

WARSZAWA | 29 KWIETNIA 2024 ROKU



PEOPLE
CAN FLY

**GRUPA KAPITAŁOWA
PCF GROUP
SPÓŁKA AKCYJNA**

**SPRAWOZDANIE ZARZĄDU Z DZIAŁALNOŚCI
GRUPY KAPITAŁOWEJ PCF GROUP SPÓŁKA AKCYJNA
ORAZ SPÓŁKI PCF GROUP SPÓŁKA AKCYJNA W 2023 ROKU**



This Directors' Report on the operations of PCF Group S.A. and its Group in 2023 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 29 March 2018 (Dz.U. of 2018, item 757, as amended).

As permitted under Section 71.8 of the Regulation, the Directors' Report on the operations of PCF Group S.A. and its Group in 2023 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 (the 'Report') 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 31 December 2022.

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 the forward-looking statements. The Company gives no warranty or assurance that factors described in these forward-looking statements will actually occur, bringing them to the readers' attention as only one of the possible scenarios, which should not be viewed as the most likely or typical one. None of the forward-looking information expressed in this report or implied by its content represents a performance forecast or estimate.

GENERAL INFORMATION

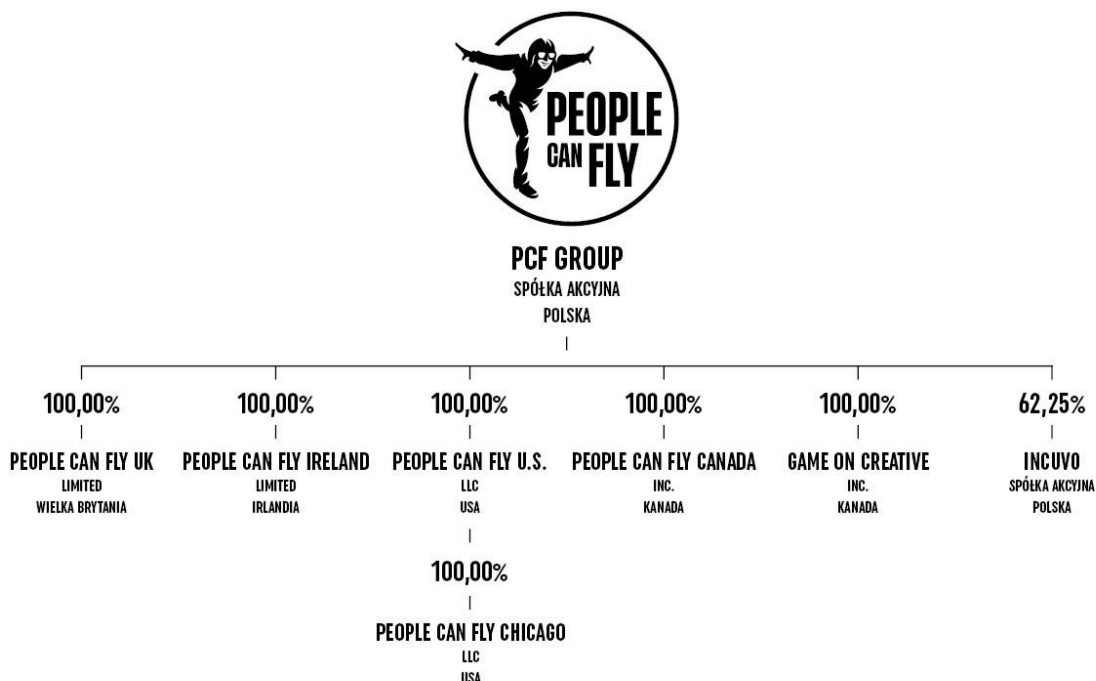
1. Organisational structure of the PCF Group S.A. Group

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

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

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

The chart below presents the composition and structure of the Group as at 31 December 2023.



The Parent has a branch in Rzeszów, trading under the name PCF Group Spółka Akcyjna Oddział w Rzeszowie "Oddział Badawczo Rozwojowy" (Research and Development Branch), located at ul. Romańczuka 6, units 4-5, 35-302 Rzeszów.

The subsidiaries do not have any branches.



The Parent and the consolidated entities of the Group have been established for an indefinite time.

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

The following changes occurred in the Group's structure in the 12 months ended 31 December 2023:

- On 2 February 2023, People Can Fly Ireland Limited, a single-member subsidiary of the Parent, was registered. The subsidiary provides publishing services within the Group.
- On 17 February 2023, a transaction was finalised, resulting in the Parent's equity interest in Incuvo S.A. increasing from approximately 50.01% to approximately 62.25% of the share capital and voting rights in Incuvo S.A.
- On 4 October 2023, the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, issued a decision to delete Spectral Applications spółka z ograniczoną odpowiedzialnością w likwidacji (in liquidation) from the Business Register of the National Court Register.

PCF Group S.A., as the Parent, neither held nor holds any treasury shares. Neither the Group companies nor persons acting on behalf of PCF Group S.A. or its subsidiaries (entities of the PCF Group S.A. Group) held or 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 2023, there were no joint ventures or other companies outside the PCF Group in which any of the Group companies would hold equity interests with potentially material bearing on the assessment of the Group companies' assets, liabilities, financial condition and profit or loss.

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

As of 31 December 2022, PCF Group S.A. and its subsidiaries held no direct or indirect 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 PCF Group S.A. or its subsidiaries on non-arm's length terms

In 2023, and from 1 January 2023 to the date of issue of the Company's full-year separate financial statements for the financial year ended 31 December 2023, and the Group's full-year consolidated financial statements for the financial year ended 31 December 2022, neither the Company nor its subsidiaries executed any material related-party transactions other than those conducted on arm's length terms.



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2. Key products

The Group divides its operations into four operating segments:

- contract development of video games (development fee),
- copyrights to developed games (royalties),
- development and publication of games without the involvement of an external publisher (royalties) (self-publishing);
- other activities.

In 2023, the **contract development segment** included primarily revenue from, Project Gemini, a game development project carried out by the Group with Square Enix Limited. Positive cash flows from this segment enabled the Group to partially cover expenditure on games that the Group intends to publish on its own in the self-publishing model. In 2023, the consideration received from Square Enix Limited in this segment accounted for approximately 75% of total revenue.

Furthermore, following the execution of a development and publishing contract with Microsoft Corporation on 13 June 2023, the Group began to recognize revenue from Project Maverick, a game development and publishing project.

In 2023, the Group generated revenue from game development projects carried out mainly with two publishers: Square Enix Limited and Microsoft Corporation.

Project Gemini

During the 12-month period of 2023, the Group carried out work commissioned by the publisher Square Enix Limited under content riders to the production and publishing agreement. On 24 November 2023, the Group engaged in strategic discussions with Square Enix Limited regarding the structure of the game Project Gemini and the terms of further collaboration on Project Gemini, details of which are described in Note 32 to the consolidated financial statements

Project Maverick

The Group is performing a contract to develop an AAA game based on intellectual property rights of Microsoft Corporation.

The **copyrights (royalties) segment** encompassed revenue that the Group derives from contract consideration (royalties) for previously produced games.

The main source of the Group's revenue classified as revenue from the copyrights segment, i.e., the segment of royalties for previously developed games, is the development and publishing agreement for the game Bulletstorm: Full Clip Edition (remaster) of 24 October 2016, entered into between the Parent and Gearbox Publishing, LLC. The Parent has retained copyrights in Bulletstorm: Full Clip Edition by granting the publisher an exclusive licence for an indefinite term.

Self-publishing segment (licence fees)

The Group also undertakes projects involving the development and self-publishing of its own games (self-publishing). Except for 'Green Hell VR', which was developed and released by Incuvo S.A., a subsidiary of the Parent, and 'Bulletstorm VR', also produced by Incuvo S.A., this model positions the Parent as responsible for game production. The production is based on either existing or newly developed intellectual property (IP) held by the Parent. The games produced under this arrangement are published by another group company, People Can Fly Ireland Limited. People Can Fly Ireland Limited engages in publishing activities, which include promotion, distribution, and sale of games produced by the Parent, based on a license granted by the Parent for the games it has developed.

Revenue recognised by People Can Fly Ireland Limited comprises the licensing fees charged for each game sold to the end user, adjusted for the profits earned by intermediary distribution platforms.



The **other activities** segment primarily includes expenditure on the 'PCF Framework', a software system developed by the Group. This framework serves as an overlay for the Unreal Engine graphics engine, designed to facilitate and optimise the development of video games.

Financial results of the operating segments are calculated based on internal data periodically reviewed by the Management Board of the Parent. The Management Board analyses results of the operating segments at the level of operating profit (loss). The Group analyses revenue for the above four segments, and no other analyses are performed.

In the twelve months ended 31 December 2023, there were no changes to the Group's accounting policies with respect to the identification of operating segments and the principles for measuring revenue, profit or loss and assets of the segments presented in the Group's most recent full-year consolidated financial statements.



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BUSINESS ACTIVITIES OF THE PCF GROUP

3. Revenue structure and operating segments

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

In its full-year consolidated financial statements for the financial year ended 31 December 2023, The Group reported revenue broken down by geography, into Europe (PLN 111.8 million) and Other countries (PLN 38.4 million).

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

The main channels for distributing the Group's VR games are the following virtual reality equipment platforms: Meta Quest, PC VR (Steam), Oculus Rift, Pico Neo 3, Pico 4, HTC and Sony PlayStation VR2.

The Group is a video game producer that, upon its listing on the Warsaw Stock Exchange, expanded its activities beyond commissioned game production (the "Contract development of video games (development fee)" segment) to include the production and self-publishing of its own games (the "Self-publishing (licence fees)" segment). Since its IPO, the Group has developed and has been self-financing two projects in the self-publishing model: *Project Bifrost* and *Project Victoria*. Since 2022, following termination of the cooperation with the publisher Take-Two Interactive Software, Inc., the Group also pursued *Project Dagger* under this model. However, on 5 April 2024, the Management Board decided to discontinue further work on Project Dagger. The decision to discontinue work on the Project resulted from a reassessment of the development plans for projects undertaken by the Group, coupled with modifications to these plans due to the unsatisfactory outcomes of evaluating the scope and commercial potential of the Dagger Project after its development direction was redefined. As a consequence, impairment losses amounting to 100% of the expenditures incurred on the Project were recognised as of 31 December 2023, and the expenditures incurred were written off on the date the decision was made. The impairments resulted in a reduction of the separate financial result for 2023 and a decrease in the carrying amount of non-current assets as presented in the Company's statement of financial position as of 31 December 2023 by PLN 79.9 million, and in a reduction of the consolidated financial result for 2023 as well as a decrease in the carrying amount of non-current assets presented in the Group's consolidated statement of financial position as of 31 December 2023 by PLN 68.3 million.

On 7 April 2022, Incuvo S.A., a subsidiary of the Parent, launched Green Hell VR, its most significant release to date. Green Hell VR first launched on the Meta Quest 2 platform on 7 April 2022 and has subsequently been released on other platforms including Steam, Pico, Sony PlayStation VR2, and HTC. Then, on 30 November 2023, the first of three planned expansions for Green Hell VR, titled 'Spirits of Amazonia,' was launched on the Meta Quest 2 and 3 and PS VR2 platforms.

Throughout 2023, based on the development and publishing agreement signed on 13 December 2021 between the Parent as the publisher and Incuvo S.A. as the developer, the Group undertook the development of 'Bulletstorm VR' (previously known under the code name 'Project Thunder'). This game is an adaptation of the Group's cult shooter for virtual reality platforms. The game premiered on 18 January 2024, when it was made available on the META Oculus Store and Sony PlayStation Store, as well as on Steam.

In the assessment of the Parent, in terms of conducting its core business activities, the Group is not dependent on other customers and suppliers, except for the dependence on the publisher(s) of games



produced by the Group under the work-for-hire game production model. The Parent believes that this dependency will persist until the Group starts to generate substantial revenue from the sales of its own games.



GROUP'S REVENUE STRUCTURE

	Contract development of video games (development fee)	Copyrights to developed games (royalties)	Self- publishing (licence fees)	Total
1 Jan–31 Dec 2023				
Region				
Europe	106,901	24	4,845	111,770
Other countries	30,421	1,191	6,742	38,354
Total revenue	137,322	1,215	11,587	150,124
Product line				
Games	137,322	1,215	11,587	150,124
Total revenue	137,322	1,215	11,587	150,124
Timing of transfer of goods/services				
At a point in time	-	1,215	-	1,215
Over time	137,322	-	11,587	148,909
Total revenue	137,322	1,215	11,587	150,124
1 Jan–31 Dec 2022				
Region				
Europe	117,863	24	15,265	133,152
Other countries	35,152	1,564	1,617	38,333
Total revenue	153,015	1,588	16,882	171,485
Product line				
Games	153,015	1,588	16,882	171,485
Total revenue	153,015	1,588	16,882	171,485
Timing of transfer of goods/services				
At a point in time	-	1,588	-	1,588
Over time	153,015	-	16,882	169,897
Total revenue	153,015	1,588	16,882	171,485



PARENT'S REVENUE STRUCTURE

	Contract development of video games (development fee)	Copyrights to developed games (royalties)	Other activities	Total
1 Jan–31 Dec 2023				
Region				
Europe	103,673	24	4	103,701
Other countries	15,535	1,139	12	16,686
Total revenue	119,208	1,163	16	120,387
Product line				
Games	119,208	1,163	-	120,371
Trademark, performance bond and PCF Framework	-	-	16	16
Total revenue	119,208	1,163	16	120,387
Timing of transfer of goods/services				
At a point in time	-	1,163	16	1,179
Over time	119,208	-	-	119,208
Total revenue	119,208	1,163	16	120,387
1 Jan–31 Dec 2022				
Region				
Europe	108,351	24	4	108,379
Other countries	5,447	1,523	4,787	11,757
Total revenue	113,798	1,547	4,791	120,136
Product line				
Games	113,798	1,547	-	115,345
Trademark, performance bond and PCF Framework	-	-	4,791	4,791
Total revenue	113,798	1,547	4,791	120,136
Timing of transfer of goods/services				
At a point in time	-	1,547	4,791	6,338
Over time	113,798	-	-	113,798
Total revenue	113,798	1,547	4,791	120,136



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 2023:

- **Registration of subscription warrants with CSDP**

On 24 January 2023, in response to the Parent's application of 12 January 2023, the Central Securities Depository of Poland issued a statement to the effect that on 25 January 2023 it would enter into an agreement with the Parent to register 90,000 Series A registered subscription warrants of tranche A4 and 90,000 Series A registered subscription warrants of tranche A5, issued for no consideration and with no par value, under ISIN PLPCFGR00051 and PLPCFGR00069, respectively.

- **Strategy update**

On 31 January 2023, the Management Board of the Parent adopted a resolution to update the strategy for both the Parent and its Group (the "Strategy").

The Strategy is focused on the following areas:

- bolstering of the publishing activities (the self-publishing segment);
- adopting of the Game as a Service (GaaS) or GaaS-ready model in developing proprietary portfolio games;
- adopting of various game monetisation models;
- further expanding development teams and talent development;
- investing in new segments of the entertainment industry.

The Parent set a strategic objective to generate a minimum of PLN 3.0 billion in total revenue over the period from 2023 to 2027.

To cover expenditures related to the Strategy, the Management Board raised approximately PLN 235 million by issuing new shares of the Parent, with the financing level anticipated to be between PLN 205 million and PLN 295 million. Further details are provided below on the increase in share capital through the issuance of Series F and Series G ordinary bearer shares, executed to secure financing for the Strategy. All proceeds from the new share issues are allocated towards expanding the production teams to meet the project requirements for the various development stages of games such as Project Dagger, Bifrost, and Victoria. This allocation is subject to adjustments based on the decision to reduce the scope of Project Dagger, as outlined in Current Report no. 59/2023 dated 28 November 2023. The proceeds from the new issuances of Parent shares, combined with (i) the Parent's own cash, (ii) operating cash flows, and (iii) other non-dilutive financing sources, were intended to facilitate complete delivery of the Strategy.

For details of the Strategy, see Current Report No. 3/2023 of 31 January 2023.

- **Share capital increase through the issue of Series E ordinary bearer shares following an increase in the equity interest in Incuvo S.A.**

On 10 February 2023, the Management Board of the Parent passed a resolution to, among others, increase the Parent's share capital within the limits of the authorised capital through the issue of 136,104 Series E ordinary bearer shares ('Series E Shares'), representing collectively approximately 0.45% of the Parent's share capital as at the date of the resolution and the same proportion of total voting rights at the Parent's General Meeting (the 'Series E Shares Issue Resolution').



Adoption of the Series E Shares Issue Resolution was related to the Parent's decision to increase the Parent's equity interest in its subsidiary Incuvo S.A. through an exchange of Incuvo S.A. shares for the Parent shares with selected shareholders of Incuvo S.A., namely Andrzej Wychowaniec, President of Incuvo S.A. Management Board, and Radomir Kucharski, Vice President of the Management Board, Chief Product Officer.

87,820 Series E Shares were offered to Andrzej Wychowaniec and 48,284 to Radomir Kucharski, with the Parent's existing shareholders' pre-emption rights waived, in exchange for an in-kind contribution to the Parent's increased share capital of Andrzej Wychowaniec's and Radomir Kucharski's shares in Incuvo S.A.: (a) from Andrzej Wychowaniec – 1,128,450 ordinary bearer shares in Incuvo S.A., representing jointly approximately 7.90% of Incuvo S.A.'s share capital and the same proportion of total voting rights at Incuvo S.A.'s General Meeting, and (b) from Radomir Kucharski – 620,428 ordinary bearer shares in Incuvo S.A., representing jointly approximately 4.34% of Incuvo S.A.'s share capital and the same proportion of total voting rights at Incuvo S.A.'s General Meeting.

On 17 February 2023, following the settlement of transactions executed in the performance of the agreements on transfer of Incuvo S.A. shares as a non-cash (in-kind) contribution, signed on 15 February 2023 between the Parent and Andrzej Wychowaniec, and between the Parent and Radomir Kucharski, the Parent acquired approximately 12.25% of shares and voting rights in Incuvo S.A. As a result of the transaction, the Parent holds approximately 62.25% of shares in Incuvo S.A.'s share capital and the same proportion of voting rights.

The increase in the Parent's share capital, carried out pursuant to the Series E Shares Issue Resolution, was registered by the competent registry court on 3 March 2023. As a result, the Parent's share capital was PLN 601,726.60 and comprised 30,086,330 shares with a par value of PLN 0.02 per share.

- **Share capital increase through the issue of Series F ordinary bearer shares to secure financing for the implementation of the Strategy**

On 28 February 2023, the Parent's Extraordinary General Meeting passed a resolution to, among others, increase the Parent's share capital through the issue of up to 5,853,941 Series F ordinary bearer shares ('Series F Shares'), representing collectively approximately 19.55% of the Parent's share capital as at the date of the resolution and the same proportion of total voting rights at the Parent's General Meeting (the 'Series F Shares Issue Resolution').

Adoption of the Series F Shares Issue Resolution was related to the Parent's intention to raise funds on the capital market through a public offering of Series F Shares to finance the implementation of objectives set out in the Strategy.

- **Repeal of provisions concerning authorised capital of the Parent**

On 28 February 2023, the Extraordinary General Meeting of the Parent passed a resolution to amend the Parent's Articles of Association by repealing the provisions concerning authorised capital. The Parent aimed to ensure that shareholders' equity interests would not be further diluted (following the increase in the Parent's share capital through the issue of Series F ordinary bearer shares, with the pre-emptive rights waived) in the future under the Management Board's authorisation to increase the Parent's share capital within the limits of the authorised capital, subject to the transaction to increase the Parent's equity interest in Incuvo S.A. as referred to above.

- **Execution of an investment agreement concerning acquisition by Krafton, Inc. of shares in the increased share capital of the Parent as part of the issue of Series F shares**

As part of the process to increase the share capital of the Parent, detailed above, an investment agreement was signed on 28 March 2023 by and between the Parent, Sebastian Wojciechowski as the Parent's key shareholder and President of the Management Board (the 'Key Shareholder'), and



Krafton, Inc. as the anchor investor (the 'Investor') defining the terms of subscription for Series F Shares by the Investor and other contractual rights and obligations of each party in connection with the investment, including the Parent's disclosure obligations towards the Investor (the 'Investment Agreement').

Pursuant to the Investment Agreement, on the date specified therein the Investor is to subscribe for such number of Series F Shares (rounded to the nearest integer) which upon completion of the public offering of Series F Shares will represent 10.00% of the Parent's share capital and voting rights at the General Meeting of the Parent (the "Offer Shares") for the issue price of PLN 40.20 per Offer Share, irrespective of the number of Series F Shares subscribed for by investors participating in the offering and the issue price of Series F Shares for other investors participating in the offering. The Parent guaranteed the allotment of Offer Shares to the Investor subject to the Investor's performance of the obligation to place a subscription order. The Offer Shares were to be subscribed for by the Investor for cash.

Pursuant to the Investment Agreement, if the Parent contemplates publishing Project Victoria or Project Bifrost in a model other than self-publishing, the Investor will have the right of first negotiation and the right of first refusal with respect to any such agreements.

In addition, the Key Shareholder granted the Investor the right to prevent dilution, the right of first refusal to acquire shares and the tag-along right (corresponding to the Key Shareholder's drag-along right). Both the Investor and the Key Shareholder submitted standard lock-up declarations regarding their shares in the Parent, effective until 28 March 2024. The Parties also made customary representations and warranties and agreed on the contractual terms of each Party's liability for a breach, if any, of the Investment Agreement.

Further information on the Investment Agreement was published in Current Report No. 12/2023 of 28 March 2023.

As a result of the public offering of Series F Shares, described in detail below, the Investor subscribed for 3,342,937 Series F Shares in the performance of the Investment Agreement. The shares represented 10.00% of all shares in the Parent after registration by the competent registry court of the increase in the Parent's share capital by way of issue of Series F Shares.

- **Submission of an offer to Square Enix Limited to take up subscription warrants**

On 28 March 2023, the Management Board of the Parent extended an offer to the publisher, Square Enix Limited, to subscribe, at no cost, for 90,000 Series A registered subscription warrants of tranche A6. This tranche represents the final segment of Series A subscription warrants available under the terms of the investment agreement detailed in Current Report No. 40/2021 dated 29 August 2021. The publisher accepted this offer on 18 April 2023. The Parent made this offer its revenue from contracts with Square Enix Limited exceeded PLN 270 million.

