	1,805,936	6.11
Krzysztof Dolaś	1,805,936	6.11	1,805,936	6.11
<i>jointly parties to the Qualifying Shareholders' Agreement*</i>	21,063,804	71.25	21,063,804	71.25
The other shareholders, including twenty-one selling shareholders	8,498,708	28.75	8,498,708	28.75
Total	29,562,512	100	29,562,512	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 Company shares held by the management and supervisory personnel.

Following a public offering of Company shares carried out pursuant to the Company's prospectus approved by the Polish Financial Supervision Authority on November 25th 2020:

- On December 11th 2020, Sebastian Wojciechowski, President of the Company's Management Board, sold 1,205,840 Series A ordinary bearer shares in the Company at a price of PLN 50 per share, thereby reducing his holding of Company shares from 16,077,862 to 14,872,022 shares.
- On December 11th 2020, Bartosz Biełuszko, member of the Company's Supervisory Board, sold 146,428 Series A ordinary bearer shares in the Company at a price of PLN 50 per share, thereby reducing his shareholding in the Company from 1,952,364 to 1,805,936 shares.
- On December 11th 2020, Krzysztof Dolaś, member of the Company's Supervisory Board, sold 146,428 Series A ordinary bearer shares in the Company at a price of PLN 50 per share, thereby reducing his shareholding in the Company from 1,952,364 to 1,805,936 shares.

To the best of the Company's knowledge, members of its management and supervisory personnel do not hold any shares in any of the Company'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 for: (i) retail investors was set at PLN 46.00 per share; the Management Board allotted 618,750 new shares to retail investors; (ii) institutional investors was set at PLN 50.00 per share; the Management Board allotted 1,401,465 new shares to institutional investors; and (iii) investors in the employee offering was set at PLN 41.40 per share; the Management Board allotted 42,297 new shares to those 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, the Company used the proceeds from the issue of Series B shares as follows:

- On 31 March 2021 PCF Group S.A. granted a loan to its wholly-owned subsidiary People Can Fly U.S., LLC for the purposes related to the implementation of the PCF Group S.A. group's strategy, including establishing a wholly-owned subsidiary of People Can Fly U.S., LLC. The amount of the loan is USD 5,000,000 with annual interest at LIBOR plus 2 percentage points. The term of the loan is ten years. The loan is secured on assets of People Can Fly U.S. LLC, including intellectual property rights. The loan will be repaid in a single payment at the end of the loan term. The loan can be prepaid. The loan has been granted at arm's length.
- On 6 April 2014 a wholly owned subsidiary of People Can Fly U.S., LLC, a Delaware company People Can Fly Chicago, LLC, has been established.
- On 23 April 2021 the PCF Group S.A. indirect subsidiary People Can Fly Chicago, LLC took-over of the development team of Phosphor Games, LLC with its registered office in Chicago, USA ("PH Games"). The new People Can Fly Chicago, LLC studio will commence business activity as of 1 May 2021. The take-over of the development team has been financed using a loan granted on 31 March 2021 by PCF Group S.A. to its wholly-owned US 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.

PCF Group S.A.'s subsidiaries did not issue any shares in the financial year 2020.

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 Company 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 Company'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 Company's shareholding structure will be further diluted. The table below shows the hypothetical structure of the Company'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	88.37
Series B	2,062,512	6.63
Series C	1,555,922	5.00
Total	31,118,434	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 Company 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 2020, the Company 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 Company. The Company believes that the maximum number of Series C shares that could be acquired by Square Enix Limited would represent approximately 1.8227% of the Company's share capital.

On July 31st 2020, the Company and Square Enix Limited signed a Term Sheet setting out the terms under which the parties would cooperate 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 issued by the Company as part of a conditional share capital increase in the exercise of rights attached to the warrants.

