WARSAW | SEPTEMBER 21, 2023

PEOPLE CAN FLY

PCF GROUP SPÓŁKA AKCYJNA GROUP

HALF-YEAR DIRECTORS' REPORT ON THE OPERATIONS OF PCF GROUP S.A. AND ITS GROUP

FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2023

This half-year Directors' Report on the operations of PCF Group S.A. and its Group for the six months from January 1st to June 30th 2023 has been prepared in accordance with Section 70.1.4, Section 70.1.6, Section 70.1.7, Section 71.1.4, Section 71.1.6, and Section 71.1.7 of the Minister of Finance's Regulation of March 29th 2018 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 (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 for the six months from January 1st to June 30th 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 June 30th 2023.

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.

The references in this Report to the sections of PCF Group S.A.'s Articles of Association refer to the numbering contained in PCF Group S.A.'s Articles of Association as at the date of authorisation of this Report for issue.

GENERAL INFORMATION

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

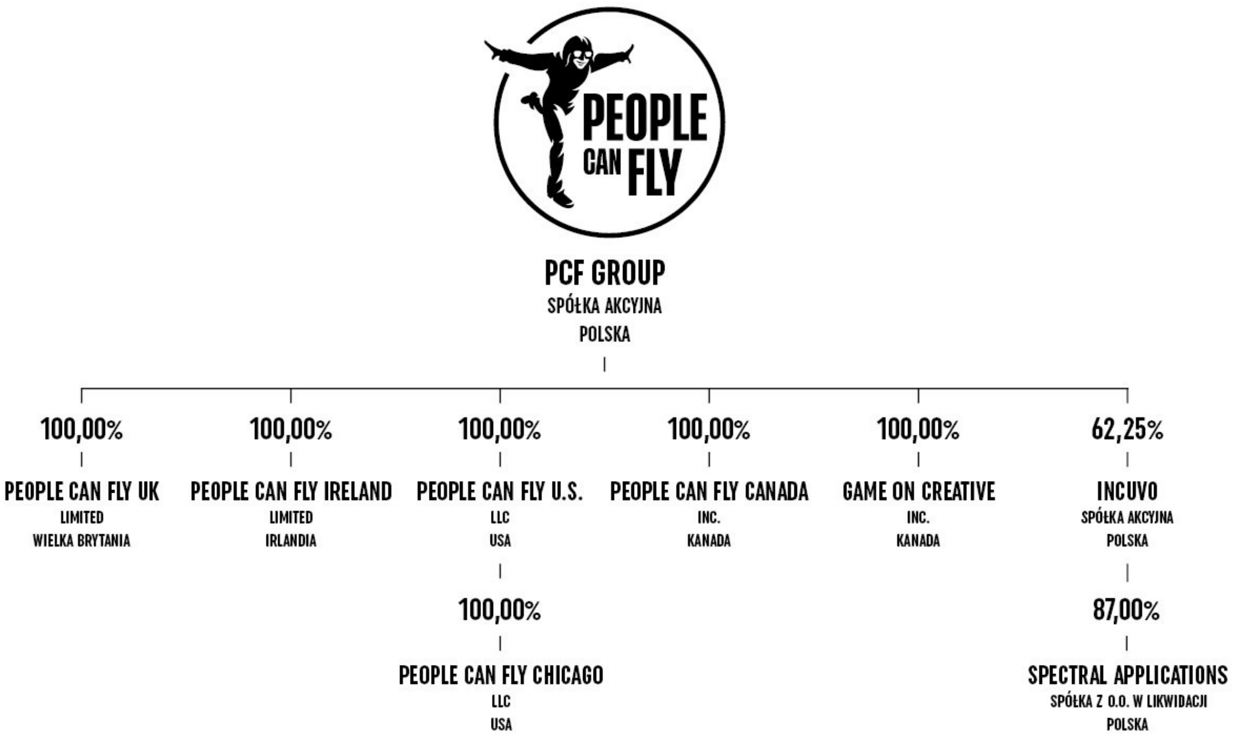
Organisational structure of the PCF Group S.A Group, including identification of the consolidated entities, and changes in the Group's organisation structure

The parent of the PCF Group Spółka Akcyjna Group (the "**Group**") is PCF Group Spółka Akcyjna (the "**Parent**"). The Parent is entered in the Business Register of the National Court Register maintained by the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, 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 June 30th 2023.