For detailed information on the terms and conditions of the warrants issued to Square Enix Limited by the Parent, including their exercise by Square Enix Limited to subscribe for shares in the Parent, see the Parent's Current Report No. 40/2021 dated 29 August 2021.

- **Execution by the subsidiary People Can Fly Canada Inc. of a credit facility agreement and related security documents**

On 24 May 2023, the Parent's subsidiary People Can Fly Canada Inc. of Montreal, Canada ('PCF Canada') as the borrower, and the Bank of Montreal, as the lender, signed a credit facility agreement (Offer of Financing) to grant PCF Canada two demand revolving facilities comprising: (1) a credit facility of up to CAD 1,200 thousand, intended to finance working capital and general corporate needs of PCF Canada, and (2) a credit facility of up to CAD 8,000 thousand, intended to prefinance future tax credits in Canada. Both credit facilities are repayable on demand and can be renewed annually on terms agreed by the parties.



The security interests, governed by Canadian law, include: (1) the Parent's guarantee of up to CAD 9,200 thousand, (2) First Ranking General Security Agreement over all movable assets of PCF Canada (i.e., a variable pool of movables and property rights), (3) First Ranking Hypothec of CAD 11,040 thousand over all movable assets of PCF Canada, (4) subordination of corporate loans advanced by the Parent, and (5) identification of the bank as an additional insured in PCF Canada's insurance policies.

The interest rate on the credit facilities for each interest period is an annual interest rate being the sum of an agreed margin and the base rate (based on the Canadian Prime Rate). The fee for granting the credit facilities was determined on standard arm's length terms applied for financial instruments of this kind.

The agreement includes standard covenants, such as restrictions on changing the principal business and conditions under which new debt financing may be incurred. In the event of any breach of the agreement, the bank retains standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

- **Execution of a development and publishing agreement with Microsoft Corporation**

On 13 June 2023, the Parent and Microsoft Corporation of Redmond, Washington, USA, as the publisher (the 'Publisher'), entered into a development and publishing agreement (the 'Agreement') for the development and delivery by the Parent to the Publisher of an AAA game under code name Project Maverick (the 'Game'), in accordance with a content rider concluded by the parties for the Agreement (the 'Product Appendix'), setting out the milestone schedule for the Game development.

The Game is being developed by the Parent in the work-for-hire model, based on the intellectual property rights of the Publisher. Its production is fully financed by the Publisher as the Parent completes successive Game development milestones.

The total budget allocated by the Publisher for the development of the Game by the Parent is USD 30–50 million.

The Agreement does not contain any specific conditions that would differ from those commonly used in this type of agreements.

The execution of the Agreement fits in with the revised Strategy for the Parent and the Group announced on 31 January 2023, whereby the Parent intends to capture attractive opportunities for cooperation with reputable partners in the work-for-hire model if such opportunities arise.

- **Public offering of Series F Shares**

From 29 May 2023 to 1 June 2023, the Parent carried out a bookbuilding process for an offering of Series F ordinary bearer shares with a par value of PLN 0.02 per share ("Series F Shares"), as a result of which it decided to offer a total of 3,343,037 Series F Shares, of which 3,342,937 Series F Shares were offered to Krafton Inc. in accordance with the investment agreement described in detail above, and 100 Series F Shares were offered to another investor. The Series F shares were offered by way of a private placement, within the meaning of the Commercial Companies Code, as part of a public offering. The issue price for one Series F Share was PLN 40.20, and the total value of the public offering was PLN 134,390,087.40. The process of executing subscription agreements for the Series F Shares was completed on 6 June 2023.

All proceeds from the public offering of Series F Shares are allocated towards expanding the production teams to meet the project requirements for the various development stages of games such as Project Dagger, Project Bifrost, and Project Victoria. This allocation is subject to adjustments based on the decision to limit the scope of Project Dagger, as outlined in Current Report no. 59/2023 dated 28 November 2023.

- **Execution of a side letter for the investment agreement on acquisition by Krafton, Inc. of shares in the increased share capital of the Parent**

On 14 June 2023, the Parent and Sebastian Wojciechowski as the Parent's key shareholder and President of the Management Board executed a side letter (the "Side Letter") for the investment



agreement of 28 March 2023 (the "Investment Agreement") with Krafton, Inc. (the "Investor"). In the Side Letter, the parties agreed, inter alia, that if:

(i) the Parent's General Meeting passes a resolution(s) to increase the Parent's share capital by issuing up to 2,510,904 new shares (the "New Issue Shares"), and the share capital increase is carried out (i.e., the New Issue Shares are subscribed and paid for) no later than on 31 December 2023 (the "Issue Resolution"); and

(ii) the Issue Resolution gives priority to subscribe for New Issue Shares to shareholders of the Parent that hold shares conferring the right to 0,25% or more of total voting rights in the Parent as at the end of the Issue Resolution date; and

(iii) the Investor submits a declaration of subscription for a number of New Issue Shares which, when aggregated with Series F shares held by the Investor, will represent 10.00% of the Parent's share capital and total voting rights in the Parent on the date of registration of the New Issue Shares in the Business Register of the National Court Register by the registry court, then the Parent:

a) irrespective of the number of New Issue Shares to be allotted to other investors participating in the offering and regardless of the issue price of the New Issue Shares that will be set for other investors participating in the offering – will allot such number of New Issue Shares to the Investor, with priority before other investors participating in the offering, which, when aggregated with Series F shares held by the Investor, will represent 10.00% of the Parent's share capital and total voting rights in the Parent on the date of registration of the New Issue Shares in the Business Register of the National Court Register by the registry court; and

b) will enter into an agreement with the Investor, whereby the Investor will subscribe for New Issue Shares at the issue price of PLN 40.20 per New Issue Share.

As a result of the public offering of Series G shares, described in detail below, the Investor subscribed for 251,091 Series G shares in the performance of the Side Letter. The shares, when aggregated with the 3,342,937 Series F shares subscribed for by the Investor, represent 10.00% of all shares in the Parent after registration by the competent registry court of the increase in the Parent's share capital by way of issue of Series G shares.

- **Registration of a share capital increase and amendments to the Articles of Association of PCF Group S.A.**

On 22 June 2023, the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, registered amendments to the Parent's Articles of Association adopted by way of Resolution No. 4/02/2023 of the Extraordinary General Meeting held on 28 February 2023 to increase the Parent's share capital through the issue of Series F ordinary shares, to waive the existing shareholders' pre-emptive rights with respect to all Series F shares, to seek admission and introduction of Series F shares and allotment certificates for Series F shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series F shares and allotment certificates for Series F shares into book-entry form, to authorise the execution of an agreement to register Series F shares and allotment certificates for Series F shares in the depository for securities, and to amend the Parent's Articles of Association.

Following the court registration of amendments to the Articles of Association of the Parent, the share capital was increased from PLN 601,726.60 to PLN 668,587.34 through the issue of 3,343,037 Series F ordinary bearer shares, with a par value of PLN 0.02 per share.

- **Notification under Art. 69 of the Public Offering Act**

On 28 June 2023, the Parent received a notification from Krafton Inc. to the effect that the notifying party had exceeded 10% of total voting rights in the Parent, submitted pursuant to Art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005.

According to the notification, as of the date thereof, Krafton Inc. held 3,342,937 shares in the Parent, representing approximately 10% of the Parent's share capital. This shareholding conferred



3,342,937 voting rights at the Parent's General Meeting, which also constitutes roughly 10% of the total voting rights in the Parent.

- **Settlement with OÜ Blite Fund**

On 21 August 2023, the Parent entered into a settlement with OÜ Blite Fund, an Estonian limited liability company of Tallinn, Estonia (the "Settlement", the "Blite Fund"), whereby the Parent agreed to pay PLN 2,050 thousand to Blite Fund on account of an increase in the purchase price for 7,143,900 shares in Incuvo S.A. (the "Additional Payment") acquired by the Parent under a share purchase agreement concluded between the Parent and Blite Fund on 13 December 2021 (the "Share Purchase Agreement"). The Additional Payment made by the Parent fully settles the parties' mutual claims under or in connection with the execution and performance of the Share Purchase Agreement. The Additional Payment was made on 31 August 2023.

- **Registration of Series E and Series F shares with CSDP and their admission and introduction to trading on the WSE**

Following registration of Series E and Series F shares in the Central Securities Depository of Poland on 19 July 2023, the shares were introduced to trading on the main market of the Warsaw Stock Exchange as of that date.

Series E and Series F shares of the Parent were assigned code ISIN PLPCFGR00010.

- **Share capital increase through the issue of Series G ordinary bearer shares to secure financing for the implementation of the Strategy**

On 7 August 2023, the Parent's Extraordinary General Meeting passed a resolution to, among others, increase the Parent's share capital through the issue of up to 2,510,904 Series G ordinary bearer shares ("Series G Shares"), representing jointly approximately 7.51% of the Parent's share capital as at the date of the resolution and the same proportion of total voting rights at the Parent's General Meeting (the "Series G Shares Issue Resolution").

The Series G Shares Issue Resolution was adopted in connection with the intention to conduct a public offering of Series G Shares in addition to the public offering of Series F shares carried out at the end of May and at the beginning June 2023, as described above.

- **Public offering of Series G shares**

From 9 August 2023 to 10 August 2023, the Parent carried out a bookbuilding process for an offering of Series G ordinary bearer shares with a par value of PLN 0.02 per share ("Series G Shares"), as a result of which it decided to offer a total of 2,510,904 Series G Shares to forty investors, of which 251,091 Series G Shares were offered to Krafton Inc. in accordance with the side letter to the investment agreement, described in detail above. The Series G shares were offered by way of a private placement, within the meaning of the Commercial Companies Code, as part of a public offering. The issue price for one Series G Share was PLN 40.20, and the total value of the public offering was PLN 100,938,340.80. The process of executing subscription agreements for the Series G Shares was completed on 18 August 2023.

All proceeds from the public offering of Series G shares, together with proceeds from the public offering of Series F shares, as described above, are allocated towards expanding the production teams to meet the project requirements for the various development stages of games such as Project Dagger, Project Bifrost, and Project Victoria. This allocation is subject to adjustments based on the decision to limit the scope of Project Dagger, as outlined in Current Report no. 59/2023 dated 28 November 2023.

- **Registration of a share capital increase and amendments to the Articles of Association**

On 28 August 2023, the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, registered amendments to the Parent's Articles of Association adopted by way of Resolution No. 4/08/2023 of the Extraordinary General Meeting held on 7 August 2023 to increase the Parent's share capital through the issue of Series G ordinary shares, to waive the existing shareholders' pre-emptive rights with respect to all Series G shares, to seek



admission and introduction of Series G shares and allotment certificates for Series G shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series G shares and allotment certificates for Series G shares into book-entry form, to authorise the execution of an agreement to register Series G shares and allotment certificates for Series F shares in the depository for securities, and to amend the Parent's Articles of Association.

Following the court registration of amendments to the Articles of Association of the Parent, the share capital was increased from PLN 668,587.34 to PLN 718,805.42 through the issue of 2,510,904 Series G ordinary bearer shares, with a par value of PLN 0.02 per share.

- **Notification under Art. 69 of the Public Offering Act**

On 30 August 2023, the Parent received a notification from Nationale-Nederlanden Otwarty Fundusz Emerytalny to the effect that the notifying party had exceeded 5% of total voting rights in the Parent, submitted pursuant to Art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005.

According to the notification, as at the date thereof, Nationale-Nederlanden Otwarty Fundusz Emerytalny held 2,368,599 shares in the Parent, representing 6.59% of the Parent's share capital and conferring 2,368,599 voting rights at the Parent's General Meeting, or 6.59% of total voting rights in the Parent.

- **Registration of subscription warrants with CSDP**

On 4 September 2023, in response to the Parent's application of 9 August 2023, the Central Securities Depository of Poland issued a statement to the effect that on 5 September 2023 it would enter into an agreement with the Parent to register 90,000 Series A registered subscription warrants (tranche A6), issued for no consideration and with no par value, under ISIN PLPCFGR00077.

Tranche A6 is the last tranche of Series A subscription warrants offered by the Parent to Square Enix Limited under an investment agreement, the terms of which are described in detail in the Parent's Current Report No. 40/2021 of 29 August 2021.

- **Registration of Series G shares with CSDP and their admission and introduction to trading on the WSE**

Following registration of Series G shares of the Parent in the Central Securities Depository of Poland on 11 September 2023, the shares were introduced to trading on the main market of the Warsaw Stock Exchange as of that date.

Series G shares of the Parent were assigned code ISIN PLPCFGR00010.

- **Suspended negotiations of a development agreement**

On 22 September 2023, the Parent announced that its negotiations of a development and publishing agreement conducted with a reputable US-based entertainment company based on a non-binding letter of intent between the parties of 17 June 2023 had been suspended.

The negotiations concerned the terms on which the Parent would develop for publishing a virtual reality (VR) video game of the VR Action/Combat genre codenamed Dolphin.

The reason for suspending the negotiations was a notice received from the publisher to the effect that it had decided to suspend work on the project indefinitely. The Parent found out through informal talks that the publisher's decision had been prompted by the strike of the US entertainment industry and the resulting uncertainty as to the industry's future situation.

- **Execution of credit documents with Bank Polska Kasa Opieki S.A.**

On 12 October 2023, the Parent, as the borrower, and Bank Polska Kasa Opieki S.A. ("Bank Pekao"), as the lender, executed: (1) a revolving credit facility agreement of up to PLN 30 million, and (2) a revolving credit facility agreement of up to EUR 4,426,444 (collectively the 'Credit Facility



Agreements'), intended to finance costs related to work-for-hire development of video games (collectively the 'Credit Facilities').

The term of the revolving lines of credit and the final repayment date of both Credit Facilities is three years from the date of execution of the Credit Facility Agreements.

The interest rate on the Credit Facilities for each interest period is an annual rate being the sum of an agreed fixed margin and the variable benchmark rate (WIBOR). The fee for the provision of the Credit Facilities, as well as the fee for the provision of guarantees by Bank Gospodarstwa Krajowego, were determined on standard market terms applied for financial instruments of this kind.

The security package with respect to the Credit Facilities includes: (1) financial pledges and registered pledges over the Parent's entire shareholding in Incuvo S.A. of Katowice, (2) financial pledges and registered pledges over bank accounts maintained for the Parent by Bank Pekao, (3) a statement made pursuant to Art. 777 of the Code of Civil Procedure whereby the Parent will submit to enforcement with respect to the obligation to pay any amounts due under the Credit Facility Agreements to Bank Pekao up to 150% of the amount of the Credit Facilities, (4) guarantees provided by Bank Gospodarstwa Krajowego up to 80% of the amount of the Credit Facilities, which will be secured with blank promissory notes together with promissory note declarations issued by the Company to Bank Gospodarstwa Krajowego.

The Credit Facilities will be disbursed subject to the fulfilment of typical conditions precedent to the disbursement of funds in such transactions.

The Credit Facility Agreements also provide for standard covenants to be complied with by the Parent, such as restrictions on a change of its principal business and terms on which it may incur new debt financing. In the event of any breach of the Credit Facility Agreements, Bank Pekao has standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

- **Execution of an agreement for the new project codenamed 'Bison'**

On 12 November 2023, the Parent concluded an agreement with Incuvo S.A., its subsidiary, whereby Incuvo S.A. would provide game development services for the Parent to produce a new video game under the code name Bison, planned for release in 2024–2025.

Project Bison involves the development of a survival adventure game based on intellectual property rights of People Can Fly, designed for the most popular VR hardware platforms of the present and future generations.

The VR game development will be financed entirely by the Parent. As part of the development process, the Parent, which possesses the requisite experience, capabilities, and infrastructure, will be responsible for advancing the final product (a VR game) to a stage where it is suitable for player use and ready for commercialization, including its market launch.

The VR game will be developed using the Unity graphics engine.

- **Entry into strategic discussions on Project Gemini and review of development plans for the Group's projects**

On 24 November 2023, the Management Board of the Parent announced that it had entered into strategic discussions with the long-standing publisher, Square Enix Limited, regarding the development and terms of collaboration on Project Gemini. The project, undertaken by the Group in Europe under a work-for-hire arrangement for Square Enix Limited, continues on the terms specified in the agreement between the parties. However, based on its discussions with the publisher, the Parent's Management Board believes it is highly likely that Project Gemini will not continue on the current commercial terms in the future.

- **Decision to curtail Project Dagger**

On 28 November 2023, the Parent's Management Board announced that – following delivery of a key milestone of Project Dagger and review of the creative game concept – and in the light of



analyses of the impact of potential strategic scenarios discussed with the publisher of Project Gemini, i.e., Square Enix Limited, on the development plans for projects carried out by the Group under its updated strategy, it had decided to temporarily curtail Project Dagger carried out by the Parent under the self-publishing model using its own funds by:

- assigning an experienced team of approximately 10 individuals to redefine the game's development direction and prepare a pre-production version of the game addressing feedback and guidance obtained through the external evaluation of Project Dagger, which consequently led to the suspension of plans to release the game as a AAA title during the 2025-2026 period, and
- offering the majority of the team members opportunities to work on Projects Maverick, Bifrost and Victoria.

Events after the reporting date

After 31 December 2023, the following events occurred:

- **Execution of short-term content rider for the development and publishing agreement for the Gemini Project**

On 30 January 2024, the Management Board of the Parent announced that, following the expiration of the existing content rider to the development and publishing agreement for Project Gemini on 29 January 2024, the Parent entered into a short-term content rider with Square Enix Limited on 30 January 2024. The rider facilitates the continuation of development work on Project Gemini, enabling the parties to conclude strategic discussions regarding the project's framework and cooperation terms. In this context, the parties have been developing a plan for Project Gemini, which required modifications in certain areas and a refocused approach.

Consequently, the Management Board of the Parent decided to reduce the number of the development team dedicated to Project Gemini by

- offering some team members opportunities to work on other projects managed by the Parent;
- reducing the number of employees within the Project Gemini team, affecting over 30 individuals.

- **Execution of credit documentation and related security documentation by Game On Creative Inc.**

On 6 March 2024, Game On Creative Inc., a subsidiary of the Parent based in Montreal, Canada ('Game On'), as the borrower, and the Bank of Montreal as the lender, entered into a credit agreement (Offer of Financing) covering five facilities: (1) a demand revolving credit facility up to a maximum of CAD 650 thousand, intended to finance Game On's working capital and general corporate needs, (2) two non-revolving credit facilities, each up to a maximum of CAD 187 thousand, designated for pre-financing future tax credits in Canada, (3) a non-revolving credit facility up to a maximum of CAD 1,065 thousand, aimed at refinancing a term facility previously extended to Game On by the Royal Bank of Canada, and (4) a demand revolving facility in the form of a corporate credit card limit up to a maximum of CAD 32 thousand, intended for financing general corporate needs of Game On.

The credit facility described in item (1) above is repayable on demand and is annually renewed on the terms agreed upon by the parties. The facilities described in item (2) above are repayable on demand, but in any case no later than 31 December 2024 and 31 December 2025, respectively, unless the lender agrees to extend the repayment term at the borrower's request. The credit facility described in item (3) above is repayable in equal monthly instalments of CAD 17,750 over an amortization period of 5 years (or 60 months). The credit facility described in item (4) above is repayable on demand, but in any case no later than the repayment date of the facility described in item (1) or on a date determined in accordance with the terms of the agreement with the credit card issuer, whichever occurs earlier.

The interest rate for the facilities described in items (1) to (3) above, for each interest period, is the annual interest rate composed of an agreed margin plus a base rate (based on the Canadian Prime Rate). The facility described in paragraph (4) above bears interest in accordance with the terms of the agreement with the credit card issuer.



The security interests, governed by Canadian law, include: (1) a first-ranking hypothec on the entirety of Game On's movable assets of CAD 2,545,200, (2) subordination of the repayment of corporate loans provided by the Parent, (3) a power of attorney authorising the Bank of Montreal to collect amounts due under tax reliefs on behalf of Game On, and (4) designation of the bank as an additional insured under Game On's insurance policies.

The commission for the provision of the credit facilities has been set at market rates typical for such financial instruments.

The agreement includes standard covenants, such as restrictions on changing the principal business and conditions under which new debt financing may be incurred. In the event of any breach of the agreement, the bank retains standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

- **Settlement of the production costs for Bulletstorm VR and mutual termination of the development and publishing agreement for this game**

In reference to Current Reports no. 46/2021 dated 13 December 2021, no. 42/2023 dated 22 August 2023, and no. 56/2023 dated 17 November 2023, the Management Board of the Parent announces that on 15 March 2024, it entered into an agreement with Incuvo S.A. concerning the settlement of the remaining key production milestones of the game Bulletstorm VR game, covering the period up to the game's release on 18 January 2024. As part of the settlement, based on the terms of the development and publishing agreement, the Parent, as the publisher, charged Incuvo S.A. with the cost of development work and quality control tasks carried out by the Parent on behalf of Incuvo S.A., amounting to PLN 871 thousand.

Furthermore, given the unsatisfactory launch of Bulletstorm VR, the parties agreed to terminate the development and publishing agreement for the game, effective 19 January 2024. It was stipulated that Incuvo S.A. would not be entitled to any royalties from sales of the game. Any subsequent development activities related to Bulletstorm VR will be carried out through a production process in which the Parent is responsible for creating the final product and managing its commercialisation, including the market launch. The Management Board of the Parent is open to using Incuvo S.A.'s resources for the execution of the aforementioned development activities.

- **Decision to discontinue work on Project Dagger**

With reference to Current Reports No. 22/2022 dated 1 October 2022, No. 3/2023 dated 31 January 2023, No. 58/2023 dated 24 November 2023, and current report No. 59/2023 dated 28 November 2023, the Management Board of the Parent announces that on 5 April 2024, it resolved to discontinue further development of Project Dagger ('the Project').

The decision follows a reassessment of the development plans of the PCF Group S.A. Group and adjustments to these plans due to the unsatisfactory evaluation of the Project's scope and commercial potential after the refocus of the game's development efforts, as detailed in Current Report No. 59/2023 of 28 November 2023.