Under the Term Sheet, the Company agreed to offer to Square Enix Limited subscription warrants issued pursuant to Art. 453.2 of the Commercial Companies Code. The warrants would be issued within Series A, in tranches. As a rule, each tranche of warrants would be offered to Square Enix Limited after the end of a settlement period ("Settlement Period"). A Settlement Period would be each period in which specific revenue generated by the Company under its agreements with Square Enix Limited reached a threshold of

PLN 45.0m. The time interval for determining the Settlement Periods would run from January 1st 2020 to September 30th 2024 (the "Last Settlement Day"). If the revenue amount exceeded the threshold specified above, the current Settlement Period would end, triggering the Company's obligation to offer to Square Enix Limited a tranche of warrants due for the ended Settlement Period in a number equal to the quotient of PLN 4.5m and PLN 50, i.e. the final price of shares offered to institutional investors as part of the public offering of Company shares carried out on the basis of the Company's prospectus approved by the Polish Financial Supervision Authority on November 25th 2020 ("Relevant Tranche Warrants"). The maximum number of Settlement Periods (and the maximum number of tranches of warrants) would be six. Should Square Enix Limited not acquire six tranches of warrants by the Last Settlement Day, the Company would be required to offer to Square Enix Limited warrants for the last outstanding Settlement Period in proportion to the amount of revenue generated in that outstanding period to the number of Relevant Tranche Warrants. Square Enix Limited would be entitled to acquire warrants free of charge. Each warrant would entitle it to subscribe for one Series C share at the issue price of PLN 50, i.e. the final price of shares offered to institutional investors as part of the public offering of Company shares carried out on the basis of the Company's prospectus approved by the Polish Financial Supervision Authority on November 25th 2020. Square Enix Limited's rights to subscribe for Series C shares would first vest after it has acquired the fourth tranche of warrants (in which case Square Enix Limited would be entitled to exercise its rights to subscribe for such shares under the first to fourth tranches of warrants), and thereafter upon the acquisition of each subsequent tranche of warrants, i.e. the fifth and sixth tranches, provided that Square Enix Limited acquired the fourth, fifth or sixth tranche of warrants, as appropriate, by the Last Settlement Day. Should Square Enix Limited not acquire the fourth tranche of warrants by the Last Settlement Day due to non-achievement of the revenue threshold, the rights attached to warrants acquired until that date would be exercisable from January 1st 2025. The rights to subscribe for Series C shares from all warrants would be exercisable until December 31st 2025. In certain cases, especially in the event of acquisition of control of the Company or steps having been taken to delist Company shares from the Warsaw Stock Exchange, the time limits for the Company to offer warrants to Square Enix Limited and the time limits for Square Enix Limited to subscribe for Series C shares could be accelerated.

In accordance with the Term Sheet, the Company and Square Enix Limited agreed to negotiate in good faith with a view to concluding an agreement that would set out the respective rights and obligations of the parties in connection with the issue of subscription warrants (the "Warrants Agreement"). The offering of each successive tranche of subscription warrants to Square Enix Limited is conditional on the execution of the Warrants Agreement and on the Warrants Agreement and the development and publishing agreements for *Outriders* and *Project Gemini* (and – if other agreements with Square Enix Limited are concluded in the future – such other agreements) remaining in force on the date of submission of each offer to acquire 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 2020, negotiations between the Company and Square Enix Limited to execute the Warrants Agreement were at a very advanced stage.

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 Group) did not and do not hold any treasury shares.

42. Control system for employee stock plans

In 2020, neither PCF Group S.A. nor its subsidiaries had any employee stock plans in place.

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 Company'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.

Pursuant to Resolution No. 4 of the General Meeting of March 6th 2020, Grant Thornton was appointed as the audit firm authorised to audit, and subsequently audited, Historical Financial Information for 2019–2017 prepared in accordance with IFRS/IAS for the purposes of the Offering and issued an audit report containing an unqualified opinion. On behalf of Grant Thornton, the auditor's opinion on Historical Financial Information for 2019–2017 was signed by Jan Letkiewicz, an auditor entered in the register of auditors under Reg. No. 9530.