The Parent has a branch, trading under the name PCF Group Spółka Akcyjna Oddział w Rzeszowie "Oddział Badawczo Rozwojowy" (Research and Development Branch), located at ul. Wrzesława Romańczuka 6, 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 change occurred in the Group's structure in the six months ended June 30th 2023:

- February 2nd 2023 saw the registration of People Can Fly Ireland Limited, a single-member subsidiary of the Parent which will provide publishing services within the Group;
- on February 17th 2023, a transaction was settled as a result of which the Parent's equity interest in Incuvo S.A. increased from approximately 50.01% to approximately 62.25% of the share capital and voting rights in Incuvo S.A.

After the reporting date, there were no changes in the Group's structure. Following completion of the liquidation process for Spectral Applications spółka z ograniczoną odpowiedzialnością w likwidacji (in liquidation), an application was filed with the competent registry court on August 17th 2023 to remove the company from the Business Register of the National Court Register.

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.

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

In the six months to June 30th 2023 and from July 1st 2023 to the date of issue of this Directors' Report on the operations of PCF Group S.A. and its Group for the six months ended June 30th 2023, neither the Company nor its subsidiaries executed any material related-party transactions other than on arm's length terms.

PCF GROUP SPÓŁKA AKCYJNA GROUP

HALF-YEAR DIRECTORS' REPORT ON THE OPERATIONS OF PCF GROUP S.A. AND ITS GROUP

FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2023

BUSINESS ACTIVITIES OF THE PCF GROUP

2. Revenue structure and operating segments

The Group divides its operations into four operating segments:

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

In the six months ended June 30th 2023, the **development segment** included primarily revenue from a game development project carried out by the Group with Square Enix Limited. Positive cash flows from this segment enable the Group to partially cover expenditure on games that the Group intends to publish on its own in the self-publishing model. In the six months ended June 30th 2023, the consideration received from the material trading partner in this segment accounted for over 75% of total revenue.

In addition, in connection with the development and publishing agreement signed with Microsoft Corporation on June 13th 2023 (for more details, see Note 23), the Group started to recognise revenue from the game development project Project Maverick.

In the comparative period, the Group generated revenue from game development projects carried out mainly with two publishers: Square Enix Limited and Take-Two Interactive Software, Inc.

Project Gemini

In the six months ended June 30th 2023, the Group carried out work contracted by the publisher Square Enix Limited under content riders for the development and publishing agreement.

Project Maverick

The Group is performing a contract to produce an AAA game based on Microsoft Corporation's intellectual property rights.

The **copyrights segment** included revenue from royalties for previously developed 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 October 24th 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.

In addition, in accordance with the development and publishing agreement for the game Outriders, executed on February 16th 2016 between the Parent and Square Enix Limited, the Parent is entitled to royalties starting from the date of the game's release (April 1st 2021). The amount of royalties depends directly on the profit earned from the game's sale and represents its agreed percentage. As at June 30th 2023, the Parent received no royalties from the publisher, which means that as at the reporting date net receipts from the sale of Outriders were insufficient to recover the costs and expenses incurred by the publisher to develop, distribute and promote the title. Information on the receipt by the Parent of the consideration referred to above, or the receipt from the publisher of information on the recovery of the costs it has incurred in connection with the development, distribution and promotion of Outriders will be published by the Parent in a current report in accordance with applicable laws.

Self-publishing segment

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

Unlike in the development segment, in the self-publishing segment the Group carries out projects as a publisher, financing them with its own funds (or funds sourced from third parties under distribution, licence and similar contracts, or debt instruments) based on intellectual property rights that will remain owned by the Group.

February 2nd 2023 saw the registration of People Can Fly Ireland Limited, a single-member subsidiary of the Parent which will provide publishing services within the Group.