As a consequence, impairment losses amounting to 100% of the expenditures incurred on the Project will be recognised as of 31 December 2023, and the expenditures incurred will be written off from the Parent's accounting records on the date the decision was made.

The recognition of impairment losses will reduce the separate and consolidated financial results for 2023, and will also reduce the value of non-current assets presented in the separate and consolidated statement of financial position as at 31 December 2023 by PLN 79.9 million and PLN 68.3 million, respectively.

It is a one-off and non-monetary event, and does not affect the value of the separate and consolidated EBITDA.



5. Major research and development achievements

Expenditure on game development projects carried out under the self-publishing model meets the definition of development work under IAS 38 *Intangible Assets*. For details, see 'Development work in progress' in Note 4 to the Group's consolidated financial statements for the financial year 2023.

In 2023, the Group did not incur any significant expenditure on research projects.

6. Development policy for the Group

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

The key asset of the Group's business is its team, committed to creating world-class video games. The Group keeps expanding its development team at a dynamic rate. The Parent remains committed to its plan of further growing the team mainly organically, at the Group's existing studios. As the development team experiences rapid growth, the Group also plans to continuously enhance its structures and infrastructure. This includes the acquisition of best-in-class professionals in areas of the Group's operations that are not directly related to game development, such as in the broadly defined publishing sector.

With respect to the games the Group develops, PCF's mission is simple: the player is key. The Group's objective is to ensure that through its productions, players experience the world of gaming at its best.

Over two decades of operation, the Group has created or produced some of the most renowned shooters in the industry, including Painkiller, Bulletstorm, Gears of War: Judgement, and Outriders. However, these successes do not suppress the Group's appetite for exploiting the huge and still untapped potential that the Group sees in the segment of AAA and compact-AAA shooter games (games with shorter development times, lower budgets and smaller scope, but with quality comparable to that of the AAA segment). The Group plans to create games that will not only develop the entire genre, but will also combine it with other genres and subgenres, employ innovative multiplayer solutions, introduce innovations to the design of gaming sessions and find methods for bring these experiences into virtual reality.

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

On 31 January 2023, the Parent's Management Board adopted an updated growth strategy of the People Can Fly Group. On the same day, the complete strategy was disclosed to the public through Current Report No. 3/2023, and it was later updated in response to developments within the Group (see Current Reports No. 58/2023, No. 59/2023, and No. 2/2204). A summary of the strategy, including changes since its publication on 31 January 2023, is presented below.

In the first quarter of 2023, the Group adopted an updated growth strategy, convinced that it had not only met but in many cases exceeded all of its short-term strategic objectives since the Company's IPO in December 2020. As a result, the Company has become one of the largest independent production studios in the world, having created intellectual property (IP) in the AAA segment for years.

In 2021 and 2022, the Group:

- successfully completed work on Outriders and the Outriders: Worldslayer DLC;
- successfully completed the transformation of the Group's development studios:
 - transitioned from a model of working on a single game to a model of working on multiple games simultaneously;



- expanded from one to several creative teams;
- implemented modern game development methods and practices;
- established Centers of Excellence;
- strengthened its back office teams globally, which have been set up with a view to building an innovative working environment and accomplishing one goal: to support the Group's employees;
- acquired new development teams in the United States, Canada and Poland to develop competencies and new projects:
 - the Phosphor Games, LLC development team of Chicago;
 - Game On Creative Inc., a studio providing MoCap, animation, cinematics and audio services on a contract basis;
 - Incuvo S.A., developer of games for virtual reality (VR) platforms;
- opened new development studios in Montreal, Canada;
- adopted a hybrid and remote working model in response to changes in how the industry operates brought about by the COVID-19 pandemic. This approach has enabled PCF to recruit top-tier professionals regardless of location and maintain staffing levels suitable for project needs;
- expanded its structures based on its development studios and teams (Warsaw, Rzeszów, Katowice, Newcastle, Montreal, and New York), which enabled the Company to provide more comprehensive support to employees in North America and Europe;
- leveraging its proprietary IP, the Company signed a development and publishing agreement with Incuvo S.A. to develop a game, Bulletstorm VR, based on the People Can Fly portfolio IP for all major VR platforms;
- continued the development of the PCF Framework;
- strengthened its global brand as a leading independent video game developer and its reputation as a creator of top quality AAA games;
- in addition to the Gemini and Dagger projects revealed during the IPO, the Company initiated work on two entirely new projects: Project Bifrost and Project Victoria;
- explored opportunities for expansion into other segments of the entertainment industry, leveraging the brand and IP of the Group.

Fast-paced growth, proven growth strategies, experience, strong and seasoned creative and development teams, as well as the competencies in the Centers of Excellence and PCF Framework allow the Group to work simultaneously on a wide array of ambitious projects while maintaining the organisational independence of the Group's development studios. The Company takes up this challenge with full responsibility, and makes a commitment towards the gaming community and investors to successfully market several products in the coming years.

The Group will continue to develop and publish ambitious, innovative AAA and compact-AAA shooters. It will also reach for new game genres.

The Company will continue to cooperate on selected projects with reputable partners under the work-for-hire model. The strategy remains unchanged with regard to this line of business. However, the Company will certainly capture any attractive opportunities to cooperate with publishers should they arise. Agreements of this type ensure financial stability for the Company as well as room to experiment and develop, and may also be a source of additional funds if the projects go beyond the break-even point.

The Company also believes that stepping up the efforts to develop self-publishing activities is the best strategy in the long term. Since its IPO on the Warsaw Stock Exchange, the Company has developed and has been self-financing two projects in the self-publishing model: Project Bifrost and Project Victoria. From



2022 to the first quarter of 2024, the Company also pursued Project Dagger under this model, which was ultimately discontinued on 5 April 2024.

The decision to discontinue work on the Project resulted from a reassessment of the development plans for projects undertaken by the Group, coupled with modifications to these plans due to the unsatisfactory outcomes of evaluating the scope and commercial potential of the Dagger Project after its development direction was redefined, as detailed in Current Report No. 59/2023. As a consequence, impairment losses amounting to 100% of the expenditures incurred on the Project were recognised as of 31 December 2023, and the expenditures incurred were written off on the date the decision was made.

Compared with the work-for-hire model, self-publishing offers more control of game development and a choice of monetisation models, and enables the creation of marketing, sales and distribution strategies. It also allows the developer to retain a higher share of sales revenue. The Company intends to mitigate the risks related to operating under the self-publishing model by diversifying its game portfolio and working on multiple games simultaneously.

All components of the Group's current game portfolio, such as the selection of genres, target customer groups or defining the market potential, release dates or monetisation methods, are thoroughly thought out. The Company has sufficient knowledge, skills and resources to publish games. The Group is ready to market its games on its own.

The key objectives of the Group's updated growth strategy:

- Bolstering the publishing activities (the self-publishing model):
 - Promoting the People Can Fly brand as a leading and independent developer and publisher of AAA and compact-AAA games;
 - Creating, developing and maintaining contact with a loyal and engaged community of millions of gamers as the foundation for generating interest in new products from People Can Fly.
 - Expanding the market analysis and consumer research department as part of publishing activities to better understand gamers' needs and expectations during the development and in the full life cycle of the product.
 - Developing six games in the next four years with the help of all in-house development teams (for details, see below).
- Always Live:
 - Games in the Group's publishing portfolio will be based on the Game-as-a-Service (GaaS) or GaaS-ready models (in the case of the latter, projects may become live games after the initial phase as standalone products), with a focus on gamer engagement and retention. This approach makes it possible to employ multiple monetisation models tailored to individual projects in order to best suit target customers while providing gamers with a continuous, personalised experience in the long term.
 - The Company seeks to expand its competencies to include online live games, both under the Player versus Environment (PvE) and Player versus Player (PvP) gameplay modes. They will use both peer-to-peer (P2P) technologies and dedicated servers. To this end, the Company intends to continue to invest in the PCF Framework, the Online Backend Platform and the GaaS cloud infrastructure, capable of serving millions of gamers at the same time.
 - The GaaS model not only accelerates the publishing process, but also enables making regular updates, which helps maintain gamers' engagement for years. This improves gamer retention and significantly increases the value of games over time compared with games released under the traditional pay-to-play model.



- The GaaS model also makes it possible to take into account feedback from the gaming community when games are still in the development phase and ensure that the games match players' needs and expectations. This not only boosts a game's potential, but also increases the engagement and loyalty of players.
- Various game monetisation models:
 - The Group's games will be monetised under a range of models.
 - The traditional pay-to-play model, in which the game is sold at a specified price through digital or retail distribution channels.
 - Microtransactions enabling players to download and play the game without incurring any initial costs, enabling them to buy items that modify and personalise their gaming experience.
 - Passes – a monetisation model allowing players to access additional content for a specified period of time, usually one season, for an additional one-off or subscription fee.
 - The hybrid model – combining two or more of the above monetisation methods.
- Further expansion of development teams and nurturing talent:
 - To maximise the success of games developed by the Group, the Company intends to further expand its development teams, focusing on hiring and training of top-notch specialists. The Company will also continue to foster its unique organisational culture that supports high employee retention and satisfaction.
 - The introduction of the 2023–2027 incentive scheme for the Group's key employees or independent contractors will allow the eligible persons to acquire no more than 1,237,500 shares without diluting the equity interests held by existing shareholders, representing 4.13% of the Company's current share capital, in particular if the Group generates cumulative EBITDA of PLN 1.5 billion in that period. Once the 80% threshold of cumulative EBITDA is exceeded, 50% of the offered shares will be allocated to the eligible persons, with the balance to be allocated as the cumulative EBITDA increases to the target level, when all of the offered shares will be allocated to the Group's eligible employees or independent contractors. Shares for the employees or independent contractors will be offered by the Company's main shareholder. The price at which the shares will be offered to the Group's key employees or independent contractors will be the higher of: (i) the price of Company shares set on the date of their allotment to the eligible person (the date of the agreement between the eligible person and the Company's main shareholder), (ii) the price per share for institutional investors set on the date of the Company's IPO, and (iii) the price per share set in the new issue of Company shares referred to below.
 - The lock-up period for the Company's main shareholder – excluding the shares allocated to the incentive scheme or purchased after the IPO – has been extended until the end of 2027, with the exception of strategic transactions and tender offers for the sale or exchange of Company shares.
- Investing in new segments of the entertainment industry:
 - The Company intends to explore new business areas based on the Group's brand, knowledge and IP by investing in new segments of the entertainment and digital culture industry.

Last year, the Company developed a highly ambitious plan, detailed below by projects, along with a marketing and sales strategy for the next five years. It set a strategic goal to achieve total revenue of at least PLN 3.0 billion from 2023 to 2027. The past year and the update to the plan have not resulted in significant changes to the Company's previously communicated strategic plans.

Project Gemini



Genre: undisclosed

Team size: 160-170 persons

IP: undisclosed (owner: Square Enix Limited)

Expected release date: 2026

AAA game developed by the Group in Europe under the work-for-hire model in collaboration with Square Enix Limited, the Group's long-standing publisher.

Project Bifrost

Genre: Online shooter

Team size: up to 150 persons (ultimately)

IP: undisclosed (proprietary)

Expected release date: 2025-2026

An AAA online shooter developed by the Group in North America. It will be a self-financed and self-published live game, and the size of the development team will increase after the game's release as its KPIs are gradually achieved.

Project Victoria

Genre: Multiplayer survival

Team size: up to 120 persons (ultimately)

IP: undisclosed (proprietary)

Expected release date: 2025-2026

An AAA multiplayer survival developed by the Group in North America. It will be a self-financed and self-published live game, and the size of the development team will increase after the game's release as its KPIs are gradually achieved.

Project Red

A compact-AAA game developed by the Group in Europe. As at the date of this Report, the game is in the pre-development phase.

Project Thunder

The game 'Bulletstorm VR' (formerly under the code name 'Project Thunder') was developed by the Group's subsidiary, Incuvo S.A. The launch of this game, which is based on the Group's own IP and adapts its cult shooter for virtual reality platforms, took place on 18 January 2024, when it was made available on the META Oculus Store and Sony PlayStation Store, as well as on Steam.

The game's production was entirely financed by the Company and was released under the self-publishing model. Given the unsatisfactory launch of Bulletstorm VR, on 15 March 2024, the parties agreed to terminate the development and publishing agreement for the game, effective 19 January 2024. It was stipulated that Incuvo S.A. would not be entitled to any royalties from sales of the game. Any subsequent development activities related to Bulletstorm VR will be carried out through a production process in which the Company is responsible for creating the final product and managing its commercialisation, including the market launch. The Management Board of the Company is open to using Incuvo S.A.'s resources for the execution of the development activities.

Green Hell VR



The game is a VR adaptation of a popular survival game for PCs and consoles, with an open world of Green Hell, created by Creepy Jar S.A. and developed by Incuvo S.A., the Group's subsidiary. The game was released in April 2022 for the Oculus Quest 2 platform and in June 2022 for PCs, and then in July 2022 for the Oculus Rift platform and in October 2022 – for the Pico platforms. On 15 June 2023, Green Hell VR was released on HTC hardware platforms, specifically the HTC Elite XR and HTC Focus 3. Subsequently, on 14 September 2023, the PCVR version was launched as part of the Infinity Program on the Viveport platform (HTC). Then, on 30 November 2023, the first of three planned expansions for Green Hell VR, titled 'Spirits of Amazonia,' was launched on the Meta Quest 2 and 3 and PS VR2 platforms.

Project Bison

Following the adoption of the Strategy, on 12 November 2023, the Parent entered into an agreement with Incuvo S.A. for the latter to provide development services related to the production of a new survival adventure video game. Based on the proprietary IP of the People Can Fly Group and code-named 'Bison', the game is slated for release in 2024–2025. The VR game development will be financed entirely by the Parent, and the game will be developed using the Unity graphics engine. For more information, see section 8.

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

Development and publishing agreements

Development and publishing agreement for Project Gemini

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

Under the agreement, the Company committed to produce and deliver the game Project Gemini to the publisher, in accordance with a production schedule agreed upon by both parties. This schedule anticipates the game's release in 2026 and defines its key milestones. The game and the DLC development process has included all work necessary to create products ready to be marketed by the publisher, including the preparation of their 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). Additionally, the Company is obligated to assist the publisher in obtaining approval for the game on various platforms from platform licensors, which also involves making necessary modifications to the game. Simultaneously, through annexes to the agreement, the parties have specified a list of subcontractors with whom the Company is authorised to collaborate to fulfil the agreement, as well as a budget allocated for payments to these subcontractors.

The development and publishing agreement is 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 is obliged to provide its deliverables to the publisher, and the publisher is 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 is obliged to rectify the defects in line with the relevant procedure detailed in the agreement.

As a general rule, each instalment of the consideration is 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.

Upon completion of the game's production, the Company will be entitled to consideration in the form of royalties, which will be payable if specific revenues (as defined in the agreement) from the game's sales



enable the publisher to recoup, at a predetermined level, the expenses incurred in the development, promotion, and distribution of the game. The level of royalties depends on the amount of specific revenues from the game's sales. There can be no assurance that net revenue from the sale of Project Gemini will be sufficient for the publisher to recoup the expenses incurred and to pay royalties to the Group.

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 declines the publisher's business proposal within the period stipulated in the agreement, or if the parties cannot agree on the terms of the transaction, the publisher is then free to engage another developer for the creation of the game-related products. The right of first negotiation does not extend to any subsequent sequels of the game if the Company did not develop the previous sequel.

Under the development and publishing agreement, the Company transferred to the publisher both its existing and future intellectual property rights (copyrighted property rights) in Project Gemini, as well as any downloadable content (DLCs), sequels, and additional game-related products. The Company also waived its moral rights in favour of the publisher. The agreement has been concluded for an indefinite period and is not limited by territory. It may be terminated by either party upon the occurrence of certain events that involve 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 in 2026, and the project scale is comparable to that of Outriders.

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

Development and publishing agreement and termination agreement for Project Dagger

In connection with the production of the title Project Dagger, People Can Fly U.S., LLC and the Company entered into a Development and Publishing Agreement on 21 July 2020 with Take-Two Interactive Software, Inc. as the publisher. This agreement outlined the conditions for People Can Fly U.S., LLC to produce the game under the working title Project Dagger, as well as other products such as downloadable content (DLC) and sequels (collectively referred to as 'Products' along with the game Project Dagger). The agreement was of a framework nature, and the detailed terms of collaboration between the publisher and People Can Fly



U.S., LLC regarding the Products, such as the detailed rules for financing production and the payment of consideration to People Can Fly U.S., LLC for the production of a specified Product contingent on work progress and the production schedule based on agreed key production milestones, were specified in the supplementary agreements to the Development and Publishing Agreement (schedules).

In the six months ending 30 June 2022, the Group completed all work contracted by the publisher under a schedule to the development and publishing agreement and received all consideration due for this work as stipulated in the agreement. Despite talks conducted by the Parent's Management Board with the publisher with a view to agreeing on the terms of further cooperation, the parties did not sign another content rider setting out the terms and conditions of further work on Project Dagger.

On 1 October 2022, with effect from 23 September 2022, People Can Fly U.S., LLC and the publisher Take-Two Interactive Software, Inc. executed a termination agreement for the development and publishing agreement related to the production of the title Project Dagger, which is subject to the laws of the State of New York, USA. The termination agreement sets out detailed rules for settlements between the parties following the termination of the development and publishing agreement, which differ depending on how the game will ultimately be released: in the self-publishing model or in partnership with a new publisher. In this respect, the termination agreement provides that People Can Fly U.S., LLC will have no obligation to repay to the publisher the developer advances received from the publisher but, instead, it will be obliged to repay to the publisher USD 20 million (the "repayment amount") as follows:

(a) if the Project Dagger game is released by People Can Fly U.S., LLC, the Parent or an affiliate of the Parent as a self-published title, People Can Fly U.S., LLC will be obliged to pay royalties to the publisher on a quarterly basis until the sum of the royalties equals the repayment amount;

(b) if the Project Dagger game is released by People Can Fly U.S., LLC, the Parent or an affiliate of the Parent in partnership with a new publisher, People Can Fly U.S., LLC will be obliged to pay to the publisher the repayment amount in two equal instalments payable within 6 and 12 months after the game release date.

The publisher will not be entitled to receive the repayment amount if Project Dagger is not commercially released, regardless of the publishing model. The publisher did not exercise the contractual option to purchase intellectual property rights to deliverables produced under the development and publishing agreement and the licence granted to the publisher expired. Thus, in accordance with the agreement, People Can Fly U.S., LLC has retained intellectual property rights in Project Dagger as their sole owner. Based on this,

the Group continued work on the game Project Dagger in the self-publishing model, with the game's release planned for the years 2025-2026.

On 28 November 2023, the Company disclosed that (i) subsequent to the delivery of a key milestone of Project Dagger and the review of the creative game concept, and (ii) in consideration of analyses regarding the impact of potential strategic scenarios discussed with the publisher of Project Gemini, namely Square Enix Limited (refer to item 4), on the development plans for projects undertaken by the Group under its revised strategy as publicly communicated on 31 January 2023, it had resolved to temporarily curtail Project Dagger, developed under the self-publishing model using its own funds by: (a) assigning an experienced team of approximately 10 individuals to redefine the game's development direction and prepare a pre-production version of the game addressing feedback and guidance obtained through the external evaluation of Project Dagger, which consequently led to the suspension of plans to release the game as a AAA title during the 2025-2026 period, and (b) offering the majority of the team members opportunities to work on Projects Maverick, Bifrost and Victoria.

Then, on 5 April 2024, the Management Board of the Company decided to discontinue further work on Project Dagger.

The decision to discontinue work on the Project resulted from a reassessment of the development plans for projects undertaken by the Group, coupled with modifications to these plans due to the unsatisfactory outcomes of evaluating the scope and commercial potential of the Project after its development direction was redefined.



As a consequence, impairment losses amounting to 100% of the expenditures incurred on the Project will be recognised as of 31 December 2023, and the expenditures incurred will be written off as of the date the decision was made.

The impairments resulted in (i) a reduction of the separate financial result for 2023 and a decrease in the carrying amount of non-current assets as presented in the Company's statement of financial position as of 31 December 2023 by PLN 79.9 thousand, and in (ii) a reduction of the consolidated financial result for 2023 as well as the carrying amount of non-current assets presented in the Group's consolidated statement of financial position as of 31 December 2023 by PLN 68.3 thousand. The recognition of impairment losses is a one-off and non-monetary event, and does not affect the value of the separate and consolidated EBITDA.

Development and publishing agreement for Bulletstorm VR (Project Thunder)

In connection with the development of Project Thunder, on 13 December 2021 a development and publishing agreement was signed between the Company as the publisher and Incuvo S.A. as the developer.

The agreement defined the terms and conditions of development by Incuvo S.A. of a VR game based on IP owned by the Group, under the working title Project Thunder, to be published by the Company. The agreement was a framework agreement, with the specific terms of business between the Company and Incuvo S.A. concerning the game and any additional content, such as DLCs, sequels, or expansion packs (collectively referred to as the 'Products'), detailed in relevant content riders. The content riders specified the detailed terms of financing the development work and the payment of consideration by the Company to Incuvo S.A. for the development of a specific Product, depending on the progress of work and the milestone-based development schedule agreed upon by the parties.

The consideration for development of Project Thunder was payable by the Company to Incuvo S.A. in instalments, after Incuvo S.A. delivered and the Company accepted the agreed milestones. Upon completion of each agreed milestone, Incuvo S.A. delivered its outputs to the Company. The Company was then required to notify Incuvo S.A. by an agreed deadline whether it accepted the works. If not, the Company provided Incuvo S.A. with a list of defects that needed rectification by the developer. The agreement established a comprehensive procedure for the rectification of any defects and securing the Company's acceptance. Upon achieving the respective production milestones of Project Thunder, Incuvo S.A. was entitled to receive instalments of consideration (milestone payments) from the Company, in accordance with a schedule set out in the content rider.

Upon the completion and release of the game, Incuvo S.A. was entitled to receive royalties from the Company, contingent upon achieving specific revenues (as stipulated in the agreement) from its sales that enabled the publisher to recoup, at a predetermined level, the expenses incurred in the development, promotion, and distribution of the game. The amount of royalties was calculated as a percentage of specific revenues from the game's sales.