Pursuant to Resolution No. 5 of the General Meeting of March 6th 2020:

- Grant Thornton was appointed as the audit firm authorised to review, and subsequently reviewed, Interim Financial Information for the six months to June 30th 2020 prepared in accordance with IFRS/IAS for the purposes of the Offering and issued an unqualified review report. On behalf of Grant Thornton, the report on the review of Interim Financial Information for the six months to June 30th 2020 was signed by Jan Letkiewicz, an auditor entered in the register of auditors under Reg. No. 9530;
- Grant Thornton was appointed as the audit firm authorised to audit, and subsequently audited, the Company's statutory financial statements and the Group's statutory consolidated financial statements for the financial year 2019 prepared in accordance with IFRS/IAS, and issued audit reports containing unqualified opinions. On behalf of Grant Thornton, the audit opinions on the Company's financial statements and the Group's statutory consolidated financial statements were signed by Jan Letkiewicz, an auditor entered in the register of auditors under Reg. No. 9530;
- Grant Thornton was appointed as the audit firm authorised to audit the Company's statutory financial statements and the Group's statutory consolidated financial statements for the financial year 2020 prepared in accordance with IFRS/IAS. By the Prospectus Date, Grant Thornton had not audited the Company's separate financial statements and the Group's consolidated financial statements for the financial year 2020, neither had it issued any audit reports thereon.

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 professional standards applicable to audit firms and auditors. Aside from agreements relating to the Offering between Grant Thornton and the Company, Grant Thornton has no other interests in the Company, and in particular, as at the Prospectus Date, it did not hold any equity instruments of the Company, in particular any shares or subscription warrants issued by the Company.

	January 1st – December 31st 2020	January 1st – December 31st 2019
Audit of statutory financial statements	75	52
Audit of historical financial information	97	155
Other assurance services	113	47
Total	285	254

CORPORATE GOVERNANCE STATEMENT OF PCF GROUP S.A. FOR 2020

Introduction

Since December 15th 2020, i.e. the date of admission of PCF Group S.A. shares to trading on the regulated market of the Warsaw Stock Exchange, the Company has been subject to the corporate governance standards of the Best Practice for GPW Listed Companies 2016, a document attached to Resolution No. 26/1413/2015 of the Warsaw Stock Exchange's Supervisory Board of October 13th 2015, effective from January 1st 2016.

The content of the Best Practice for GPW Listed Companies 2016 corporate governance standards is publicly available on the website of the Warsaw Stock Exchange at:

www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

and in the registered office of the Warsaw Stock Exchange.

In fulfilling the disclosure requirements regarding the application of corporate governance standards, 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. 1/2020 (EBI) of December 17th 2020, the Company reported on the scope of application of the corporate governance standards of the Best Practice for GPW Listed Companies 2016, identifying certain specific corporate governance standards that were not applied by the Company on a permanent basis. All information arising from the corporate governance standards adopted by the Company is published on the Company's website at:

peoplecanfly.com/wp-content/uploads/2020/12/informacja-na-temat-stanu-stosowania-przez-spolke-rekomendacji-i-zasad-zawartych-w-zbiorze-dobre-praktyki-spolek-notowanych-na-gpw-2016.pdf

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

With respect to the Best Practice for GPW Listed Companies 2016, the Company undertook to follow all the provisions of that code of corporate governance standards, except for the following:

I. Disclosure Policy and Investor Communications

Recommendations

I.R.2. Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.

This standard is applied.

Company's comment: *For the time being, the Company does not pursue any sponsorship, charity or other similar activities.*

Detailed principles

I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

I.Z.1.3. a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1;

This standard is not applied.