As the publisher, the Company had exclusive rights, unlimited as to territory, to publish, distribute, sell, market, advertise and otherwise use the Products. In addition, the Company had exclusive rights to develop and publish any additional and derivative products related to the Products, including any sequels, prequels, merchandise (e.g., clothing, comic books, board games, collectibles), audiovisual works (e.g., feature films, animated films, and short films, television programmes and other video productions), or any VR experience.

The Company has retained intellectual property rights to Project Thunder and other Products as their sole owner.

Bulletstorm VR premiered on 18 January 2024. Shortly after the game's release, on 15 March 2024, the Company entered into an agreement with Incuvo S.A. concerning the settlement of the remaining key production milestones of Bulletstorm VR, covering the period up to the game's release date on 18 January 2024. As part of the settlement, based on the terms of the development and publishing agreement, the Company, as the publisher, charged Incuvo S.A. with the cost of development work and quality control tasks carried out by the Company on behalf of Incuvo S.A., amounting to PLN 871 thousand. Furthermore, given the unsatisfactory launch of Bulletstorm VR, the parties agreed to terminate the development and publishing agreement for the game, effective 19 January 2024. It was stipulated that Incuvo S.A. would not



be entitled to any royalties from sales of the game. Any subsequent development activities related to Bulletstorm VR will be carried out through a production process in which the Company is responsible for creating the final product and managing its commercialisation, including the market launch. The Management Board of the Company permitted the use of Incuvo S.A.'s resources to carry out the development activities.

Development and publishing agreement for Project Maverick

On 13 June 2023, the Company executed a Development and Publishing Agreement with Microsoft Corporation, serving as the publisher for the production of a AAA segment game, codenamed Project Maverick. The parties also executed a Product Appendix to the agreement, specifying the game production schedule. Collectively, the Development and Publishing Agreement and the Product Appendix constitute the formal framework for collaboration on Project Maverick, where:

- (a) The Product Appendix outlines the foundational principles for project execution, including key production milestones, essential design and technical aspects, and the commercial terms of the partnership (Development Advances, Schedule, and Discretionary Development Expense).

and

- (b) The Development and Publishing Agreement contains standard contractual clauses regarding the scope of the agreement, mutual obligations of the parties, production methodology, types and terms of payments to the Company, a right of first look for future products by the Company, and ownership of the intellectual property rights.

The collaboration is structured on a work-for-hire basis, adhering to commonly accepted standards for such agreements, and the agreement does not stipulate any unusual specific conditions.

A key stipulation of the agreement confirms that all intellectual property rights associated with the project are vested in the publisher. The game is developed under the publisher's intellectual property rights, and all creative outputs generated within the project are owned by the publisher.

The project is fully financed by the publisher, contingent upon the Company's completion of designated work stages. The publisher has allocated a total budget of USD 30–50 million for the production of the game by the Company.

Development and publishing agreement for Project Bison

On 12 November 2023, the Parent concluded an agreement with Incuvo S.A., its subsidiary, whereby Incuvo S.A. would provide game development services for the Parent to produce a new video game under the code name Bison, planned for release in 2024–2025.

Project Bison involves the development of a survival adventure game based on intellectual property rights of People Can Fly, designed for the most popular VR hardware platforms of the present and future generations.

The VR game development will be financed entirely by the Parent. As part of the development process, the Parent, which possesses the requisite experience, capabilities, and infrastructure, will be responsible for advancing the final product (a VR game) to a stage where it is suitable for player use and ready for commercialization, including its market launch.

The VR game will be developed using the Unity graphics engine.

Shareholder agreements

On 26 June 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 of the date of authorisation of this Report for issue, based on notifications received from the shareholders constituting the Group of Qualifying Shareholders, who are identified as shareholders holding at least 5% of the total voting rights at the Company's General Meeting, and on transactions



conducted by persons discharging managerial responsibilities in accordance with Article 19(1) of MAR, the shareholders party to the Qualifying Shareholders Agreement collectively held 21,191,188 shares. This represents 58.96% of the share capital of PCF Group S.A., and an equivalent 58.96% of the 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 29 July 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 29 July 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 29 July 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 29 July 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, Gearbox Publishing, LLC and Microsoft Corporation.

Under the development and publishing agreements with Square Enix Limited for the production of the Outriders and Project Gemini games, the Parent is required to maintain: (i) commercial third-party liability insurance and property ownership; (ii) product liability insurance; and (iii) professional liability insurance,



which includes coverage for claims related to intellectual property rights infringements. Each policy must have an indemnity limit of USD 5 million per occurrence and a total of USD 10 million for all occurrences.

Under the development and publishing agreement with Gearbox Publishing, LLC for the production of the remastered version of the game *Bulletstorm – Bulletstorm: Full Clip Edition*, the Parent is obligated to maintain professional liability insurance extended to include a clause for claims related to intellectual property rights infringements, with a liability limit of USD 1 million per occurrence and for all occurrences combined.

Under the development and publishing agreement with Microsoft Corporation for Project Maverick, the Parent is obligated to maintain: (i) commercial general liability insurance, extended to cover product liability and employee injury claims, and (ii) professional liability insurance extended to include a clause for claims related to intellectual property rights infringements. Each policy must have an indemnity limit of USD 2 million per occurrence and USD 10 million in aggregate for all occurrences.

To fulfil the obligations under the development and publishing agreements referred to above, the Parent has entered into insurance contracts with Colonnade Insurance S.A., Poland Branch, covering the following risks: (i) General Third Party Liability / Commercial General Liability insurance, extended to include product liability and coverage for damages caused to the insured's employees, and (ii) Professional Indemnity / Errors & Omissions insurance, extended to include a clause for claims related to intellectual property rights infringements. Each policy carries an indemnity limit of USD 5 million per occurrence and USD 10 million in aggregate for all occurrences. As of the date of this report, the insurance cover under the policy for General Third Party Liability / Commercial General Liability will expire on 31 May 2024, and the coverage under the Professional Indemnity policy will expire on 30 June 2024. The Professional Indemnity policy includes full retroactive cover.

The requirements stipulated in the development and publishing agreements, including specifically adding publishers to certain policies as additional insured parties, are met under the policies with Colonnade Insurance S.A., Poland Branch.

Investment agreement with Square Enix Limited

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

In the performance of the investment agreement, on 17 November 2021 Square Enix Limited accepted the Parent's offer of 11 October 2021 to subscribe, for no consideration, for 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the Parent, each conferring the right to subscribe for one Series C ordinary bearer share in the Parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. Subsequently, on 10 December 2021, 6 June 2022, 7 October 2022 and 28 March 2023, the Company's Management Board submitted to the publisher further offers to subscribe, for no consideration, for 90,000 Series A registered subscription warrants (Tranche A3 warrants), 90,000 Series A registered subscription warrants (Tranche A4 warrants), 90,000 Series A registered subscription warrants (Tranche A5 warrants) and 90,000 Series A registered subscription warrants (Tranche A6 warrants). All the offers were accepted



by the publisher on 18 January 2022, 30 June 2022, 1 November 2022 and 18 April 2023, respectively. Square Enix Limited acquired the right to subscribe for Series C shares upon subscription for the fourth tranche of the warrants. As at the date of authorisation of this Report, the Parent estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited under the Investment Agreement would represent approximately 1.5% of the current amount of the Parent's share capital.

The Series A registered subscription warrants of Tranches A1, A2 and A3, in the total number of 270,000, were registered with the Central Securities Depository of Poland on 8 March 2022 under the joint ISIN code PLPCFGR00044. The Series A registered subscription warrants of Tranches A4 and A5, in the number of 90,000 warrants in each tranche, were registered with the Central Securities Depository of Poland on 25 January 2023 under the ISIN codes PLPCFGR00051 and PLPCFGR00069, respectively. The Series A registered subscription warrants of Tranche A6, in the total number of 90,000, were registered with the Central Securities Depository of Poland on 5 September 2023 under the joint ISIN code PLPCFGR00077.

Investment agreement with Krafton, Inc.

On 28 March 2023, the Company and Sebastian Wojciechowski, President of the Company's Management Board and the Company's key shareholder, entered into an investment agreement with Krafton, Inc. concerning: (i) subscription by Krafton, Inc. for Company shares to be issued pursuant to Resolution No. 4/02/2023 of the Extraordinary General Meeting of the Company to increase the Company's share capital by no more than PLN 117,078.82 through the issue of up to 5,853,941 Series F ordinary bearer shares with a par value of PLN 0.02 per share (the "Offer"); and (ii) other contractual rights and obligations of each party relating to the investment, including the Company's disclosure obligations towards Krafton, Inc.

Under the investment agreement, Krafton, Inc. agreed to subscribe, within the time frame specified therein, for such number of Series F shares (rounded to the nearest integer) that upon completion of the offer would represent 10.00% of the Company's share capital and voting rights at the Company's General Meeting, at the issue price of PLN 40.20 per Series F share. Krafton, Inc. will acquire the Series F shares for cash.

Pursuant to the investment agreement, if the Company contemplates publishing Project Victoria or Project Bifrost in a model other than self-publishing, Krafton, Inc. will have the right of first negotiation and the right of first refusal with respect to any such agreements.

In addition, Sebastian Wojciechowski granted Krafton, Inc. the right to prevent dilution, the right of first refusal to acquire shares and the tag-right along (which corresponds to Sebastian Wojciechowski's drag-along right). Both Krafton, Inc. and Sebastian Wojciechowski agreed to standard lock-up arrangements regarding their shares in the Company, effective until 28 March 2024. The Parties also made customary representations and warranties and agreed on the contractual terms of each Party's liability for a breach, if any, of the Investment Agreement.

The investment agreement was concluded for a definite period of 10 years, subject to customary provisions for automatic termination. Krafton, Inc. may terminate the investment agreement in certain circumstances, in particular if the Company cancels the public offering of Series F shares or fails to carry out that offering within 10 business days from the date of issue of the Company's interim consolidated financial statements for the first quarter of 2023. The agreement does not provide for any contractual penalties. The agreement is governed by Polish law.

Side Letter to the Investment Agreement with Krafton, Inc.

On 14 June 2023, the Parent and Sebastian Wojciechowski as the Parent's key shareholder and President of the Management Board executed a side letter (the "Side Letter") for the investment agreement of 28 March 2023 with Krafton, Inc. Described above. In the Side Letter, the parties agreed, among other things, that if (i) the General Meeting of the Parent passes a resolution(s) to increase the Parent's share capital by issuing up to 2,510,904 new shares (the "New Issue Shares"), and the share capital increase is carried out (i.e., the New Issue Shares are subscribed and paid for) no later than on 31 December 2023 (the "Issue Resolution"); and (ii) the Issue Resolution gives priority to subscribe for New Issue Shares to shareholders of the Parent that hold shares conferring the right to 0,25% or more of total voting rights in the Parent as at the end of the Issue Resolution date; and (iii) Krafton, Inc. submits a declaration of subscription for a



number of New Issue Shares which, when aggregated with Series F shares held by Krafton, Inc. will represent 10.00% of the Parent's share capital and total voting rights in the Parent on the date of registration of the New Issue Shares in the Business Register of the National Court Register by the registry court, then the Parent: (a) irrespective of the number of New Issue Shares to be allotted to other investors participating in the offering and regardless of the issue price of the New Issue Shares that will be set for other investors participating in the offering – will allot such number of New Issue Shares to Krafton, Inc., with priority before other investors participating in the offering, which, when aggregated with Series F shares held by Krafton, Inc., will represent 10.00% of the Parent's share capital and total voting rights in the Parent on the date of registration of the New Issue Shares in the Business Register of the National Court Register by the registry court; and b) will enter into an agreement with Krafton, Inc., whereby the Investor will subscribe for New Issue Shares at the issue price of PLN 40.20 per New Issue Share.

As a result of the public offering of Series G shares, described in detail in Section 4, Krafton, Inc. subscribed for 251,091 Series G shares in the performance of the Side Letter. The shares, when aggregated with the 3,342,937 Series F shares subscribed for by Krafton, Inc., represent 10.00% of all shares in the Parent after registration by the competent registry court of the increase in the Parent's share capital by way of issue of Series G shares.

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	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Financial liabilities measured at amortised cost				
Borrowings and subsidies	1,490	2,089	1,637	3,490
Financial liabilities measured at amortised cost	1,490	2,089	1,637	3,490
Total borrowings, other debt instruments	1,490	2,089	1,637	3,490

PARENT

	Current liabilities		Non-current liabilities	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Financial liabilities measured at amortised cost				
Non-bank borrowings	-	510	-	-
Financial liabilities measured at amortised cost	-	510	-	-
Total borrowings, other debt instruments	-	510	-	-

The Group's debt instruments as at 31 December 2023 are described below.

- **Credit facility agreement between Game On Creative Inc. and Royal Bank of Canada**

The purpose of the loan was to finance management buyout associated with the Parent's acquisition of Game On Creative Inc. ('Game On'). Game On repays the facility in equal monthly instalments of approximately CAD 42 thousand. As at 31 December 2023, the balance outstanding under the facility was CAD 1,052 thousand.

- **Credit facility agreement between People Can Fly Canada Inc. and Bank of Montreal**

The credit agreement pertains to demand revolving facilities: (1) a credit facility of up to CAD 1,200 thousand, intended to finance working capital and general corporate needs of People Can Fly Canada Inc. ('PCF Canada'), and (2) a credit facility of up to CAD 8,000 thousand, intended to prefinance future tax credits in Canada.

The security package, governed by Canadian law, includes: (1) the Parent's guarantee, (2) First Ranking General Security Agreement over all movable assets of PCF Canada (i.e., a variable pool of movables and property rights), (3) First Ranking Hypothec of CAD 11,040 thousand over all movable assets of PCF Canada, (4) subordination of corporate loans advanced by the Parent, and (5) identification of the bank as an additional insured in PCF Canada's insurance policies.

On 24 May 2023, the Parent issued an unsecured guarantee to the bank for up to CAD 9,200 thousand to secure the bank's claims against PCF Canada under the agreement and the security



provided. Both credit facilities are repayable on demand and can be renewed annually on terms agreed by the parties.

The interest rate on the credit facilities for each interest period is an annual interest rate being the sum of an agreed margin and the base rate (based on the Canadian Prime Rate).

The fee for granting the credit facilities was determined on standard arm's length terms applied for financial instruments of this kind.

The agreement includes standard covenants, such as restrictions on changing the principal business and conditions under which new debt financing may be incurred.

In the event of any breach of the agreement, the bank retains standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

As at 31 December 2023, the balance outstanding under the facility was CAD 0 thousand.

- **Credit facility agreement between PCF Group S.A. and Bank Polska Kasa Opieki S.A.**

On 12 October 2023, the Parent, as the borrower, and Bank Polska Kasa Opieki S.A. ('Bank Pekao'), as the lender, executed: (1) a revolving credit facility agreement of up to PLN 30 million, and (2) a revolving credit facility agreement of up to EUR 4,426,444 (collectively the 'Credit Facility Agreements'), intended to finance costs related to work-for-hire development of video games (collectively the 'Credit Facilities').

The term of the revolving lines of credit and the final repayment date of both Credit Facilities is three years from the date of execution of the Credit Facility Agreements.

The interest rate on the Credit Facilities for each interest period is an annual rate being the sum of an agreed fixed margin and the variable benchmark rates (WIBOR) (facility (1)) or EURIBOR (facility (2)). The fee for the provision of the Credit Facilities, as well as the fee for the provision of guarantees by Bank Gospodarstwa Krajowego, were determined on standard market terms applied for financial instruments of this kind.

The security package with respect to the Credit Facilities includes: (1) financial pledges and registered pledges over the Parent's entire shareholding in Incuvo S.A. of Katowice, (2) financial pledges and registered pledges over bank accounts maintained for the Parent by Bank Pekao, (3) a statement made pursuant to Art. 777 of the Code of Civil Procedure whereby the Parent will submit to enforcement with respect to the obligation to pay any amounts due under the Credit Facility Agreements to Bank Pekao up to 150% of the amount of the Credit Facilities, (4) guarantees provided by Bank Gospodarstwa Krajowego up to 80% of the amount of the Credit Facilities, which will be secured with blank promissory notes together with promissory note declarations issued by the Parent to Bank Gospodarstwa Krajowego.

The Credit Facilities will be disbursed subject to the fulfilment of typical conditions precedent to the disbursement of funds in such transactions.

The Credit Facility Agreements also provide for standard covenants to be complied with by the Parent, such as restrictions on a change of its principal business and terms on which it may incur new debt financing. In the event of any breach of the Credit Facility Agreements, Bank Pekao has standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

Until the date of authorisation for issue of this Report, the Parent did not apply for disbursement of the Facilities.

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

In the financial year 2023, PCF Group S.A. advanced the following loans:



▪ **Loans to People Can Fly Ireland Limited**

On 19 July 2023 and 9 October 2023, the Company provided loans to People Can Fly Ireland Limited totaling EUR 500,000 and USD 500,000, respectively. The interest rate for the EUR 500,000 loan is set at 3M EURIBOR plus an additional 2 percentage points annually. For the USD 500,000 loan, the interest rate is established at USD SOFR plus an additional 2 percentage points annually. Both loans are structured with a three-year maturity. They are secured by the assets of People Can Fly Ireland Limited, including intellectual property rights. The loans are to be repaid through a one-off payment at the end of the financing period, with a prepayment option. The loans were granted on market terms. As at 31 December 2023, the balance outstanding under the loans was PLN 4,223 thousand.

▪ **Loan to Game On Creative Inc.**

On 21 November 2023, the Company executed a loan agreement with Game On Creative Inc. for an amount of 550,000 CAD, with an annual interest rate set at SOFR 3M Compound plus an additional 5 percentage points. The loan was scheduled to be disbursed in a single payment by 30 November 2023. However, due to modifications in the financing strategy for Game On Creative Inc., the loan was not disbursed, and the agreement was subsequently terminated by mutual consent of the parties.

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

On 24 May 2023, the Parent's subsidiary People Can Fly Canada Inc., of Montreal, Canada ("PCF Canada") as the borrower and the Bank of Montreal (the "Bank"), as the lender, signed a credit facility agreement (Offer of Financing, the "Agreement") to grant PCF Canada two demand revolving facilities comprising: (1) a credit facility of up to CAD 1,200 thousand, intended to finance working capital and general corporate needs of PCF Canada, and (2) a credit facility of up to CAD 8,000 thousand, intended to finance future tax credits in Canada.

The Agreement is secured by, among other things, a guarantee from the Parent. On 24 May 2023, the Company Parent issued an unsecured guarantee to the Bank for up to CAD 9,200 thousand to secure the bank's claims against PCF Canada under the Agreement and the security provided.

Apart from the performance bond agreement described above, as at 31 December 2023 the Group did not have any other financial guarantees or contingent assets or liabilities.

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, as well as commercial paper issued by Pekao Leasing Sp. z o.o.

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 31 December 2023 and 31 December 2022 did not differ materially from the value disclosed in the financial statements for the respective years for the following reasons:

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

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

In 2023, 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 31 December 2023 and the date of authorisation of this Report for issue, 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 31 December 2023, 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

Remuneration and other benefits for members of the Management Board and Supervisory Board of the Parent are described in Note 29 to the consolidated financial statements for 2023.

Except for the Incentive Scheme for key employees and independent contractors of Incuvo S.A. described below, in 2023 neither PCF Group S.A. nor the Parent's subsidiaries adopted any equity-based incentive or bonus schemes for serving as members of the Parent's management, supervisory or administrative bodies, or for serving on the governing bodies of its subordinated entities.

On 10 August 2022, the Extraordinary General Meeting of Incuvo S.A. passed Resolution No. 5 to implement an Incentive Scheme for key employees and independent contractors of Incuvo S.A. (the "Incentive Scheme"). The Incentive Scheme involves the granting of Series A registered subscription warrants ('Series A Warrants') and Series B registered subscription warrants ('Series B Warrants') to eligible individuals at no cost. These warrants entitle the holders to subscribe for Series F ordinary bearer shares of Incuvo S.A. at a predetermined price, on the dates and terms outlined in Resolution No. 5 and the Rules of the Incuvo S.A. Incentive Scheme. The pre-emptive rights of Incuvo S.A.'s existing shareholders have been waived in relation to this scheme. The Series A Warrants and Series B Warrants were issued in accordance with Resolution No. 7 of the Extraordinary General Meeting of Incuvo S.A. held on 10 August 2022. This resolution authorised the issuance of Series A and Series B subscription warrants, fully waived the pre-emptive rights of existing shareholders to acquire all Series A and Series B subscription warrants, approved the application for the introduction of Series F shares to trading on the NewConnect alternative trading system operated by the Warsaw Stock Exchange, and sanctioned the conversion of Series F shares, as well as Series A and Series B subscription warrants, into book-entry form.

On 24 January 2023, the Management Board of Incuvo S.A. expanded the eligibility for participation in the Incentive Scheme and resolved to extend an offer to selected individuals (the 'Addressees of the Offer') to subscribe for a total of 33,596 Series A Warrants. On 10 February 2023, following the successful subscription for Series A Warrants by the Addressees of the Offer, the Management Board of Incuvo S.A. allocated a total of 33,596 Series A Warrants to the Addressees of the Offer. On 22 March 2023, the Series A Warrants were registered in the securities depository operated by the Central Securities Depository of Poland (KDPW) under the ISIN code PLA295700035. On 30 January 2024, the Addressees of the Offer submitted declarations to Incuvo S.A. to subscribe for a total of 33,596 Series F ordinary bearer shares of



the Company, with a par value of PLN 0.50 per share ('Series F Shares'), thereby exercising their rights from the Series A Warrants. Subsequently, on the same day, the Management Board of Incuvo S.A. allocated 33,596 Series F Shares to the Addressees of the Offer. As of the date of issue of this Directors' Report, the registration of Series F Shares in the securities depository operated by the Central Securities Depository of Poland (CSDP) is pending.

Furthermore, on 30 January 2024, the Management Board of Incuvo S.A. resolved to offer the Addressees of the Offer a total of 145,073 Series B Warrants. On 7 March 2024, following the successful subscription of Series B Warrants by the Addressees of the Offer, the Management Board of Incuvo S.A. allocated a total of 145,073 Series B Warrants to the Addressees of the Offer. As of the date of issue of this Directors' Report, the registration of Series B Warrants in the securities depository operated by CSDP is pending.

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

Risk factors related to the Group's operations

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

As at the date of this Directors' Report, the Group is a party to development and publishing agreements with:

- Square Enix Limited, as the publisher, for the development of the game Outriders and its DLC, Outriders Worldslayer, from which the Group does not generate revenue as of the date of this Report and from which no revenues were generated in 2023;
- Square Enix Limited, as the publisher, for the development of Project Gemini; and
- Microsoft Corporation, as the publisher, for the development of Project Maverick.

Under development and publishing agreements, the publisher pays the Group consideration for progress in game development during the game development phase, as well as royalties after the game's market release and launch of its sales, the amount of which is conditional on the publisher's proceeds from the sales.

Following the completion of the production of Outriders and its DLC, Outriders Worldslayer, and their subsequent release on 1 April 2021 and 28 June 2022, respectively, the Company is entitled to consideration in the form of royalties. These royalties will be payable if specific revenues (as defined in the agreement) from the sales of the game and the DLC ensure that the publisher recoups, at a predetermined level, the expenses incurred in the development, promotion, and distribution of the game. The amount of royalties depends on the amount of specific proceeds from the game's and the DLC's sales. As of the date of this Directors' Report, the Group has not received any royalty payments from the publisher. It means that, up to the date specified above, net revenue from the sales of the Outriders game and the Outriders Worldslayer DLC has not allowed the publisher to recoup the expenses incurred in the production, distribution, and promotion of the game and the DLC. There can be no assurance that net revenue from the sales of the Outriders game and the Outriders Worldslayer DLC in future periods will be sufficient for the publisher to recoup the expenses incurred and to pay royalties to the Group. Immediately upon receipt of a royalty statement from the publisher confirming the Group's right to receive a specific amount of royalties or upon receipt of royalties by the Group, the Group will announce it in a Current Report pursuant to Article 17 of Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation).

In the Group's assessment, royalties received from publishers will remain the primary source of the Group's revenue at least until the end of 2024. Any decline in revenue from publishers during the specified period will directly result in a decrease in the Group's total revenue. Should the royalties received from publishers significantly diminish, this will materially and adversely affect the Group's business and financial results. In this context, the Company refers to Current Report No. 58/2023 dated 24 November 2023, which discusses



the Company's strategic discussion with Square Enix Limited regarding the development of Project Gemini. The Management Board deemed it highly probable that the future development of Project Gemini would not proceed under the existing commercial terms. Furthermore, as detailed in Current Report No. 2/2024 dated 30 January 2024, the Management Board decided to downsize the development team dedicated to Project Gemini. This was achieved by offering some team members positions on other projects within the Group and by reducing the headcount of the Project Gemini development team, which affected over 30 individuals. Any further significant reduction in the development team working on projects undertaken by the Group, or the emergence of a disparity between the size of the development team that the Company is compensated for by the publisher, and the size of the team actually allocated to work on the project would directly result in a decrease in the Group's revenue. Consequently, this would adversely affect the Group's business and the financial results achieved by the Group.

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

The Group's business is heavily dependent on the expertise and experience of its project team members engaged in game development, as well as the capabilities of 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 this perspective, the Group's management staff and the owners of individual projects, particularly the Creative Directors, Art Directors, Technical Directors, and Development Directors of each project, play a pivotal role in 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.

There is strong demand for game talent in the labour market, combined with a noticeable shortage of highly qualified IT professionals. Despite attractive terms of employment which, in the Group'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, as well as the production of the Group's own games carried out under the self-publishing model. 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.

Risk of decreased efficiency due to remote working arrangements outside the Group's offices

The core activities of the Group fundamentally rely on the work and commitment of individuals who constitute the project team engaged in game production. The high work ethic, commitment, skills, and experience of the Group's team members are critical to the quality of the Group's games and their ability to meet production deadlines as stipulated in contracts with publishers. These elements not only determine the consideration payable to the Group's companies throughout the game production phase but also significantly impact the reputation of the People Can Fly studio and its game productions. The pandemic necessitated the adoption of a hybrid work model (combining remote and office-based work) across the Group's companies, and for some of the Group's production teams, a fully remote work setup. While employees and independent contractors of the Group report an increase in work efficiency from remote locations, the Group's assessment indicates that the actual efficiency gains from such a work model are not clear-cut and vary depending on the source of the feedback (managers versus employees). The Group employs measures to assess and control work efficiency, including automated systems for monitoring work; however, improvements in work efficiency are not solely dependent on the use of dedicated tools and control processes. They also hinge on the organizational culture, the maturity level of the management staff, employees, and independent contractors, and their readiness to implement changes. No assurance



can be given that the Group will accurately identify inefficiencies in the production process, areas requiring enhancements, or bottlenecks within these processes, nor that it will be able to effectively oversee the work efficiency of developers. An inability to improve the work efficiency of employees and independent contractors could lead to a decline in the quality of games produced by the Group and negatively impact the Group's reputation, ultimately having a significant adverse effect on the Group's revenue.

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

The Company has planned the release of games produced by the Company in the self-publishing model for 2025–2026 (Project Bifrost and Project Victoria). Due to the current stage of the Group's projects (as of the date of this report, the games are in the pre-production phase), the Parent cannot definitively rule out the possibility that the games may not be released on the scheduled dates, or that they may not be released at all.

In the case of games developed in the work-for-hire model the decision on the final game release date and form remains at the publisher's sole discretion. The Parent can give no assurance that the planned release dates for the games developed by the Parent for external publishers in the work-for-hire model will not be delayed, all the more so that the release dates for games produced by the Parent in this model have been postponed in the past. On 8 October 2020, Square Enix Limited, the publisher of *Outriders*, announced a postponement of the game release date from the originally scheduled end of 2020 to 2 February 2021, and then, on 6 January 2021, the release date was put off again to 1 April 2021. Along with the update of the Group's strategy, the publisher postponed the release date of *Gemini* from 2024 to 2026. Similarly, in the model of self-publishing games by the Group, the Company cannot rule out delays in the planned release dates of games developed by the Company and its Group, as was the case with *Bulletstorm VR*. The launch of the game was postponed by the Company from 14 December 2023 to 18 January 2024.

Any postponement of game releases may delay the Group's receipt of potential royalties from their sales, extend the period of incurring expenses for game production carried out under the Group's self-publishing model, and may also negatively impact the Group's reputation as well as players' interest in the games.

Furthermore, as of the reporting date and the authorisation for issue of the Directors' Report on the operations of PCF Group S.A. and its Group for 2023, the Group was primarily engaged in developing video games for third-party publishers while also advancing its self-publishing initiatives. Revenue was recognised exclusively from sales of *Green Hell VR*, published by Incuvo S.A., and *Bulletstorm VR*, published by the Group. The development of the Group's games was financed entirely with the Group's own resources (including proceeds from two secondary public offerings conducted in 2023) and through funds generated from ongoing collaborations with Square Enix Limited and Microsoft Corporation 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 a significant portion 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.

Notwithstanding the above, the Group, while collaborating with external publishers, does not have control over the publishers' decisions to continue or discontinue projects initiated with the Group. On 22 September 2023, the Management Board of the Company was informed by a prominent entertainment industry firm based in the United States that the development of a project codenamed 'Dolphin' — a virtual reality action/combat game — had been indefinitely suspended. The Company found out through informal talks that the publisher's decision had been prompted by the strike of the US entertainment industry and the resulting uncertainty as to the industry's future situation. In light of these circumstances, on 31



December 2023, the Management Board of the Company decided to discontinue further development of the project and to write off all developmental work completed on this project as of that date.

Additionally, the execution of projects by the Group under its own game publishing model does not guarantee their release according to the Group's plans. On 5 April 2024, the Company announced its decision to discontinue further work on Project Dagger following a reassessment of the development plans of the Group and adjustments to these plans due to the unsatisfactory evaluation of the Project's scope and commercial potential after the redefinition of the game's development direction. As a consequence, impairment losses amounting to 100% of the expenditures incurred on the Dagger Project were recognised as of 31 December 2023, and the expenditures incurred were written off on the date the decision was made.

Despite the Group's expertise in game production, which enables effective organization of the production team to meet the timelines specified in agreements with publishers or independently for its projects, and despite possessing the necessary knowledge and skills to assess its publishing potential and manage multiple game productions simultaneously, the occurrence of the events described above could negatively impact the Group's future prospects, operations, revenues, and financial results. These impacts could indirectly affect the Group's financial position, primarily by reducing cash reserves, through a decrease in revenue levels or an increase in costs.

Risk associated with Sebastian Wojciechowski's role within the Group and the exercise of special personal rights granted to 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 2023, Sebastian Wojciechowski was the only member of the Company's Management Board and of the management boards of the Group's subsidiaries based in the US, as well as being one of the two (three in the case of Ireland) Directors authorised to independently represent the Group's subsidiaries in the UK, Canada and Ireland. Therefore, subject to the powers vested in the Supervisory Board and the General Meeting, he may make independent decisions on all material matters related to the Group's management.

Sebastian Wojciechowski is also a major shareholder in the Company, holding, as at the issue date of this Report, 41.71% of its shares conferring 41.71% of total voting rights. Therefore, he is able to exercise significantly influence on resolutions passed by the General Meeting.

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

In addition, together with other Company shareholders, namely Bartosz Kmita, Krzysztof Dolaś and Bartosz Biełuszko (holding – according to information provided by them as shareholders holding at least 5% of total voting rights at the Parent's General Meeting – as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2023, respectively, 7.18%, 5.05% and 5.02% of the Company shares and voting rights, and together with Sebastian Wojciechowski – an aggregate of 58.96% 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 Chair of the Company's Supervisory Board, Mikołaj Wojciechowski, is Sebastian Wojciechowski's brother. In addition, on 26 June 2020 members of the Group of Qualifying Shareholders entered into a Qualifying Shareholders' Agreement whereby they agreed to vote in concert at the Company's General Meetings. The agreement was concluded for an indefinite period, with each party being entitled to terminate it at any time.



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

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

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

Risk of the Group's dependence on game publishers

Despite having commenced self-publishing activities, 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 2023, the Group had not published any internally developed games, with the exception of Green Hell VR, published Incuvo S.A. and Bulletstorm VR published by the Group. Moreover, despite the fact that in the long term stepping up publishing activities under the self-publishing model is in the Company's opinion the best strategy, the Company still intends to cooperate with reputable partners in the work-for-hire model. The Company will certainly capture any attractive opportunities to cooperate with publishers should they arise. The reason is that agreements of this type ensure financial stability for the Company as well as room to experiment and develop, and may also be a source of additional funds if the projects go beyond the break-even point. This means that the contract development of games in partnership with a publisher will be a second equally important model of the Group's business.

Under that model, the Group's entry into a development and publishing agreement with a game publisher is a pre-condition for the launch by the Group of any game development project. Finding a suitable publisher and conclusion of a development and publishing agreement is usually a process taking several months (up to over a year in the worst case), which may call for the involvement of an external intermediary to find the publisher and sign such contract. This is due to the fact that there is a limited circle of AA+ and AAA game publishers—those who are capable of financing high-budget games produced by the Group, hold a high reputation in the market, and can provide adequate marketing, distribution, and sales for the games. 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. External factors beyond the Group's control can also impact the conclusion of agreements with publishers. This was evident in the case of the Dolphin project, where negotiations for the development and publishing agreement were indefinitely suspended. According to the publisher, this suspension was due to a strike in the U.S. entertainment industry, which created an uncertain environment within the sector because of the ongoing industrial action. Despite the conclusion of the strikes, as of the date of authorisation of this Directors' Report for issue, the publisher had not resumed the previously suspended negotiations.

In the past, the Group has been able to find suitable publishers and sign agreements to secure the necessary financing for its game development projects. However, no assurance can be given that the Group will always be able to find the right publishers who would provide adequate financing for the Group's game development projects or would have a market reputation meeting the Group's expectations. If the Group is unable to sign new game development and publishing agreements while its self-publishing activities are not



advanced enough to generate revenue, the Group's game development business could be limited or even put on hold.

The dependence of game developers (such as the Group) on publishers is also due to the very structure of development and publishing agreements typically applied in the gaming industry. These agreements are framework agreements which:

- are supplemented, in keeping with the progress of game development work, with specific contracts between the parties in the form of content riders. Each content rider defines the parties' rights and obligations with respect to a specific contracted game development milestone or group of such milestones; or
- define the milestone schedule for the game production in a separate Product Appendix.

In the case of agreements supplemented with successive content riders, although all terms of business between the parties are determined on an ongoing basis, and the parties are free to determine the scope and timing of the Group's work as well as the form and timing of consideration payment by the publisher (as agreed to by the Group in the course of negotiations), there is still a risk of the Group's weaker bargaining power in its relations with the publisher. This is due, in particular, to the limited choice of potential publishers for the Group's products and the fact that they are part of global corporations publishing games for a number of developers. With such agreement structure, the parties to the agreement do not know the final schedule of game development work and, if a development and publishing agreement does not specify the total project budget (as was the case with *Outriders* and as is the case with *Project Gemini*), the parties have no way of knowing the final amount of consideration due to the developer (i.e. the Group), as a result of which the Group's revenue cannot be estimated even in the short term. Any delay in reaching an agreement between the parties as to the next game development milestone (i.e. a content rider) could result in delayed milestone payments to the Group. Failure to reach such an agreement may result in the Group not receiving payment for completing a specific production milestone, continuing work despite the absence of a new production contract and without any guarantee of consideration, suspending work on the project by the Group, or it could even lead to the publisher terminating the development and publishing agreement.

The occurrence of any of the described scenarios would negatively impact the Group's prospects, business, revenue, and results. Indirectly, through either a reduction in revenue or an increase in costs, it would also adversely affect the Group's financial position, primarily by reducing its cash reserves.

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 AA+, AAA or VR 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 commercial success of games produced by the Group is equally dependent on the development quality of the games, which includes the work quality, innovation, and experience of the Group's production team.

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 by the Group's games, along with negative reviews, could also lead to decreased player interest. Such diminished interest could lower the Group's anticipated revenue from game sales, which in turn could significantly and adversely affect the Group's prospects, business, revenue, and results. Indirectly, through either a decrease in revenue or an increase in costs, this situation could also adversely affect the Group's financial position,

primarily by reducing its cash reserves. In particular, in such circumstances, the royalties received by the Group from game sales may be lower than anticipated.

Such a situation occurred with the game *Bulletstorm VR*, published by the Group and developed by the Issuer's subsidiary, Incuvo S.A., which was released on 18 January 2024. The unsatisfactory quality of the game and negative reviews translated into reduced revenue levels, which the Group had anticipated from game sales. As of the date of authorisation of this Directors' Report for issue, the Company is engaged in development activities aimed at further improving the quality of the released product and creating additional, distinctive features for VR platform games. In light of the unsatisfactory launch of *Bulletstorm VR*, the Company and Incuvo S.A. agreed to terminate the development and publishing agreement for the production of the game, effective as of 19 January 2024. It was also agreed that Incuvo S.A. would not be entitled to any royalties from the game's sales. Any subsequent development activities related to *Bulletstorm VR* will be carried out through a production process in which the Company is responsible for creating the final product and managing its commercialisation, including the market launch. However, the Management Board of the Company permitted the use of Incuvo S.A.'s resources to carry out the development activities.

Risk of the Group's inability to deliver its strategy

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 updated strategic objectives or may be forced to modify or change its objectives or strategy. A similar situation may occur if the costs of implementing the strategy exceed the planned expenditures, and the Group is unable to secure the necessary funds to cover the difference. Such situations could adversely affect the delivery of the Group's strategy going forward and result in its failure to achieve the expected benefits or any benefits at all. Should the delivery of the strategy prove impossible within the projected timeframe, such a scenario could adversely affect the Group's reputation, diminish investor confidence in the Group, and consequently impact the Group's prospects, business, revenue, and results. Indirectly, through either a decrease in revenue or an increase in costs, this situation could also adversely affect the Group's financial position, primarily by reducing its cash reserves.

As of the date of authorisation of this Directors' Report for issue, the Group had decided to discontinue the *Dagger Project*. This decision to cease further development work on the *Dagger Project* was made on 5 April 2024, following a reassessment of the development plans of the Group and adjustments to these plans due to the unsatisfactory evaluation of the Project's scope and commercial potential after the redefinition of the game's new development direction in November 2023.

As a consequence, impairment losses amounting to 100% of the expenditures incurred on the Project were recognised as of 31 December 2023, and the expenditures incurred were written off on the date the decision was made. The impairments resulted in a reduction of the separate financial result for 2023 and a decrease in the carrying amount of non-current assets as presented in the Company's statement of financial position as of 31 December 2023 by PLN 79.9 million, and in a reduction of the consolidated financial result for 2023 as well as a decrease in the carrying amount of non-current assets presented in the Group's consolidated statement of financial position as of 31 December 2023 by PLN 68.3 million.

Currency risks

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

The development and publishing agreement with Square Enix Limited for the development of Project *Gemini* contains certain provisions that hedge the Group against the EUR/PLN exchange rate risk. Exchange rate fluctuations may reduce the amount of the Group's receivables or increase the amount of its liabilities, resulting in exchange differences charged to the Group's profit or loss. As at the date of this Report, the Group monitored movements in exchange rates, but did not use financial instruments to hedge



the currency risk. Such outcome could have an adverse effect on the Group's business, revenue, and results. Indirectly, through either a decrease in revenue or an increase in costs, this situation could also adversely affect the Group's financial situation, primarily by reducing its cash reserves.

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, 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 agreement, or lead to contractual liability for breach of the agreement. In a worst case scenario, the publisher could decide to terminate the agreement, which would result in the Group losing its expected revenue and adversely affect its reputation.

In addition, under the development and publishing agreements concluded by the Group with Square Enix Limited and Microsoft Corporation, those publishers hold certain intellectual property rights in the Group's products, as specified therein. Square Enix Limited holds copyrighted property rights, both existing and future, in *Outriders* and any DLCs, sequels and additional products relating to the game, as well as to any deliverables resulting from further development support and DLCs for *Outriders* and *Project Gemini*. The Company has also waived its moral rights for the benefit of Square Enix Limited. Microsoft Corporation holds intellectual property rights to, without limitation, products and titles created in the course of work on *Project Maverick*. The Company has also waived its moral rights for the benefit of Microsoft Corporation.

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 publisher(s) 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 sanctions provided for in the development and publishing agreement(s) or to contractual liability for breach of the agreements. 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 anticipated revenue and reputation. Such outcome could have a significantly adverse effect on the Group's prospects, business, revenue, and results. Indirectly, through either a decrease in revenue or an increase in costs, this situation could also adversely affect the Group's financial situation, primarily by reducing its cash reserves.

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



Under the development and publishing agreement to which the Company is party, the Company 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. This could lead to breaches of development and publishing agreements with publishers, potentially resulting in the termination of these agreements, loss of anticipated revenues, and deterioration of the Group's reputation. Such outcomes could have a significantly adverse effect on the Group's prospects, business, revenue, and results. Indirectly, through either a decrease in revenue or an increase in costs, this situation could also adversely affect the Group's financial situation, primarily by reducing its cash reserves.

Risk associated with the Group's use of Generative AI tools and their outputs in game production

The Company is aware of the controversies surrounding the legal status of Generative AI tools and their outputs, particularly regarding the data used to train models and the varying assessments of their legal status. This understanding acknowledges the risks associated with using Generative AI tools and their outputs in game production. Concurrently, the Company acknowledges the potential of these tools to improve the efficiency of game production processes and the new opportunities they present. The Company has implemented measures to ensure that its employees, independent contractors, and external subcontractors do not use Generative AI tools and their outputs. Furthermore, it is developing regulatory and operational frameworks that may enable the safe and controlled use of Generative AI tools by its staff and partners in the future. However, no assurance can be given that these measures will completely prevent violations. Improper use of Generative AI tools and their outputs could particularly result in the loss of the Company's exclusive rights to its software and other elements of the games. This could lead to breaches of development and publishing agreements with publishers, potentially resulting in the termination of these agreements, loss of anticipated revenues, and deterioration of the Group's reputation. Such outcomes could have a significantly adverse effect on the Group's prospects, business, revenue, and results. Indirectly, through either a decrease in revenue or an increase in costs, this situation could also adversely affect the Company's financial situation, primarily by reducing its cash reserves.

Risk factors associated with the Company's business environment

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 completely ruled out that the Group may fail to meet current or more stringent requirements, which could consequently result in restrictions on the sale of the Group's products. Such outcome could have an adverse effect on the Group's prospects, business, revenue, and results. Indirectly, through either a decrease in revenue or an increase in costs, this situation could also adversely affect the Group's financial situation, primarily by reducing its cash reserves.

18. Material litigation, arbitration or administrative proceedings

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



GRUPA KAPITAŁOWA PCF GROUP SPÓŁKA AKCYJNA

SPRAWOZDANIE ZARZĄDU Z DZIAŁALNOŚCI
GRUPY KAPITAŁOWEJ PCF GROUP SPÓŁKA AKCYJNA
ORAZ SPÓŁKI PCF GROUP SPÓŁKA AKCYJNA W 2023 ROKU

FINANCIAL CONDITION OF THE PARENT AND ITS GROUP

19. Financial results of the Parent and its Group in 2023

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. This 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 2023 and 2022.

20. Consolidated statement of profit or loss

	Note	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Continuing operations			
Revenue	3	150,124	171,485
Cost of sales	19	98,005	85,202
Gross profit (loss)		52,119	86,283
General and administrative expenses	19	67,641	55,438
Other income	19	1,102	1,141
Other expenses	19	72,032	908
Operating profit (loss)		(86,452)	31,078
Finance income	20	2,248	1,771
Finance costs	20	7,032	2,414
Profit (loss) before tax		(91,236)	30,435
Income tax	21	(15,661)	8,451
Net profit (loss) from continuing operations		(75,575)	21,984
Discontinued operations			
Net profit (loss) from discontinued operations		-	-
Net profit (loss)		(75,575)	21,984
Net profit (loss) attributable to:			
- owners of the Parent		(76,717)	18,672
- non-controlling interests		1,142	3,312



Revenue

Revenue for 2023 and 2022 amounted to PLN 150.1 million and PLN 171.5 million, respectively. The 12% year-on-year decrease was attributable to:

- completion of work on a DLC for Outriders, which was released on 28 June 2022; the project was carried out under a development and publishing agreement with the publisher Square Enix Limited;
- end of cooperation with the publisher Take-Two Interactive Software, Inc. under a development and publishing agreement (revenue earned until April 2022),
- release of Green Hell VR in the six months ended 30 June 2022.