Company's comment: *The standard is not fully applied. The Management Board has only one member, hence, for objective reasons, the Company is unable to publish on its website a chart showing the internal division of responsibilities for individual areas of the Company's activity among members of the Management Board; however, the Company intends to apply this standard in full if more members are appointed to the Management Board, and until such time it will publish on its website the internal division of responsibilities for individual areas of the Company's activity, considering that the Management Board has only one member.*

I.Z.1.8. selected financial data of the company for the last five years of business in a format enabling the recipient to process such data;

This standard is not applied.

Company's comment: *The standard is not fully applied. The Company intends to publish on its website selected financial data of the company for the last five years of business in a format enabling the recipient to process such data. However, the Company notes that until 2018 its financial statements were prepared in accordance with the Accounting Act of September 29th 1994 (the "Accounting Act"), and since then have been prepared in accordance with international financial reporting standards endorsed for use in the European Union (the "IFRS"). In order to draw up the prospectus approved by the Polish Financial Supervision Authority on November 25th 2020, the Company prepared consolidated audited historical financial information of the Group for the periods from January 1st to December 31st 2019, from January 1st to December 31st 2018, and from January 1st to December 31st 2017 for the purpose of the offering of Company shares in accordance with international accounting standards ("IAS"), IFRS and interpretations thereof endorsed for use in the European Union. Therefore, for the sake of continuity and comparability of information, the Company will present data according to IFRS starting from January 1st 2017, and according to the Accounting Act as at and for the years ended December 31st 2015 and December 31st 2016.*

- I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last five years, including information about the degree of their implementation;

This standard is applied.

Company's comment: *The Company has not decided to publish any financial projections.*

- I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;

This standard is not applied.

Company's comment: *The Company has not drafted any formalised diversity policy. The Company employs people with relevant qualifications and professional experience without discriminating them based on age or gender. When selecting candidates for supervisory and management positions, the authorised bodies 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 operations, its size and the need to acquire employees 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 governing bodies 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.*

- I.Z.1.16. information about the planned transmission of a general meeting, not later than seven days before the date of the general meeting;

This standard is not applied.

Company's comment: *The Company intends to comply with this standard if the person convening a General Meeting decides that attending by means of electronic communication is permitted. If shareholders participate in the General Meeting by means of electronic communication, the Company intends to ensure that the General Meeting is broadcast in real time to shareholders who have registered for the General Meeting.*

- I.Z.1.17. justification of draft resolutions of the general meeting concerning issues and determinations which are relevant to or may give rise to doubts of shareholders, within a timeframe enabling participants of the general meeting to review them and pass the resolution with adequate understanding;

This standard is applied.

Company's comment: *The publication of justifications of draft resolutions of the General Meeting concerning matters referred to in the standard will be ensured for matters brought up by the Management Board. For draft resolutions proposed by shareholders, the publication will be subject to the submission of a justification by such shareholders.*

I.Z.1.20. an audio or video recording of a general meeting,

This standard is not applied.

Company's comment: *The Company does not publish any audio or video recordings of its General Meetings due to the lack of technical infrastructure required to make such recordings to an appropriate quality standard and additional costs involved in engaging a professional third party to provide such services, as well as the lack of interest of shareholders in accessing such recordings of the General Meetings, mostly because of the prevalent practice of attending the Company's General Meetings by proxy. In addition, recording of the Company's General Meetings would entail publishing the images of General Meeting participants, who are not public figures. The Company believes that the proper performance of disclosure obligations relating to General Meetings, in particular the publication of current reports and disclosure of relevant information on the corporate website, provides shareholders with full access to General Meeting information. However, the Company declares that it will comply with the corporate governance standard with respect to the publication of audio recordings of General Meetings on its website if the Company's shareholders, including minority shareholders (stock exchange investors), express their interest in such publications.*

II. Management Board, Supervisory Board

Recommendations

II.R.2. Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.

This standard is not applied.