Cost of services sold

The cost of services sold primarily includes the expenses of the development team in Poland, the United States, the United Kingdom, and Canada, as well as the costs of subcontractors used for other development services and outsourced services.

General and administrative expenses

General and administrative expenses include mainly salaries and wages of the Group's employees and independent contractors (not directly involved in games development), lease of office space and services not related to games development. The year-on-year increase in general and administrative expenses in 2023 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;
- development of publishing structures in connection with the Group's plans to publish games on its own in the self-publishing segment.

Other income

Other income includes income from re invoicing of medical services and other services for entities cooperating with the Group.

Other expenses

Other expenses include recognised impairment losses on intangible assets related to three projects carried out by the Parent, as described in more detail in Note 4 to the consolidated financial statements, as well as costs of purchase of medical services and other benefits for entities cooperating with the Group.

Finance income and costs

As part of its financing activities, the Group recognises interest on bonds and bank deposits of free cash (as income), and interest on leases (as costs). The Group also recognises exchange differences, which in 2023 were a positive contribution to net finance income/costs (PLN 4.7 million) relative to 2022 (PLN 0.8 million).

Income tax

On 30 April 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 2019-2023, the Parent utilised the IP Box tax relief in accordance with the ruling, thereby applying a preferential corporate income tax rate of 5% to qualifying income from eligible intellectual property rights as defined by 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 2023 and 2022 was 17.2% and 27.8%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 7.6 million and PLN 9.2 million in 2023 and 2022, while deferred income tax amounted to PLN -23.3 million and PLN -0.8 million, respectively.

21. Consolidated statement of financial position

ASSETS	Note	31 Dec 2023	31 Dec 2022
Non-current assets			
Goodwill	7	52,143	55,503
Intangible assets	4	167,506	130,023
Property, plant and equipment	5	12,105	11,780
Right-of-use assets	6	28,797	30,095
Receivables and loans advanced	13	117	-
Long-term prepayments and accrued income	11	57	277
Deferred tax assets	8	22,239	222
Non-current assets		282,964	227,900
Current assets			
Contract assets	9	8,611	30,451
Trade and other receivables	10	58,677	23,448
Current tax assets		1,173	-
Other current financial assets	13	35,397	-
Short-term prepayments and accrued income	11	2,623	1,022
Cash and cash equivalents	12	124,016	67,983
Current assets		230,497	122,904
Total assets		513,461	350,804

The Group's assets rose 46%, by PLN 162.7 million, to PLN 513.5 million as at 31 December 2023, from PLN 350.8 million as at 31 December 2022.

As of 31 December 2023, the most significant assets of the Group were:

- intangible assets, representing 33% of total assets;
- cash and cash equivalents, representing 24% of total assets;
- trade and other receivables, representing 11% of total assets.

As at 31 December 2023 and 31 December 2022, intangible assets amounted to PLN 167.5 million and PLN 130.0 million, respectively (an increase of PLN 37.5 million). The increase was mainly attributable to expenditure on development work.

Changes in goodwill:

	31 Dec 2023	31 Dec 2022
As at beginning of period	55,503	54,604
Increase		
Acquisition/loss of control of companies	-	141



Failure to achieve planned earn-out	-	(317)
Exchange differences on translation	(3,360)	1,075
As at end of period	52,143	55,503

EQUITY AND LIABILITIES	Note	31 Dec 2023	31 Dec 2022
Equity			
Equity attributable to owners of the Parent:			
Share capital	14	719	599
Share premium	14	357,654	121,869
Other components of equity	14	45,585	54,988
Retained earnings		18,798	94,850
Equity attributable to owners of the Parent		422,756	272,306
Non-controlling interests		5,124	5,323
Equity		427,880	277,629
Liabilities			
Non-current liabilities			
Borrowings, other debt instruments	15	1,637	3,490
Leases	16	23,598	27,822
Deferred tax liability	8	911	2,289
Long-term prepayments and accrued income	11	6,175	9,817
Non-current liabilities		32,321	43,418
Current liabilities			
Trade and other payables	17	13,240	11,167
Contract liabilities	9	3,863	2,792
Current tax liabilities		7,147	7,591
Borrowings, other debt instruments	15	1,490	2,089
Leases	16	5,988	4,198
Employee benefit obligations and provisions	18	1,733	1,717
Other short-term provisions		76	-
Short-term prepayments and accrued income	11	19,723	203
Current liabilities		53,260	29,757
Total liabilities		85,581	73,175
Total equity and liabilities		513,461	350,804

- As at 31 December 2023, the Group's equity increased by PLN 150.3 million (54%) relative to 31 December 2022. The increase was mainly due to the increase in share premium from the issue of Series E, F and G shares (PLN 235.8 million), offset in part by the net loss for the period (PLN 75.6 million).

22. Consolidated statement of cash flows

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022	Change	Change in %
Cash at beginning of period	67,983	137,102	(69,119)	-50%
Cash flows from operating activities	12,200	59,168	(46,968)	-79%
Cash flows from investing activities	(175,717)	(108,970)	(66,747)	61%
Cash flows from financing activities	220,601	(17,872)	238,473	-1334%
Total net cash flows	57,084	(67,674)	124,758	-184%
Effect of foreign currency translation on cash	(1,051)	(1,445)	394	-27%
Cash and cash equivalents at end of period	124,016	67,983	56,033	82%

Cash increased by PLN 56.0 million, from PLN 68.0 million as at 31 December 2022 to PLN 124.0 million as at 31 December 2023.

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 profit or loss before tax for that period.

The Group generated positive cash flows from operating activities (PLN 12.2 million) in 2023, mainly due to adjustments to gross profit (PLN -91.2 million) for impairment losses on intangible assets (PLN 69.4 million), depreciation and amortisation (PLN 19.7 million in total) and cash flow-positive changes in provisions and accruals and contract assets and liabilities.

Investing activities

the Group recorded negative cash flows from investing of PLN -175.7 million, which were almost entirely due to the Group's investments in intangible assets and property, plant, and equipment (totaling PLN 141.7 million), and expenditures on the purchase of commercial paper (PLN 45.2 million), partially offset by proceeds from their sale (PLN 9.9 million). As regards property, plant and equipment, the Group invested in the development of its ICT infrastructure and upgrade of its hardware.

Financing activities

Cash flows from financing activities were positive, at PLN 220.6 million. This was mainly due to the proceeds from the issue of Series E, F and G shares (PLN 235.3 million), less costs of these issues (PLN 5.1 million), as well as the repayment of lease liabilities (PLN 5.7 million).

23. Consolidated profitability ratios

	31 Dec 2023	31 Dec 2022
Gross profit (loss) margin	34.7%	50.3%
EBITDA	2,609	48,196
EBITDA margin	1.7%	28.1%
EBITDA adjustments:		
issue of warrants – Square Enix (1)	-	1,543
issue of warrants – Incuvo S.A. (2)	209	-
cost of additional payment in connection with acquisition of Incuvo S.A. shares	2,050	-
pre-production costs of Project Maverick	1,332	-
Adjusted EBITDA	6,200	49,739
Adjusted EBITDA margin	4.1%	29.0%
Operating profit margin	-57.6%	18.1%
Net profit (loss) margin	-50.3%	12.8%
Return on equity (ROE)	-18.1%	6.9%
Return on assets (ROA)	-14.9%	5.3%

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

- Gross profit margin = gross profit / revenue
- EBITDA = operating profit (loss) + depreciation and amortisation + impairment losses
- EBITDA margin = (operating profit (loss) + depreciation and amortisation + impairment losses) / revenue
- Adjusted EBITDA = (operating profit (loss) + depreciation and amortisation + goodwill impairment + adjustments*)
- Adjusted EBITDA margin = (EBITDA + adjustments*) / revenue
- Operating profit margin = operating profit (loss) / revenue
- Net profit 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) costs of the term sheet concluded between the Parent and Square Enix Limited concerning 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,
- (2) issue of warrants by Incuvo S.A. under the key personnel incentive scheme.

24. Consolidated liquidity ratios

	31 Dec 2023	31 Dec 2022
Working capital	196,960	93,350
Current ratio	4.33	4.13
Quick ratio	4.33	4.13



Cash ratio 2.33 2.28

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

	31 Dec 2023	31 Dec 2022
Equity to assets ratio	0.82	0.78
Equity to non-current assets ratio	1.49	1.19
Total debt ratio	0.18	0.22
Debt to equity ratio	0.21	0.29

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

	Note	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Continuing operations			
Revenue	3	120,387	120,136
Cost of sales		90,095	50,099
Gross profit (loss)		30,292	70,037
General and administrative expenses	20	33,906	28,476
Other income	20	4,175	1,758
Other expenses	20	83,863	654
Operating profit (loss)		(83,302)	42,665
Finance income	21	1,406	2,957
Finance costs	21	3,599	1,093
Profit (loss) before tax		(85,495)	44,529
Income tax	22	(20,843)	2,193
Net profit (loss) from continuing operations		(64,652)	42,336
Discontinued operations			
Net profit (loss) from discontinued operations		-	-
Net profit (loss)		(64,652)	42,336

Revenue

Revenue for 2023 and 2022 amounted to PLN 120.4 million and PLN 120.1 million, respectively.

Cost of services sold

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

General and administrative expenses

General and administrative expenses include mainly salaries and wages of the Parent's employees and independent contractors (not directly involved in games development), lease of office space and services not related to games development. The year-on-year increase in general and administrative expenses was mainly attributable to the overall growth of costs in connection with the increased scale of operations, which translated into the need to expand the Parent's back office function.

Other income

Other income includes income from:

- back office services provided to the subsidiary Incuvo S.A.,
- re invoicing of medical services and other services for entities cooperating with the Company.

Other expenses

Other expenses include:

- the cost of impairment losses recognised in respect of intangible assets relating to the three projects carried out by the Company, described in more detail in note 4 of the financial statements;
- the cost of purchase of medical services and other benefits for entities cooperating with the Company;



- the cost of an additional payment (PLN 2,050 thousand) which the Company made to OÜ Blite Fund for the purchase of 7,143,900 shares in Incuvo S.A.; For more details, see Note 33 to the financial statements.

Finance income and costs

As part of its financing activities, the Parent recognises interest on bonds and bank deposits of free cash and on loans advanced to subsidiaries (as income) and interest on leases (as costs). In addition, it accounts for exchange differences, which in 2023 represented the key factor with a positive impact on net finance income/costs (PLN 2.5 million) relative to 2022 (PLN 0.3 million).

Income tax

On 30 April 2020, the National Revenue Information System issued a private letter ruling in response to the Company's enquiry concerning the application of the IP Box tax relief. When settling corporate income tax for the financial years 2019-2023, the Company availed itself of the IP Box tax relief in accordance with the ruling, and so the eligible income from eligible intellectual property rights within the meaning of IP Box regulations was taxed by the Company at a preferential corporate income tax rate of 5%. Accordingly, the current portion of the Company's corporate income tax was calculated at the rate of 19% for taxable income from other sources and at the rate of 5% for the taxable income from eligible intellectual property rights (IP Box).

As a result, the Parent's effective tax rate for 2023 and 2022 was 24.4% and 4.9%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 1.4 million and PLN 3.1 million in 2023 and 2022, while deferred income tax amounted to PLN -22.2 million and PLN -0.9 million, respectively.

27. Statement of financial position

ASSETS	Note	31 Dec 2023	31 Dec 2022
Non-current assets			
Intangible assets	4	223,391	156,283
Property, plant and equipment	5	4,296	4,345
Right-of-use assets	6	12,065	14,794
Investments in subsidiaries	7	61,118	55,404
Receivables and loans advanced	8	4,224	2,905
Long-term prepayments and accrued income	12	280	58
Deferred tax assets	9	22,071	-
Non-current assets		327,445	233,789
Current assets			
Contract assets	10	8,529	30,355
Trade and other receivables	11	31,540	10,424
Current tax assets		768	-
Other current financial assets	14	35,397	-
Short-term prepayments and accrued income	12	1,041	571
Cash and cash equivalents	13	97,788	49,391
Current assets		175,063	90,741
Total assets		502,508	324,530

Total assets of the Parent increased by 55%, or PLN 178.0 million, to PLN 502.5 million as of 31 December 2023, from PLN 324.5 million as of 31 December 2022.

As of 31 December 2023, the most significant assets of the Group were:

- Intangible assets, representing 45% of total assets;
- cash and cash equivalents, representing 20% of total assets;
- investments in subsidiaries, representing 12% of total assets.

Changes in investments in subsidiaries:

	31 Dec 2023	31 Dec 2022
Change in investments in subsidiaries		
As at beginning of period:	55,404	55,721
Increase:	5,714	-
Acquisition of approx. 12.25% of Incuvo S.A. shares	5,667	-
Acquisition of 100% of People Can Fly Ireland Limited shares	47	-
Decrease:	-	317
Game On Creative Inc.'s unachieved earn-out	-	317
As at end of period:	61,118	55,404

EQUITY AND LIABILITIES	Note	31 Dec 2023	31 Dec 2022
Equity			
Share capital	15	719	599
Share premium	15	357,654	121,869
Other components of equity	15	49,898	49,898
Retained earnings		34,479	99,131
Equity		442,750	271,497
Liabilities			
Non-current liabilities			
Leases	17	8,751	12,850
Deferred tax liability	9	-	157
Long-term prepayments and accrued income	12	3,631	7,477
Non-current liabilities		12,382	20,484
Current liabilities			
Trade and other payables	18	23,545	26,213
Contract liabilities	10	2,422	-
Current tax liabilities		-	2,329
Borrowings, other debt instruments	16	-	510
Leases	17	3,779	3,163
Employee benefit obligations and provisions	19	303	334
Short-term prepayments and accrued income	12	17,327	-
Current liabilities		47,376	32,549
Total liabilities		59,758	53,033
Total equity and liabilities		502,508	324,530

The equity of the Parent as of 31 December 2023 increased by PLN 171.3 million, marking a 63% rise on the balance as of 31 December 2022. The increase was mainly due to the increase in share premium from the issue of Series E, F and G shares (PLN 235.8 million), offset in part by the net loss for the period (PLN 64.7 million).

28. Statement of cash flows

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022	Change	Change in %
Cash at beginning of period	49,391	90,735	(41,344)	-46%
Cash flows from operating activities	22,069	178,511	(157,155)	-88%
Cash flows from investing activities	(197,406)	(205,713)	8,307	-4%
Cash flows from financing activities	224,451	(12,697)	237,861	-1774%
Total net cash flows	49,114	(39,899)	89,013	-223%
Effect of foreign currency translation on cash	(717)	(1,445)	728	-50%
Cash and cash equivalents at end of period	97,788	49,391	48,397	98%

Cash increased by PLN 48.4 million, from PLN 49.4 million as at 31 December 2022 to PLN 97.8 million as at 31 December 2023.

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 profit or loss before tax for that period.

The Parent generated positive cash flows from operating activities (PLN 22.1 million) in 2023, mainly due to adjustments to gross profit (PLN -85.5 million) for impairment losses on intangible assets (PLN 81.2 million), depreciation and amortisation (PLN 12.7 million in total) and cash flow-positive changes in provisions and accruals and contract assets and liabilities.

Investing activities

The Parent recorded negative cash flows from investing of PLN -197.4 million, which were almost entirely due to the Group's investments in intangible assets and property, plant, and equipment (totaling PLN 158.9 million), and expenditures on the purchase of commercial paper (PLN 45.2 million), partially offset by proceeds from their sale (PLN 9.9 million).

Financing activities

The Parent recorded positive cash flow (PLN 224.5 million) from financing activities. This was mainly due to the proceeds from the issue of Series E, F and G shares (PLN 235.3 million), less costs of these issues (PLN 5.1 million), as well as the repayment of lease liabilities (PLN 4.2 million).

29. Separate profitability ratios

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Gross profit (loss) margin	25.2%	58.3%
EBITDA	10,651	51,347
EBITDA margin	8.8%	42.7%
EBITDA adjustments:		
issue of warrants – Square Enix (1)	-	1,543
cost of additional payment in connection with acquisition of Incuvo S.A. shares	2,050	-
pre-production costs of Project Maverick	1,731	-
Adjusted EBITDA	14,432	52,890
Adjusted EBITDA margin	12.0%	44.0%
Operating profit margin	-69.2%	35.5%
Net profit (loss) margin	-53.7%	35.2%
Return on equity (ROE)	-14.6%	15.6%
Return on assets (ROA)	-12.9%	13.0%

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

- Gross profit margin = gross profit / revenue
- EBITDA = operating profit (loss) + depreciation and amortisation + impairment losses
- EBITDA margin = (operating profit (loss) + depreciation and amortisation + impairment losses) / revenue
- Adjusted EBITDA = (operating profit (loss) + depreciation and amortisation + impairment losses + adjustments*)

- Adjusted EBITDA margin = (EBITDA + adjustments*) / revenue
- Operating profit margin = operating profit (loss) / revenue
- Net profit margin = net profit / revenue
- Return on equity (ROE) = net profit / equity
- Return on assets (ROA) = net profit / total assets

(1) costs associated with the term sheet concluded between the Company and Square Enix Limited concerning the issuance of subscription warrants intended for Square Enix Limited, and the subsequent subscription by Square Enix Limited to Series C shares issued by the Company as part of a conditional share capital increase, pursuant to the exercise of rights attached to the warrants.

30. Separate liquidity ratios

	31 Dec 2023	31 Dec 2022
Working capital	145,014	58,192
Current ratio	3.70	2.79
Quick ratio	3.70	2.79
Cash ratio	2.06	1.52

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

31. Separate funding structure ratios

	31 Dec 2023	31 Dec 2022
Equity to assets ratio	0.88	0.84
Equity to non-current assets ratio	1.35	1.16
Total debt ratio	0.12	0.16
Debt to equity ratio	0.13	0.20

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

- Equity to assets ratio = equity / total assets
- Equity to non-current assets ratio = equity / non-current assets
- Total debt ratio = (total assets - equity) / total assets
- Debt to equity ratio = (total assets - equity) / equity



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 2023.

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 Group manages the liquidity risk by monitoring payment dates and cash requirements for short-term payments (current transactions monitored weekly) and long-term cash requirements based on cash-flow forecasts updated on a monthly basis. The cash requirement is compared with the available cash sources and the Group's placements of free cash. The Group does not use derivative instruments. As at the reporting dates, the Group did not have any credit limits available in current accounts, and the Group did not use such facilities in the past. The Group manages liquidity by forecasting the work schedule and deadlines for delivery of individual game development milestones to the publisher for which payments will be received.

Capital is managed in such a way as to ensure the Group's ability to continue as a going concern and to ensure the expected rate of return for shareholders and other entities with interest in the Group's financial condition. The level of cash and the ability to pay trade liabilities are monitored on an ongoing basis.

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

To fund the expenses associated with the new Group strategy, detailed in section 7 of the Report, the Management Board secured financing through the issuance of Series F and G shares of the Company, raising a total of PLN 235.3 million.

The proceeds from the new issues of the Company shares are fully allocated to expanding the production teams to levels suitable for the various stages of the game development projects Dagger, Bifrost, and Victoria. This is subject to the decision to first limit the scope of Project Dagger, as announced in Current Report no. 59/2023 dated 28 November 2023, followed by the decision to discontinue further work on Project Dagger, as announced in Current Report no. 8/2024 dated 5 April 2024.

The proceeds from the new issues of Company shares, together with (i) the Company's own cash, (ii) the Company's operating cash flows and (iii) other available sources of financing which do not result in dilution of shareholders' equity interests, were sufficient as at the reporting date to fully deliver the Group's strategy.

As of the date of authorisation of the Report for issue, the Management Board of the Parent does not anticipate recommending the payment of dividends to the General Meeting of the Parent until the Parent achieves revenue, profits, and positive cash flows from its planned self-publishing operations, which are not expected to occur before the financial year 2025.

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

In the opinion of the Management Board, the following factors and non-recurring events impacted the operating result for the financial year 2023:

- the payment made on 31 August 2023 by the Parent to OÜ Blite Fund. This payment, of PLN 2,050 thousand for the increased purchase price of 7,143,900 shares of Incuvo S.A.,

was in fulfilment of the settlement agreement between these parties dated 21 August 2023. In accordance with IAS 10, the payment was recognised in the Group's financial results for 2023;

- the decision to discontinue work on Project Dagger, resulting in the recognition of impairment losses equal 100% of the expenditures incurred on this project as of 31 December 2023, and the write-off of the value of the expenditures, which resulted in (i) a reduction of the separate financial result for 2023 and a decrease in the carrying amount of non-current assets as presented in the Company's statement of financial position as of 31 December 2023 by PLN 79,944 thousand, and in (ii) a reduction of the consolidated financial result for 2023 as well as the carrying amount of non-current assets presented in the Group's consolidated statement of financial position as of 31 December 2023 by PLN 68,331 thousand;
- the decision to recognise an impairment loss of 100% of the Group's expenditure on Project Blue, following an analysis of the indications of potential impairment of intangible assets, which resulted in (i) a reduction of the separate financial result for 2023 and a decrease in the carrying amount of non-current assets as presented in the Company's statement of financial position as of 31 December 2023 by PLN 762 thousand, and in (ii) a reduction of the consolidated financial result for 2023 as well as the carrying amount of non-current assets presented in the Group's consolidated statement of financial position as of 31 December 2023 by PLN 589 thousand;
- the decision to recognise an impairment loss of 100% of the Group's expenditure on Project Dolphin, following an analysis of the indications of potential impairment of intangible assets, which resulted in (i) a reduction of the separate financial result for 2023 and a decrease in the carrying amount of non-current assets as presented in the Company's statement of financial position as of 31 December 2023 by PLN 531 thousand, and in (ii) a reduction of the consolidated financial result for 2023 as well as the carrying amount of non-current assets presented in the Group's consolidated statement of financial position as of 31 December 2023 by PLN 457 thousand.

Apart from the above, there were no other factors or non-recurring events in 2023 which would affect the Group's or the Company's performance in that period.

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.

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
As at beginning of period	303	284
New hires/new independent contractors in period	66	63
Employee/contractor terminations in period (-)	(46)	(44)



As at end of period	323	303
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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.