Company's comment: *The Company has no diversity policy in place. The Company employs people with relevant qualifications and professional experience without discriminating them based on age or gender. When selecting candidates for members of the Management Board and Supervisory Board, the authorised bodies are guided by the interests of the Company and its shareholders, taking into account the relevant qualifications, skills and experience of the candidates. Decisions to appoint members of the Management Board or Supervisory Board are not based on gender. Therefore, the Company cannot ensure an equal representation of women and men in management and supervisory positions.*

Detailed principles

II.Z.1. The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

This standard is not applied.

Company's comment: *The Company's Management Board has only one member, but the Company intends to apply the standard if more members are appointed to the Management Board.*

II.Z.2. A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.

This standard is not applied.

Company's comment: *The Company's Articles of Association and applicable internal documents do not impose any disclosure obligation in this respect on members of the Management Board. The Company does not rule out that it may amend its internal documents to address this issue.*

III. Internal Systems and Functions

Recommendations

- III.R.1. The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.

This standard is not applied.

Company's comment: *Save for the Audit Committee, the Company's structure does not include any separate units responsible for the performance of tasks in individual systems or functions because the separation of such units is not justified by the type of the Company's activity.*

Detailed principles

- III.Z.2 Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

This standard is not applied.

Company's comment: *The Company's structure does not include a separate unit responsible for risk management, internal audit (other than the Audit Committee) and compliance. All tasks in these areas are performed directly by the Management Board. If a separate unit for any of the above areas is established within the Company, the persons in charge of such areas will report directly to the President of the Management Board, and if the Management Board has more than one member, they might possibly report to another member of the Management Board, and they will also have the option to report directly to the Supervisory Board or the Audit Committee.*

- III.Z.3. The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.

This standard is not applied.

Company's comment: *The Company has an Audit Committee composed of three members, two of whom, including the Chairman of the Audit Committee, satisfy the independence criteria within the meaning of the Best Practice and the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017. If a separate unit in charge of internal audit is established within the Company, the Company will make efforts to ensure that the independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.*

- III.Z.4. The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

This standard is not applied.

Company's comment: *The Company's structure does not include a separate unit responsible for internal audit (other than the Audit Committee). The Company intends to achieve compliance with this standard in relation to the Management Board.*

IV. General Meeting, Shareholder Relations

Recommendations

- IV.R.2 If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting;

- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
- 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

This standard is not applied.

Company's comment: *The Company intends to comply with this recommendation if the person convening a General Meeting decides that attending by means of electronic communication is permitted. If shareholders participate in the General Meeting by means of electronic communication, the Company intends to ensure that the General Meeting is broadcast in real time to shareholders who have registered for the General Meeting.*

- IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

This standard is applied.

Company's comment: *Securities issued by the Company (i.e. shares) are listed only in Poland, on the regulated market operated by the Warsaw Stock Exchange.*

Detailed principles

- IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

This standard is not applied.

Company's comment: *The Company does not intend to ensure publicly available real-time broadcasts of General Meetings. If shareholders participate in the General Meeting by means of electronic communication, the Company intends to ensure that the General Meeting is broadcast in real time to shareholders who have registered for the General Meeting. The Company believes that the performance of disclosure obligations relating to General Meetings, in particular the publication of current reports and disclosure of relevant information on the corporate website, will provide shareholders with full access to its General Meeting information.*

- IV.Z.5. The rules of general meetings and the method of conducting the meeting and adopting resolutions must not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules of the general meeting should take effect at the earliest as of the next general meeting.

This standard is applied.

Company's comment: *The Company's Articles of Association do not provide for an obligation to adopt the rules of General Meetings.*

- IV.Z.18. A resolution of the general meeting to split the nominal value of shares should not set the new nominal value of the shares below PLN 0.50, which could result in a very low unit market value of the shares, and which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.

This standard is not applied.

Company's comment: *The nominal (par) value of Company shares is PLN 0.02 and had been set at that level prior to the public offering of Company shares. The Management Board believes that a nominal value of Company shares set below PLN 0.50 will not pose a threat in the foreseeable future to the correct and reliable valuation of the Company on the stock exchange, as the expected price of Company shares on the stock exchange exceeds the PLN 0.50 threshold. At the same time, the Management Board does not intend to recommend that the General Meeting pass a resolution to further split the nominal value of the shares.*

V. Conflict of Interest, Related Party Transactions

Detailed principles

- V.Z.5. Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction.

Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group.

If the decision concerning the company's significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

This standard is not applied.

Company's comment: *The Articles of Association do not require the Management Board to request the Supervisory Board's approval of the execution by the Company of a significant agreement with a shareholder holding at least 5% of the total vote in the Company or a related party, neither is this within the authority of the Company's General Meeting as set out in the Company's Articles of Association. However, the Company intends to comply with this standard, also in line with the relevant provisions of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 concerning related-party transactions.*

- V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

This standard is not applied.

Company's comment: *The Company intends to achieve compliance with this standard. Decisions of the Company's governing bodies are made in accordance with applicable laws and regulations, in particular the Commercial Companies Code of September 15th 2000. In addition, the rules of procedure for the Company's Management Board and Supervisory Board provide for ways to address existing or potential conflicts of interest. However, they do not specify any criteria or circumstances under which a conflict of interest may arise at the Company, and the Company does not intend to define such criteria or circumstances on its own. Members of the Company's governing bodies have sufficient knowledge and experience to comply with the applicable regulations in this respect.*

VI. Remuneration

Recommendations

- VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

This standard is applied.

Company's comment: *Currently, the Company's Supervisory Board has no remuneration committee.*

Detailed principles

- VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

This standard is not applied.

Company's comment: *The Company does not rule out that this standard will be applied once an incentive scheme is established.*

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 Company's Management Board is responsible for the internal control system at the Company 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.

Until the end of November 2020, the accounting books of both PCF Group S.A. and its subsidiaries had been kept by third party accounting offices, separately for each company, with dedicated persons responsible for keeping the accounting records of individual companies as their chief accountants. In connection with expansion and strengthening of the Company's in-house finance and accounting function undertaken in 2020 to end the cooperation with third party providers of accounting services and to transfer bookkeeping and financial reporting to the Company's internal structures within the remit of the Chief Accountant, as of December 1st 2020 the Company has been keeping its own accounting records. In the Management Board's opinion, this should enable the Company to adjust its internal finance and accounting function to meet the Company's needs if the scale of its operations continues to expand. The change did not affect the keeping of accounting records of PCF Group S.A.'s subsidiaries, which continue to be kept by third party accounting offices. 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.

Pursuant to the Articles of Association of PCF Group S.A., the Supervisory Board appoints an audit firm to audit the financial statements; until April 20th 2020, i.e. the date of registration in the Business Register of the National Court Register of the respective amendments to the Articles of Association, that power had been vested in the General Meeting. Pursuant to Resolution No. 5 of the General Meeting of March 6th 2020, Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp.k. was appointed as the audit firm authorised to audit the Company's statutory separate financial statements and the Group's statutory consolidated financial statements for the financial year 2020 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.

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 in PCF Group S.A. as at December 31st 2020.* None of the listed shareholders held Company shares indirectly.

Shareholder	Number of Series A shares	(%)	Number of voting rights	(%)
Sebastian Wojciechowski	14,872,022	54.08	14,872,022	54.08
Bartosz Kmita	2,579,910	9.38	2,579,910	9.38
Bartosz Biełuszko	1,805,936	6.57	1,805,936	6.57
Krzysztof Dolaś	1,805,936	6.57	1,805,936	6.57
<i>jointly parties to the Qualifying Shareholders' Agreement**</i>	<i>21,063,804</i>	<i>76.60</i>	<i>21,063,804</i>	<i>76.60</i>
Other shareholders	6,436,196	23.40	6,436,196	23.40
<i>of which new shareholders</i>	<i>2,062,512</i>	<i>7.50</i>	<i>2,062,512</i>	<i>7.50</i>
Total	27,500,000	100	27,500,000	100

*Shareholding structure after the allotment of 2,062,512 Series A ordinary bearer shares offered to the public under the prospectus of PCF Group S.A. approved by the Polish Financial Supervision Authority on November 25th 2020.