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Beginning of period	612	495
New hires/new independent contractors in period	262	254
Employee/contractor terminations	(118)	(137)
End of period	756	612



GRUPA KAPITAŁOWA PCF GROUP SPÓŁKA AKCYJNA

SPRAWOZDANIE ZARZĄDU Z DZIAŁALNOŚCI
GRUPY KAPITAŁOWEJ PCF GROUP SPÓŁKA AKCYJNA
ORAZ SPÓŁKI PCF GROUP SPÓŁKA AKCYJNA W 2023 ROKU



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 of this Report for issue, the share capital of PCF Group S.A. was PLN 718,805.42 and comprised:

- 27,500,000 Series A ordinary bearer shares with a par value of PLN 0.02 per share,
- 2,062,512 Series B ordinary bearer shares with a par value of PLN 0.02 per share,
- 387,714 Series D ordinary bearer shares with a par value of PLN 0.02 per share,
- 136,104 Series E ordinary bearer shares with a par value of PLN 0.02 per share,
- 3,343,037 Series F ordinary bearer shares with a par value of PLN 0.02 per share, and
- 2,510,904 Series G ordinary bearer shares with a par value of PLN 0.02 per share.

The shares have been paid up in full.

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

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

The warrants are intended to be offered to Square Enix Limited, but the Warrants Issue Resolution also permits their issuance to a publisher other than Square Enix Limited, provided that the Parent establishes a business relationship with such new publisher in the future and that it agrees with that publisher upon the terms of their cooperation and acquisition of warrants. As at the date of authorisation of this Report for issue, the Parent did not intend to enter into an agreement with another publisher concerning subscription by that publisher for Series B warrants and an equity interest in the Parent. The Parent estimates that the maximum number of Series C shares that could be subscribed by Square Enix Limited would amount to approximately 1.5% of the Parent's current share capital.

On 29 August 2021, the Parent and Square Enix Limited entered into an investment agreement that outlined their respective rights and obligations concerning the issuance of subscription warrants intended for Square Enix Limited. This agreement also covered the subscription by Square Enix Limited to Series C shares upon the exercise of the warrants. For more details on the investment agreement, see Current Report No. 40/2021 dated 29 August 2021.

In the performance of the investment agreement, on 17 November 2021 Square Enix Limited accepted the Parent's offer of 11 October 2021 to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the Parent, each conferring the right to subscribe for one Series C ordinary bearer share in the Parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. Subsequently, on 10 December 2021, 6 June 2022 and 7 October 2022, the Management Board of the Company submitted to the publisher further offers to subscribe, for no consideration, for 90,000 Series A registered subscription warrants (Tranche A3 warrants), 90,000 Series A registered subscription warrants (Tranche A4 warrants),



90,000 Series A registered subscription warrants (Tranche A5 warrants) and 90,000 Series A registered subscription warrants (Tranche A6 warrants). All the offers were accepted by the publisher on 18 January 2022, 30 June 2022, 1 November 2022 and 18 April 2023, respectively. Square Enix Limited acquired the right to subscribe for Series C shares upon subscription for the fourth tranche of the warrants.

As at the date of authorisation of this Report for issue, the Parent estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited under the investment agreement would represent approximately 1.5% of the current amount of the Parent's share capital.

On 24 May 2021, the Extraordinary General Meeting of the Parent resolved to increase the Parent's share capital by issuing Series D ordinary shares. It also resolved to waive the pre-emptive rights of existing shareholders for all Series D shares, to seek their admission and introduction to trading on the regulated market operated by the Warsaw Stock Exchange, and to convert Series D shares into book-entry form. Additionally, the Meeting authorised the Management Board to execute an agreement for registering the Series D shares in the securities depository and to amend the Parent's Articles of Association.

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

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

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

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

On 10 February 2023, the Management Board of the Parent, acting under the authority granted by the Articles of Association, passed a resolution to increase the Parent's share capital within the bounds of authorised capital by issuing Series E ordinary bearer shares ('Series E Shares'). The resolution included waiving the pre-emptive rights of existing shareholders for all Series E Shares, seeking their admission and introduction to trading on the regulated market operated by the Warsaw Stock Exchange, converting Series E Shares into book-entry form, authorising the execution of an agreement to register Series E Shares, and amending the Parent's Articles of Association ('Series E Shares Issue Resolution').

Pursuant to the Series E Shares Issue Resolution, the Parent's share capital was increased from PLN 599,004.52 to PLN 601,726.60, that is by PLN 2,722.08, through the issue of 136,104 Series E ordinary bearer shares with a par value of PLN 0.02 per share ("Series E Shares").

The issue of Series E Shares was carried out by way of a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, conducted by way of a public offering made exclusively to: (i) Andrzej Wychowaniec ("Investor AW") – an offer to subscribe for 87,820 Series E Shares, and (ii) Radomir Kucharski



("Investor RK", together with Investor AW referred to as the "Investors") – an offer to subscribe for 48,284 Series E Shares. Series E Shares were subscribed for by the Investors as follows: (a) in order to subscribe for 87,820 Series E Shares, Investor AK made a contribution of 1,128,450 ordinary bearer shares in Incuvo S.A., representing approximately 7.90% of Incuvo S.A.'s share capital and total voting rights at Incuvo S.A.'s General Meeting, plus cash of PLN 1.10; (b) in order to subscribe for 48,284 Series E Shares, Investor RK contributed 620,428 ordinary bearer shares in Incuvo S.A., representing approximately 4.34% of the share capital and total voting rights at Incuvo S.A.'s General Meeting plus cash of PLN 4.40. The full text of the Series E Shares Issue Resolution was published in the Parent's Current Report No. 6/2023 of 10 February 2023.

The adoption of the Series E Shares Issue Resolution was related to the Parent's decision to increase the Parent's equity interest in its subsidiary Incuvo S.A., as announced by the Parent's Management Board in Current Report No. 2/2023 of 27 January 2023.

The amendment to the Parent's Articles of Association related to the share capital increase on the basis of the Series E Shares Issue Resolution was entered in the Business Register of the National Court Register on 3 March 2023.

On 28 February 2023, the Extraordinary General Meeting of the Parent resolved to increase the Parent's share capital by issuing Series F ordinary shares. The resolution included waiving the pre-emptive rights of existing shareholders for all Series F shares, seeking admission and introduction of Series F shares and allotment certificates to Series F shares for trading on the regulated market operated by the Warsaw Stock Exchange. It also resolved to convert Series F shares and allotment certificates to Series F shares into book-entry form, to authorise the execution of an agreement to register Series F shares and allotment certificates to Series F shares in the depository for securities, and to amend the Parent's Articles of Association ('Series F Shares Issue Resolution').

Pursuant to the Series F Shares Issue Resolution, the Parent's Extraordinary General Meeting resolved to increase the Parent's share capital by no less than PLN 0.02 and no more than PLN 117,078.82 through the issue of no fewer than 1 and no more than 5,853,941 Series F ordinary bearer shares with a par value of PLN 0.02 per share ("Series F Shares").

Series F Shares will be issued by way of a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, conducted by way of a public offering in Poland within the meaning of Article 2(d) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 29 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the "Prospectus Regulation"), exempted from the obligation to publish a prospectus within the meaning of the Prospectus Regulation or the obligation to publish another information or offering document for the purposes of such an offering or on the basis of an exception from the obligation to carry out a registration process in another jurisdiction, with the proviso that the public offering will not take place in any territory other than Poland. Detailed rules governing the public offering of Series F Shares are set out in the Series F Shares Issue Resolution, the full text of which was published in the Parent's Current Report No. 7/2023 of 28 February 2023.

The adoption of the Series F Share Issue Resolution was associated with the Parent's intention to raise funds on the capital market, which will be fully allocated to implement the Group's updated strategy, as discussed in [section 7] of the Report.

From 29 May 2023 to 1 June 2023, the Parent carried out a bookbuilding process for an offering of Series F ordinary, as a result of which it decided to offer a total of 3,343,037 Series F Shares, of which 3,342,937 Series F Shares were offered to Krafton Inc. and 100 Series F Shares were offered to another investor. The Series F shares were offered by way of a private placement, within the meaning of the Commercial Companies Code, as part of a public offering. The issue price for one Series F Share was PLN 40.20, and the total value of the public offering was PLN 134,390,087.40. The process of executing subscription agreements for the Series F Shares was completed on 6 June 2023.



On 22 June 2023, the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register registered the amendments to the Articles of Association adopted in the Series F Share Issue Resolution.

Following the court registration of amendments to the Articles of Association of the Parent, the share capital was increased from PLN 601,726.60 to PLN 668,587.34 through the issue of 3,343,037 Series F Shares.

Following registration of Series E and Series F Shares in the Central Securities Depository of Poland on 19 July 2023, the shares were introduced to trading on the main market of the Warsaw Stock Exchange as of that date.

Series E and Series F shares of the Parent were assigned code ISIN PLPCFGR00010.

On 7 August 2023, the Parent's Extraordinary General Meeting passed a resolution to, among others, increase the Parent's share capital through the issue of up to 2,510,904 Series G ordinary bearer shares ("Series G Shares"), representing jointly approximately 7.51% of the Parent's share capital as at the date of the resolution and the same proportion of total voting rights at the Parent's General Meeting (the "Series G Shares Issue Resolution").

The Series G Shares Issue Resolution was adopted in connection with the intention to conduct a public offering of Series G Shares in addition to the public offering of Series F shares carried out at the end of May and at the beginning June 2023, as described above.

From 9 August 2023 to 10 August 2023, the Parent conducted a book-building process for Series G Shares. As a result, it decided to offer a total of 2,510,904 Series G Shares to forty investors, of which 251,091 Series G Shares were offered to Krafton Inc. The Series G shares were offered by way of a private placement, within the meaning of the Commercial Companies Code, as part of a public offering. The issue price for one Series G Share was PLN 40.20, and the total value of the public offering was PLN 100,938,340.80. The process of executing subscription agreements for the Series G Shares was completed on 18 August 2023.

The proceeds from the public offerings of Series G Shares and Series F Shares were used to implement the Group's updated strategy announced on 31 January 2023.

On 22 June 2023, the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register registered the amendments to the Articles of Association adopted in the Series F Share Issue Resolution.

Following the court registration of amendments to the Articles of Association of the Parent, the share capital was increased from PLN 668,587.34 to PLN 718,805.42 through the issue of 2,510,904 Series G ordinary bearer shares, with a par value of PLN 0.02 per share.

Following registration of Series G shares of the in the Central Securities Depository of Poland on 11 September 2023, the Series G Shares were introduced to trading on the main market of the Warsaw Stock Exchange as of that date.

Series G shares were assigned ISIN code PLPCFGR00010.

Ownership structure of PCF Group S.A.

The table below presents shareholders holding directly 5% or more of total voting rights at the General Meeting of PCF Group S.A. as at the date of authorisation of this Report for issue. None of the shareholders specified below held any shares in the Parent indirectly.

Shareholder	Number of shares held	(%)	Number of voting rights	(%)
Sebastian Wojciechowski	14,969,480	41.71	14,969,480	41.71



Krafton Inc.	3,594,028	10.00	3,594,028	10.00
Bartosz Kmita	2,579,910	7.18	2,579,910	7.18
Nationale-Nederlanden Otwarty Fundusz Emerytalny	2,368,599	6.59	2,368,599	6.59
Krzysztof Dolaś	1,815,862	5.05	1,815,862	5.05
Bartosz Biełuszko	1,805,936	5.02	1,805,936	5.02
<i>jointly parties to the Qualifying Shareholders' Agreement**</i>	<i>21,191,188</i>	<i>58.96</i>	<i>21,191,188</i>	<i>58.96</i>
Other shareholders	8,786,456	24.45	8,786,456	24.45
Total	35,940,271	100	35,940,271	100

* The shareholding structure was established based on notifications submitted by shareholders in compliance with their legal obligations. It also reflects the registration on 28 August 2023 of the share capital increase through the issue of Series G ordinary bearer shares.

** The shareholders Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko, and Krzysztof Dolaś are signatories to an agreement dated 26 June 2020, which, following the admission of at least one share of PCF Group S.A. to trading on a regulated market, is classified as an agreement under Article 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005.

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

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

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

Series of shares	Structure of the Company's share capital following issue of Series C shares	
	Number of shares and voting rights	(%)
Series A	27,500,000	73.34
Series B	2,062,512	5.50
Series C	1,555,922	4.15
Series D	387,714	1.03
Series E	136,104	0.36
Series F	3,343,037	8.92
Series G	2,510,904	6.70
Total	37,496,193	100



The warrants are intended to be offered to Square Enix Limited, but the Warrants Issue Resolution also permits their issuance to a publisher other than Square Enix Limited, provided that the Parent establishes a business relationship with such new publisher in the future and that it agrees with that publisher upon the terms of their cooperation and acquisition of warrants. As at the date of authorisation of this Report for issue, the Parent did not intend to enter into an agreement with another publisher concerning subscription by that publisher for Series B warrants and an equity interest in the Parent. The Parent estimates that the maximum number of Series C shares that could be subscribed by Square Enix Limited would amount to approximately 1.5% of the Parent's current share capital.

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

In the performance of the investment agreement, on 17 November 2021 Square Enix Limited accepted the Parent's offer of 11 October 2021 to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the Parent, each conferring the right to subscribe for one Series C ordinary bearer share in the Parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. Subsequently, on 10 December 2021, 6 June 2022, 7 October 2022 and 28 March 2023, the Company's Management Board submitted to the publisher further offers to subscribe, for no consideration, for 90,000 Series A registered subscription warrants (Tranche A3 warrants), 90,000 Series A registered subscription warrants (Tranche A4 warrants), 90,000 Series A registered subscription warrants (Tranche A5 warrants), and 90,000 Series A registered subscription warrants (Tranche A6 warrants – the last tranche). All the offers were accepted by the publisher on 18 January 2022, 30 June 2022, 1 November 2022 and 18 April 2023, respectively. Square Enix Limited acquired the right to subscribe for Series C shares upon subscription for the fourth tranche of the warrants.

As at the date of authorisation of this Report for issue, the Parent estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited under the investment agreement would represent approximately 1.5% of the current amount of the Parent's share capital.

On 28 February 2023, the Extraordinary General Meeting of the Parent passed the Series F Shares Issue Resolution described in detail in Section [38] of this Report. Pursuant to the Series F Shares Issue Resolution, the Parent's share capital was increased by PLN 66,860.74 through the issue of 3,343,037 Series F Shares.

On 7 August 2023, the Extraordinary General Meeting of the Parent passed the Series G Shares Issue Resolution described in detail in Section [38] of this Report. Pursuant to the Series G Shares Issue Resolution, the Parent's share capital was increased by PLN 50,218.08 through the issue of 2,510,904 Series G Shares.

The issues of Series F and Series G Shares resulted in further dilution of the equity interests held by the Parent's shareholders. The table below presents the structure of the Parent's share capital following the issues of Series G and Series F Shares.

Series of shares	Number of shares and voting rights	(%)
Series A	27,500,000	76.52
Series B	2,062,512	5.74
Series D	387,714	1.08
Series E	136,104	0.38
Series F	3,343,037	9.30
Series G	2,510,904	6.99
Total	35,940,271	100

On 28 February 2023, the Extraordinary General Meeting of the Parent passed a resolution to amend the Parent's Articles of Association by waiving the provision authorising the Management Board to increase the share capital of the Parent within the limits of authorised capital, with an option for the Management Board to disapply the existing shareholders' pre-emptive rights in whole or in part subject to approval by the Supervisory Board. On the basis of the Articles of Association provision referred to above, the Parent's Management Board had the authority to increase the Parent's share capital by up to PLN 29,562.50, through one or more successive share capital increases within the limits specified above (up to the amount of authorised capital), through the issue of up to 1,478,125 ordinary bearer shares with a par value of PLN 0.02 per share. The above resolution came into force upon entry in the Business Register of the National Court Register of the increase in the Parent's share capital through the issue of Series E Shares within the limits of authorised capital, which took place on 3 March 2023. The amendment to the Parent's Articles of Association took effect upon the registration of the amendments to the Articles of Association in the Business Register of the National Court Register, i.e. as of 19 May 2023.

As a result, the Parent will not be able to issue shares within the limits of authorised capital, leading to a change in the proportion of shares held by the Parent's existing shareholders.

40. Repurchase of shares

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

41. Control system for employee stock plans

Except for the Incentive Scheme described below, in 2023, PCF Group S.A. and its subsidiaries did not operate any employee stock ownership plans.

On 10 August 2022, the Extraordinary General Meeting of Incuvo S.A. passed Resolution No. 5 to implement an Incentive Scheme, as described in detail in Section 16 of this Report.

The Incentive Scheme's control system comprises the following:

- The key terms and conditions of the Incentive Scheme were defined by the Incuvo S.A. Extraordinary General Meeting in the abovementioned Resolution No. 5 of 10 August 2022, to be implemented by the Management Board and Supervisory Board of Incuvo S.A.;
- Detailed rules for the operation of the Incentive Scheme are set out in the Incentive Scheme Rules adopted by Resolution No. 1/12/2022 passed by the Supervisory Board of Incuvo S.A. on 12 December 2022;
- The implementation of the Incentive Scheme is the task of the Incuvo S.A. Management Board, which is authorised to define at its discretion, in accordance with the terms and conditions set out in the Incentive Scheme Rules, by way of a resolution: (i) a list of Incuvo S.A. employees and independent contractors who will be included in the Incentive Scheme (the "Eligible Persons"); (ii) the series of subscription warrant to be offered to a given Eligible Person; and (iii) the maximum number of subscription warrants to be offered to individual Eligible Persons. The above resolutions of the Incuvo S.A. Management Board require approval by the company's Supervisory Board.



OTHER INFORMATION

42. Auditor details

Pursuant to Art. 15.2.4 of the Articles of Association, the Supervisory Board appoints an audit firm to audit the Parent's financial statements and the Group's consolidated financial statements; by 20 April 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. 22 of the Supervisory Board dated 22 June 2023, Grant Thornton Polska Prosta Spółka Akcyjna ('Grant Thornton') was appointed as the audit firm to audit the financial statements of the Company and the consolidated financial statements of the Group for the periods from 1 January 2023 to 31 December 2023, and from 1 January 2024 to 31 December 2024. Grant Thornton will also review the interim financial statements of the Company and the consolidated interim financial statements of the Group for the periods from 1 January 2023 to 30 June 2023, and from 1 January 2024 to 30 June 2024. 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. 4055. Grant Thornton meets the independence requirements under the laws and standards applicable to audit firms and auditors. Grant Thornton has no interest in the Parent; in particular, as at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2023 it did not hold any equity instruments of the Parent, including shares or subscription warrants issued by the Parent.

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

	1 Jan–31 Dec 2023		1 Jan–31 Dec 2022	
	Remuneration paid to the network	Including fees paid to the Auditor	Remuneration paid to the network	Including fees paid to the Auditor
Audit of full-year financial statements	376	376	217	217
Review of interim financial statements	145	145	57	57
Other assurance services	9	9	9	9
Total	530	530	283	283



CORPORATE GOVERNANCE STATEMENT OF PCF GROUP S.A. FOR 2023

Introduction

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

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

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

and at the registered office of the Warsaw Stock Exchange.

In fulfilling the disclosure requirements regarding the application of Best Practice, PCF Group S.A. is guided by the principles of an effective and transparent information policy and communication with the market and investors. In its Current Report No. 1/2021 (EBI) of 30 July 2021, the Company reported on the scope of application of Best Practice for GPW Listed Companies 2021, identifying certain specific corporate governance principles that it did not comply with on a permanent basis. On 4 January 2023, in Current Report No. 1/2023 (EIB), the Parent updated its statement of compliance with Best Practice for GPW Listed Companies 2021. All information arising from the corporate governance principles followed by the Parent is published on the Parent's website at:

<https://peoplecanfly.com/wp-content/uploads/2023/01/20230104-informacja-o-stanie-stosowania-dobrych-praktyk-2021.pdf>

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

With respect to Best Practice for GPW Listed Companies 2021, the Company undertook to follow all the provisions of that code of corporate governance, except for those listed below. As at the date of this Report, the Company did not comply with 14 principles of Best Practice for GPW Listed Companies 2021.