**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.

After December 31st 2020, there were changes in the holdings of Company shares related to the registration on January 18th 2021 of an increase in the Company's share capital by PLN 41,250.24 to PLN 591,250.24, through the issue of 2,062,512 Series B shares with a par value of PLN 0.02 per share as part of public subscription under the prospectus of PCF Group S.A. approved by the Polish Financial Supervision Authority on November 25th 2020.

The table below presents shareholders holding directly at least 5% of total voting rights in 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 2020. None of the listed shareholders held Company shares indirectly.

Shareholder	Number of shares held	(%)	Number of voting rights	(%)
Sebastian Wojciechowski	14,872,022	50.31	14,872,022	50.31
Bartosz Kmita	2,579,910	8.73	2,579,910	8.73
Bartosz Biełuszko	1,805,936	6.11	1,805,936	6.11
Krzysztof Dolaś	1,805,936	6.11	1,805,936	6.11
<i>jointly parties to the Qualifying Shareholders' Agreement*</i>	21,063,804	71.25	21,063,804	71.25
Other shareholders	8,498,708	28.75	8,498,708	28.75
Total	29,562,512	100	29,562,512	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 any 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 transferability of the Company'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 2020, 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, as at the reporting date, 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. from December 18th 2020.

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 2020, the Management Board was composed of one member – the 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. 402¹.1 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. 402¹.2 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:

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 2020, the Company's General Meeting was convened four times. 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:

peoplecanfly.com/wp-content/uploads/2021/01/statut-pcf-group-sa-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 2020.

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 2020.

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 the Directors' Report on the operations of PCF Group S.A. and its Group in 2020, and 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 2020

Management Board

As at the reporting date and the date of authorisation for issue of the Directors' Report on the operations of PCF Group S.A. and its Group in 2020, 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:

peoplecanfly.com/investors/#lad-korporacyjny.

Supervisory Board

As at the reporting date, the Company's Supervisory Board consisted of five members:

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

Among the Supervisory Board members, Jacek Pogonowski and Aleksander Ferenc 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 2016.

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 date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2020, 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 – Member of the Supervisory Board.

Among the Supervisory Board members, Jacek Pogonowski and Aleksander Ferenc 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 2016.

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

On June 26th 2020, the Extraordinary General Meeting of the Company determined that the Company's Supervisory Board would be composed of five members, and appointed two new independent Supervisory Board members, Jacek Pogonowski and Barbara Sobowska, to the Supervisory Board previously consisting of three members appointed on November 6th 2019 (Mikołaj Wojciechowski, Krzysztof Dolaś and Bartosz Biełuszko).

Following Barbara Sobowska's resignation from the Supervisory Board submitted on November 5th 2020, with effect as of the date of appointment by the Company's General Meeting of a new member of the Supervisory Board, on November 16th 2020 the Extraordinary General Meeting appointed Aleksander Ferenc as a new member of the Supervisory Board.

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.

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

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 2020 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 2020, the Supervisory Board held three meetings and passed resolutions without convening a meeting. As part of its meetings and resolutions, the Supervisory Board dealt, in particular, with the following business: review of financial statements and distribution of profit, appointment of the Audit Committee and adoption of its Rules of Procedure, as well as adoption of the Rules of Procedure for the 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:

peoplecanfly.com/investors/#lad-korporacyjny.

Audit Committee

On June 26th 2020, the Company's Supervisory Board passed a resolution to appoint the Audit Committee of the Supervisory Board, as well as a resolution to appoint the Chairperson and members of the Audit Committee of the Supervisory Board. 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.

As at June 26th 2020, the Audit Committee consisted of: Jacek Pogonowski as Chairman of the Audit Committee, and Barbara Sobowska and Mikołaj Wojciechowski as members of the Audit Committee.

Following the changes in the composition of the Supervisory Board described above, 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 2020 the Audit Committee was composed of:

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

Among the Audit Committee members, as at December 31st 2020 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 set out in Art. 129.1 thereof. Jacek Pogonowski and Aleksander Ferenc are the Supervisory Board members satisfying 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 2016.

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 2016–2020, **Aleksander Ferenc** worked for Bank Gospodarstwa Krajowego, initially as an Investment Manager at the investment fund management company Towarzystwo Funduszy Inwestycyjnych BGK S.A., and then as Head of Investment and M&A. In 2013–2015, he was M&A Director at Żabka Polska sp. z o.o. In 2013, he worked as Head of the Privatisation Department at PKP S.A., and in 2012–2013 as an adviser at Krajowy Fundusz Kapitałowy S.A. In 2009–2012, he was M&A Director at PZU S.A. From 2007 to 2009, he was Deputy Director for Central and Eastern Europe (CEE) and South-Eastern Europe (SEE) at Intermediate Group PLC of London. In 1999–2007, he worked for Societe Generale Asset Management Alternative Investments Private Equity (formerly Baring Corilius Private Equity and Baring Private Equity Partners). From 1998 to 1999, he worked at IB Financial Advisors and Erste Investments. He began his professional career at Arthur Andersen, where he worked in 1995–1997. He graduated from the Faculty of Mechanics at the Warsaw University of Technology in 1991, and holds a PhD degree earned there in 1996. In 2006, he received an MBA from Manchester Business School (The University of Manchester). He also graduated from the Catholic University of Leuven (Katholieke Universiteit Leuven) in Belgium.

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

Permitted non-audit services

In the financial year 2020, no permitted services other than audits and reviews were provided to the Company by Grant Thornton Frackowiak Sp. z o.o. sp.k. Therefore, and to the extent related to the provision of such services, there was no need to assess the independence of the audit firm and to approve the provision of permitted non-audit services by the audit firm.

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 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 appoint a qualified auditor to audit financial statements of PCF Group S.A. and consolidated financial statements of the Group and to review interim financial statements of PCF Group S.A. and interim consolidated financial statements of the Group. By the same resolution, the Extraordinary General Meeting appointed Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Spółka komandytowa as the audit firm authorised to audit the separate 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 separate interim financial statements of the Company and the interim consolidated financial statements of the Group for the period January 1st–June 30th 2020. The Extraordinary General Meeting also passed a resolution to amend the Company's Articles of Association, with the amendment designating the Supervisory Board as the body responsible for appointment of the auditor to audit financial statements of the Company and consolidated financial statements of the Group.

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.

Consequently, the selection of the auditor was not carried out taking into account the policy for selecting the audit firm, including the Audit Committee's recommendation in this regard, as at the time of selecting the audit firm, the Company was not obliged to have an Audit Committee and no such Committee had been established.

In the financial year 2020, no permitted services other than audits and reviews of financial statements were provided to the Company by Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Spółka komandytowa. Therefore, and to the extent related to the provision of such services, there was no need to assess the independence of the audit firm and to approve the provision of permitted non-audit services by the audit firm.

Number of Audit Committee meetings

The Audit Committee was appointed by way of a resolution of the Company's Supervisory Board on June 26th 2020. On the same day, the Company's Supervisory Board passed resolutions to appoint the Chairperson and members of the Audit Committee of the Supervisory Board. All resolutions became effective as of their dates. In 2020, the Audit Committee held one meeting, during which the Committee reviewed a final presentation on the audit of the Company's separate financial statements for the period January 1st–December 31st 2019 and the consolidated financial statements of the Group in which the Company is the parent for the period January 1st–December 31st 2019, delivered by the Company's statutory auditor, and members of the Audit Committee asked a number of questions to the auditor's representatives concerning the financial statements and their audit.



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