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



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



		Commentary
	status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others:	<p>Subject to the disclosure obligations applicable to the Company, the Company does not publish on its website any information on progress made in delivering the strategy.</p> <p>As at the date of this statement of compliance with Best Practice for GPW Listed Companies 2021 ("Best Practice 2021"), the Company does not publish all metrics listed in this principle, including ESG information concerning the strategy.</p>
1.4.1.	explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;	<p>This principle is not complied with.</p> <p>As explained under principle 1.3., the Company's current business strategy does not address ESG aspects. It must be stressed that the Company, as a developer of AAA video games, does not run operations which would have a material environmental footprint. The Management Board of the Company as well as the management bodies of the Group's subsidiaries are, however, committed to ensuring that environmental protection solutions are applied across the Group's administrative functions.</p>
1.4.2.	present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.	<p>This principle is not complied with.</p> <p>The differences in remuneration at the Company and the Group's subsidiaries are attributable to the nature and type of positions held and the overall pay volatility in the video game development industry. Given that one gender represents the vast majority of all employees in the industry in which the Company and its Group operate, presentation of a general equal pay index for the entire Group in accordance with this principle would be unreliable and misleading.</p> <p>At the same time, as explained under principle 1.3.2, the Company observes the principle of equal pay for women and men employed in comparable positions and gender does not affect the terms of employment at the Company.</p>
2. MANAGEMENT BOARD, SUPERVISORY BOARD		
2.1.	Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.	<p>This principle is not complied with.</p> <p>While fully committed to the principles of diversity, the Company does not have in place a formal diversity policy applicable to the Management or Supervisory Board, approved by the Supervisory Board or the General Meeting, as appropriate. The Company ensures gender diversity at the level specified in the principle in the case of its Supervisory Board, while the 30% or higher minority participation is not ensured on the Company's Management Board.</p> <p>Members of the Company's governing bodies are appointed based on their qualifications and professional experience and regardless of their age, gender or other diversity criteria. When selecting candidates for supervisory and management positions, the authorised bodies or entities are guided by the interests of the Company and its shareholders, taking into account the relevant qualifications, skills and experience of the</p>



		Commentary
		<p>candidates. Given the nature of the Company's business, its size and the need to appoint to governing bodies persons with specialist knowledge, the key criterion applied by the Company in selecting staff is their qualifications and professional experience, while other criteria, such as their age or gender, are disregarded. Members of the Company's Management and Supervisory Boards and senior management are selected so as to ensure the relevant pool of educational background, qualifications and experience, in order to enable the Company to leverage their knowledge and experience across all business areas. In addition, considering its strong growth, the Company believes that incorporating diversity management principles into a formal policy could restrict its ability to attract talent with qualifications relevant to its business at a given point in time.</p>
2.2.	<p>Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.</p>	<p>This principle is not complied with.</p> <p>Members of the Company's governing bodies are appointed based on their qualifications and professional experience and regardless of their age, gender or other diversity criteria, subject to relevant laws and regulations. When selecting candidates for supervisory and management positions, the authorised bodies or entities are guided by the interests of the Company and its shareholders, taking into account the relevant qualifications, skills and experience of the candidates. Given the nature of the Company's business, its size and the need to appoint to governing bodies persons with specialist knowledge, the key criterion applied by the Company in selecting staff is their qualifications and professional experience, while other criteria, such as their age or gender, are disregarded. Members of the Company's Management and Supervisory Boards and senior management are selected so as to ensure the relevant pool of educational background, qualifications and experience, in order to enable the Company to leverage their knowledge and experience across all business areas. In addition, considering its strong growth, the Company believes that incorporating diversity management principles into a formal policy could restrict its ability to attract talent with qualifications relevant to its business at a given point in time.</p>
2.7.	<p>A company's management board members may sit on corporate bodies of companies other than members of its group subject to the approval of the supervisory board.</p>	<p>This principle is not complied with.</p> <p>Neither the Articles of Association nor other internal regulations in place at the Company require that members of its Management Board obtain the Supervisory Board's consent for serving on the governing bodies of entities other than Group entities.</p> <p>The Company has not ruled out amending its non-compete policies so as to require members of its Management Board to secure prior approval of the Supervisory Board for sitting on management or supervisory boards of non-Group companies competing with the Company.</p>



		Commentary
2.11.	In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. Such report includes at least the following:	
2.11.3.	assessment of the company's standing on a consolidated basis, including assessment of the internal control, risk management and compliance systems and the internal audit function, and information about measures taken by the supervisory board to perform such assessment; such assessment should cover all significant controls, in particular reporting and operational controls;	<p>This principle is not complied with.</p> <p>In the 'Report of the Supervisory Board and its Audit Committee on Their Activities in 2020, Including the Assessments Referred to in Principle II.Z.10 of Best Practice for GPW Listed Companies 2016', as prepared by the Company's Supervisory Board and presented to the General Meeting, the Supervisory Board included assessment of the Company's standing and the systems referred to in this principle.</p> <p>However, the Supervisory Board's assessment was not based on formal reports prepared as part of the Company's internal control, risk management or compliance systems. For the purposes of the Supervisory Board's assessment, neither the Management Board nor risk or compliance managers prepared any reports on the effectiveness of those functions as the Company has not established the positions of Chief Compliance Officer or Chief Risk Officer.</p> <p>The Report of the Supervisory Board does not contain an assessment of the internal audit function as the Company has not established a separate organisational unit dedicated to performing such function.</p> <p>The Report of the Supervisory Board does not include information on the measures taken by the Supervisory Board to assess the Company's standing, including the systems referred to in this principle, as no such disclosure is required under Best Practice for GPW Listed Companies 2016 ("Best Practice 2016"). Such disclosures will be made starting with the Report of the Supervisory Board and its Audit Committee on Their Activities in 2021.</p>
2.11.6.	information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.	<p>This principle is not complied with.</p> <p>As principle 2.1. is not applied and the Company does not have in place a formal diversity policy applicable to the Management or Supervisory Board, approved by the Supervisory Board or the General Meeting, as appropriate, the annual Report of the Supervisory Board will not address the above matters.</p>
3. INTERNAL SYSTEMS AND FUNCTIONS		
3.5.	Persons responsible for risk and compliance management report directly to the president or other member of the management board.	<p>This principle is not complied with.</p> <p>The Company does not have a Compliance Officer in charge of the compliance department or a Risk Officer in charge of the risk department. Persons responsible for risk management and compliance systems at the Company report directly and</p>



		Commentary
		indirectly to the President of the Management Board.
3.9.	The supervisory board monitors the efficiency of the systems and functions referred to in principle 3.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and makes annual assessment of the efficiency of such systems and functions according to principle 2.11.3. Where the company has an audit committee, the audit committee monitors the efficiency of the systems and functions referred to in principle 3.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.	This principle is not complied with. The Supervisory Board monitors and assesses the effectiveness of internal control, risk management and compliance systems and functions on the basis of, among others, documents, reports and statements submitted by the person responsible for internal audit as well as other information obtained by the Supervisory Board in the course of its work. However, the Company does not comply with principle 3.9 with respect to risk management and compliance systems as no individuals have been appointed to take charge of these areas, as explained in the commentary on principle 3.2. The Management Board does not prepare the report referred to in that principle either.
6. REMUNERATION		
6.2.	Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term standing of the company measured by its financial and non-financial results as well as long-term shareholder value creation, sustainable development and the company's stability.	This principle is not complied with. As at the date of this statement of compliance with Best Practice 2021, the Company had no incentive scheme in place. If such scheme is implemented, the Company intends to comply with this principle.

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 Management Board of the Parent is responsible for the Parent's internal control system and for its effectiveness in the process of preparation of financial statements and periodic reports. On 1 January 2023, an internal audit function was established at the Parent and an internal auditor was appointed to take charge of internal audit which is an element supporting the process of monitoring and assessing the Parent's internal control system. The financial reporting process at PCF Group S.A. and its subsidiaries is supervised directly by the President of the Management Board.

On 1 December 2020, the Parent took over the maintenance of its accounting records from a third party provider of accounting services, which, in the Management Board's opinion, enabled the Parent to adapt its in-house finance and accounting function to meet the Parent's needs. In 2023, the accounting records of PCF Group S.A.'s subsidiaries, except those of Game On Creative, Inc., were maintained by third-party accounting firms. Supervision of the third party providers of accounting services has been the responsibility of the Chief Financial Officer as part of the internal control system. The Chief Financial Officer is accountable to and reports directly to the President of the Management Board.

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

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



In accordance with the Articles of Association of PCF Group S.A., the Supervisory Board appoints an audit firm to audit the Company's and the Group's financial statements. Pursuant to Resolution no. 22 of the Supervisory Board dated 22 June 2023, Grant Thornton Polska Prosta Spółka Akcyjna was appointed as the audit firm to audit the financial statements of the Company and the consolidated financial statements of the Group for the periods from 1 January 2023 to 31 December 2023, and from 1 January 2024 to 31 December 2024. Grant Thornton will also review the interim financial statements of the Company and the consolidated interim financial statements of the Group for the periods from 1 January 2023 to 30 June 2023, and from 1 January 2024 to 30 June 2024.

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 11 May 2017 in conjunction with Article 16(2) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 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 31 December 2023 and the Company's full-year separate financial statements for the financial year ended 31 December 2023 did not submit any comments on the operation of the internal control system.

Pursuant to Resolution No. 14/2022 of the Parent's Management Board of 14 December 2022, on 1 January 2023 an internal audit function was established at the Parent and an internal auditor was appointed to take charge of internal audit at the Parent. Pursuant to the Management Board's resolution referred to above, internal audit is an element that supports the process of monitoring and assessing the Parent's internal control system, and its objective is to regularly, independently and objectively examine, evaluate and improve the internal control procedures and mechanisms in place at the Parent, including with respect to the preparation of financial statements and consolidated financial statements. Internal audit at the Parent is managed by an internal auditor, who reports organisationally to the President of the Parent's Management Board and functionally to the Chair of the Audit Committee of the Parent's Supervisory Board.

Shareholders with major direct or indirect holdings of Company shares

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

Shareholder	Number of shares held		Number of voting rights	
		(%)		(%)
Sebastian Wojciechowski	14,969,480	41.71	14,969,480	41.71
	3,594,028	10.00	3,594,028	10.00
Krafton Inc.				0
Bartosz Kmita	2,579,910	7.18	2,579,910	7.18
Nationale-Nederlanden Otwarty Fundusz Emerytalny	2,368,599	6.59	2,368,599	6.59
Krzysztof Dolaś	1,815,862	5.05	1,815,862	5.05
Bartosz Biełuszko	1,805,936	5.02	1,805,936	5.02
<i>jointly parties to the Qualifying Shareholders' Agreement**</i>	<i>21,191,188</i>	<i>58.96</i>	<i>21,191,188</i>	<i>58.96</i>
				6
Other shareholders	8,786,456	24.45	8,786,456	24.45
				5
Total	35,940,271	100	35,940,271	100

* The shareholding structure was established based on notifications submitted by shareholders in compliance with their legal obligations. It also reflects the registration on 28 August 2023 of the share capital increase through the issue of Series G ordinary bearer shares.

** The shareholders Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko, and Krzysztof Dolaś are signatories to an agreement dated 26 June 2020, which, following the admission of at least one share of PCF Group S.A. to trading on a regulated market, is classified as an agreement under Article 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005.

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

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

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

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

In addition, the shareholders Sebastian Wojciechowski, Bartosz Kmita, Krzysztof Dolaś and Bartosz Biełuszko form the Group of Qualifying Shareholders who, from the date of admission of Company shares to trading on the regulated market (i.e. as of 15 December 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 31 December 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

In accordance with the Articles of Association of PCF Group S.A., there are no restrictions on the exercise of voting rights. This includes the absence of a voting cap applicable to holders of a specific percentage or number of voting rights, no time limits on the exercise of voting rights, and no provisions that separate equity rights attached to securities from the ownership of such securities.

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

Articles of Association

Pursuant to Art. 337 of the Commercial Companies Code, the Company's shareholders have the right to dispose of their shares. Such disposition of Company shares may include their sale (transfer of ownership) and other forms of disposition, including, in particular, through pledge, lease or establishment of usufruct over such shares. As at 31 December 2023, the Articles of Association did not provide for any restrictions on transferability of the Company's securities.

Lock-up Agreements

Notwithstanding the foregoing, as of the reporting date, each of the twenty-five shareholders of PCF Group S.A. who participated in a public offering of a total of 2,062,512 Series A ordinary bearer shares under the PCF Group S.A.'s prospectus approved by the Polish Financial Supervision Authority on 25 November 2020, was bound by an agreement that restricted their ability to sell the remaining Series A shares held by each respective selling shareholder that were not included in the public offering. These agreements, known as 'Lock-up Agreements,' were concluded among the selling shareholders, the Company, and the global coordinator, Trigon Dom Maklerski S.A. of Kraków. 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 18 December 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, under subscription agreements executed between the Company and the investor Andrzej Wychowaniec, President of the Management Board of Incuvo S.A. ("Investor AW"), and investor Radomir Kucharski, Vice President of the Management Board, Chief Product Officer ("Investor RK"), each Investor was obliged to submit to the brokerage office maintaining their securities account an irrevocable instruction to lock up all Series E shares in PCF Group S.A. subscribed for by them (the "Series E Shares") until 31 December 2024. During the lock-up period, each Investor agreed: (i) not to assume any obligations or make any disposals with respect to Series E Shares, any rights conferred by Series E Shares, or any rights to Series E Shares; (ii) not to transfer Series E Shares, whether for a consideration or free of charge; (iii) not to encumber or dispose of Series E Shares in any other way that could lead to a change in the ownership of (title to) Series E Shares; (iv) not to offer for purchase or announce an intention to offer, not to transfer or encumber in any way Series E Shares or rights attached to Series E Shares, rights to Series E Shares, including through entry into any transaction (such as the grant of any call option or other rights relating to Series E Shares) transferring in whole or in part the economic consequences of ownership of Series E Shares or the rights referred to above, and not to create any encumbrance over Series E Shares or such rights; (v) not to take any action that causes or could cause seizure of Series E Shares, any rights attached to Series E Shares or any rights attached to Series E Shares or rights to Series E Shares by third parties.

In line with the Strategy update of 31 January 2023, the lock-up period for the Company's main shareholder Sebastian Wojciechowski – excluding the shares allocated to the incentive scheme or purchased after the IPO – has been extended until the end of 2027, with the exception of strategic transactions and tender offers for the sale or exchange of Company shares.

Furthermore, under the terms of the investment agreement dated 28 March 2023 between the Company, Sebastian Wojciechowski, and Krafton, Inc., both Sebastian Wojciechowski and Krafton, Inc. agreed to standard lock-up commitments regarding their shareholdings in the Company. These commitments were effective until 28 March 2024.

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 29 July 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 2 April 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 2023, the Management Board was composed of one member – President of the Management Board. The mandate of the President of the Management Board will expire on or before the date of the General Meeting convened to approve the financial statements for the most recent full financial year in which the President held the office. The mandate of the President of the Management Board will also expire upon the President's death, resignation or removal from the Management Board. If the Management Board is composed of more members, the mandate of a new Management Board member appointed prior to the expiry of the Management Board's term of office will expire simultaneously with the mandates of the other Management Board members.

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

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

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

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

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

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

Rules governing amendments to the Company's Articles of Association

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

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

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

Pursuant to Art. 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 29 July 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 at:

<https://peoplecanfly.com/wp-content/uploads/2023/03/tekst-jednolity-statutu-rep-a-1426-2023-emisja-akcji-serii-e-28022023-aktualny.pdf>

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

Operation of the General Meeting

In 2023, the Company's General Meeting was held 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 at:

<https://peoplecanfly.com/wp-content/uploads/2023/08/20230828-tekst-jednolity-statutu-pcf-group-sa-wersja-aktualnapl-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 of this Report for issue.

Principal 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 2023.

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.

In accordance with Article 17.5 of the Articles of Association, should the General Meeting resolve that the Supervisory Board is to consist of five members (as was the case 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 for 2023), the Group of Qualifying Shareholders has the special personal right to appoint and remove three members of the Supervisory Board, including the Chairperson, who must be selected from among their appointees.

In accordance with 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 Company's management and supervisory bodies and the Audit Committee, including composition of such bodies and any changes if their composition in 2023

Management Board

As at the reporting date and the date of authorisation of this Report for issue, 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, which commenced on 29 June 2022.

In the period from 1 January 2023 to the date of authorisation of this Report for issue, the composition of the Management Board did not change.

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

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

The Management Board represents the Company in relations with third parties and manages all the Company's affairs not reserved for the General Meeting or the Supervisory Board under the Commercial Companies Code and the Company's Articles of Association. If the Management Board has only one

member, the Company is represented by the President of the Management Board; and if the Management Board has more than one member, the Company is represented by the President of the Management Board acting jointly with another Management Board member.

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

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

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

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

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

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

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

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

Supervisory Board

As at 1 January 2023, the Company's Supervisory Board consisted of five members:

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

- Dagmara Zawadzka – Member of the Supervisory Board.

There were no changes in the composition of the Company's Supervisory Board during the reporting period.

As at the reporting date (31 December 2023) and as at the date of authorisation of this Report for issue, the Company's Supervisory Board consisted of five persons:

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

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

Supervisory Board members were appointed for a joint three-year term of office, which commenced on 29 June 2022.

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 an annual written report for the previous financial year (the Report of the Supervisory Board).

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. The Supervisory Board may also appoint an ad hoc or standing committee of the Supervisory Board, composed of Supervisory Board members, to perform specific supervisory duties. A delegated member of the Supervisory Board and the Supervisory Board committee should report to the Supervisory Board at least once a quarter in a financial year on their performance of such 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 should be convened on an as-needed basis, at least once per quarter in each financial year, at a time and venue specified in the 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 2023, the Supervisory Board held nine meetings and passed resolutions outside of its meetings. During its meetings and through the resolutions it passed, the Supervisory Board primarily engaged in the analysis of financial statements, discussions on matters to be addressed at the Company's General Meeting, and provided advice on resolutions of the Company's General Meeting, as well as on the proposal of the

Management Board for the distribution of profits for the year 2022. Additionally, the Board developed and approved internal documentation concerning related-party transactions, granted approval for agreements between the CEO and the Company related to Krafton Inc.'s investment in the Company, selected the audit firm to conduct the statutory audits of the Company's and the Group's financial statements for the next two financial years, and oversaw the activities of the Company's internal auditor.

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. Resolutions of the Supervisory Board may be voted on by written ballot or using means of remote communication. The use of means of remote communication shall include in particular the use of electronic mail. A resolution so passed will only be valid if all Supervisory Board members have been notified of the contents of the draft resolution and at least half of the Supervisory Board members participated in voting on the resolution.

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

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

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

Audit Committee

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

In the period from 1 January 2023 to the date of authorisation of this Report for issue, the Audit Committee consisted of:

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

As at the date of authorisation of this Report for issue, among the Audit Committee members 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 11 May 2017, and Dagmara Zawadzka satisfied the criteria of possessing the knowledge and skills in accounting or financial auditing as set out in Art. 129.1 thereof. Among the Supervisory Board members, Jacek Pogonowski and Dagmara Zawadzka satisfied the independence criteria under the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017, and Best Practice for GPW Listed Companies 2021.

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



the University of Navarra, and later the 'Become a Positive Leader to Accelerate Positive Change' course at the same university in 2017.

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

Mikołaj Wojciechowski is an attorney-at-law, running his own law practice in Warsaw since 2010. From 17 August 2017 he was a member of the Supervisory Board and from 28 November 2017 – Chair 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 6 November 2019, Mikołaj Wojciechowski has served as Chair 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 11 May 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 16 April 2014.

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

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

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

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

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

Permitted non-audit services

In the financial year 2023, the audit firm Grant Thornton Frackowiak Prosta Spółka Akcyjna provided a permitted non-audit service to the Company, consisting of an assessment of the Report on the remuneration of members of the Management Board and Supervisory Board for the period from 1 January 2022 to 31 December 2022. This assessment evaluated the completeness of the disclosures made therein, as required by applicable laws and regulations, and was delivered in the form of an assurance engagement report. The Audit Committee granted its consent to the provision of the service in Audit Committee Resolution No. 18/2023 of 31 May 2023.

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

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

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



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

On 22 June 2023, after reviewing the recommendation of the Audit Committee expressed in Resolution no. 7/2023 dated 22 June 2023, and the 'Report of PCF Group S.A. containing conclusions from the auditor selection procedure' prepared by the Management Board, the Supervisory Board, in Resolution no. 22/2023, resolved to select Grant Thornton Polska Prosta Spółka Akcyjna as the audit firm to audit the financial statements of the Company and the consolidated financial statements of the Group for the periods from 1 January 2023 to 31 December 2023, and from 1 January 2024 to 31 December 2024. Grant Thornton will also review the interim financial statements of the Company and the consolidated interim financial statements of the Group for the periods from 1 January 2023 to 30 June 2023, and from 1 January 2024 to 30 June 2024.

At the time of appointment of the auditor, the Company was subject to the provisions of the Statutory Auditors Act, Audit Firms and Public Oversight of 11 May 2017 and therefore was 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.

The selection of the audit firm to conduct the statutory audit of the financial statements of the Parent and the consolidated financial statements of the Group for the financial years 2023 and 2024, prepared in accordance with IFRS/IAS, was based on the '*Policy and procedure for selecting an audit firm to conduct the statutory audit of the financial statements of PCF Group S.A. and PCF Group S.A. Group, and the policy on the provision of permitted non-audit services by the audit firm, its related entities, and members of the auditor's network*' adopted by the Audit Committee Resolution no. 1/2021 dated 23 April 2021, taking into account the procedure provided for in Article 130 of the Act of 11 May 2017 on statutory auditors, audit firms, and public oversight.

In the financial year 2023, the audit firm Grant Thornton Prosta Spółka Akcyjna provided a permitted non-audit service to the Company, consisting of an assessment of the Report on the remuneration of members of the Management Board and Supervisory Board for the period from 1 January 2022 to 31 December 2022. This assessment evaluated the completeness of the disclosures made therein, as required by applicable laws and regulations, and was delivered in the form of an assurance engagement report. The Audit Committee granted its consent to the provision of the service in Audit Committee Resolution No. 18/2023 of 31 May 2023.

Number of Audit Committee meetings

In 2023, seven meetings of the Audit Committee were held. In 2023, the Audit Committee passed 9 resolutions concerning:

- Approval of the audit plan for 2023;
- Submission of the 'Supplementary Report for the Audit Committee' to the Management Board and Supervisory Board of the Company;
- Approval of audit firms meeting the criteria for selection to be invited to submit proposals concerning the statutory audit of the financial statements of the Company and its Group;
- Consent for the provision of non-audit or non-review services by the entity authorised to audit the financial statements of the Company and its Group;
- Adoption of the Audit Committee Report on its activities in 2022 and assessments made in 2022;
- Adoption of the Audit Committee Report on its activities in 2021 and assessments made in 2021;
- Approval of the '*Report of PCF Group S.A. containing conclusions from the auditor selection procedure*';



- Audit Committee recommendation regarding the selection of the audit firm to conduct the statutory audit of the financial statements of the Company and its Group; and
- Consent for the provision of non-audit or non-review services by the entity authorised to audit the financial statements of the Company and its Group.

Additionally, during the Audit Committee meetings, among other proceedings, there were sessions with the Company's statutory auditor focused on reviewing presentations concerning (i) the audit strategy for the full-year financial statements of PCF Group S.A. for the financial year 2023, and the full-year consolidated financial statements of the PCF Group S.A. Group for the financial year 2023 ('Full-Year Financial Statements'); (ii) a summary of the findings of the audit of the Full-Year Financial Statements; and (iii) the strategy for reviewing the Group's interim consolidated financial statements for the first half of 2023.

The Audit Committee held meetings specifically related to the Company's issuance of periodic reports, reviewed and advised on the audit plan for 2023, and discussed the performance of tasks by the internal auditor during that year. Additionally, the meetings covered discussions on the Company's financial model for the years 2023–2027 and the budget for 2023, as well as the process for selecting an audit firm to conduct the statutory audit of the financial statements of both the Company and the Group. Additionally, the Audit Committee held one closed session without the participation of the Company's Management Board, during which the members of the Audit Committee met with the Company's internal auditor to discuss activities of the auditor in 2023.



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ORAZ SPÓŁKI PCF GROUP SPÓŁKA AKCYJNA W 2023 ROKU**