In the self-publishing segment, in the six months ended June 30th 2023 the Group recognised revenue from sales of the Green Hell VR game, published by Incuvo S.A. for use with Quest 2/Oculus Rift VR headsets (distribution through the Meta Quest platform owned by Facebook Technologies LLC of the U.S.), VR headsets for PCs (distribution through the Steam platform owned by Valve Corporation of the U.S.), and Pico Neo 6 and Pico 4 all-in-one standalone headsets. On June 15th 2023, Green Hell VR versions for new hardware platforms: HTC Elite XR and HTC Focus 3, were released.

Other activities segment

This segment includes in particular expenditure on the software system which the Group developed and named "PCF Framework", which is an overlay for the Unreal Engine graphics engine used to facilitate and optimise work on development of video games.

Financial results of the operating segments are based on internal data periodically reviewed by the Management Board of the Parent (the chief operating decision maker of the Group). 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 six months ended June 30th 2023, there were no changes to the Group's accounting policies with respect to the identification of operating segments or the policies for measuring revenue, profit or loss and assets of the segments presented in the Group's most recent full-year consolidated financial statements.

Half-year Directors' Report on the operations of PCF Group Spółka Akcyjna and its Group for the six months from January 1st to June 30th 2023 (all amounts in PLN thousand, unless stated otherwise)

GROUP'S REVENUE STRUCTURE

	Development segment	Copyrights segment	Self-publishing	Other activities	**Total**
Jan 1–Jun 30 2023					
Region					
Europe	55,024	28	3,086	-	**58,138**
Other countries	8,566	589	1,373	-	**10,528**
Total revenue	**63,590**	**617**	**4,459**	**-**	**68,666**
Product line					
Games	63,590	617	4,459	-	**68,666**
Total revenue	**63,590**	**617**	**4,459**	**-**	**68,666**
Timing of transfer of goods/services					
At a point in time	-	617	-	-	**617**
Over time	63,590	-	4,459	-	**68,049**
Total revenue	**63,590**	**617**	**4,459**	**-**	**68,666**
Jan 1–Jun 30 2022					
Region					
Europe	56,246	10	-	-	**56,256**
Other countries	23,658	782	9,896	-	**34,336**
Total revenue	**79,904**	**792**	**9,896**	**-**	**90,592**
Product line					
Games	79,904	792	9,896	-	**90,592**
Total revenue	**79,904**	**792**	**9,896**	**-**	**90,592**
Timing of transfer of goods/services					
At a point in time	-	792	-	-	**792**
Over time	79,904	-	9,896	-	**89,800**
Total revenue	**79,904**	**792**	**9,896**	**-**	**90,592**

Half-year Directors' Report on the operations of PCF Group Spółka Akcyjna and its Group for the six months from January 1st to June 30th 2023 (all amounts in PLN thousand, unless stated otherwise)

PARENT'S REVENUE STRUCTURE

	Development segment	Copyrights segment	Self-publishing	Other activities	Total
Jan 1–Jun 30 2023					
Region					
Europe	53,008	16	-	-	**53,024**
Other countries	745	570	-	-	**1,315**
Total revenue	**53,753**	**586**	**-**	**-**	**54,339**
Product line					
Games	53,753	586	-	-	**54,339**
Total revenue	**53,753**	**586**	**-**	**-**	**54,339**
Timing of transfer of goods/services					
At a point in time	-	586	-	-	**586**
Over time	53,753	-	-	-	**53,753**
Total revenue	**53,753**	**586**	**-**	**-**	**54,339**
Jan 1–Jun 30 2022					
Region					
Europe	50,356	10	-	-	**50,366**
Other countries	2,278	762	-	4,776	**7,816**
Total revenue	**52,634**	**772**	**-**	**4,776**	**58,182**
Product line					
Games	52,634	772	-	-	**53,406**
Trademark, performance bond and PCF Framework	-	-	-	4,776	**4,776**
Total revenue	**52,634**	**772**	**-**	**4,776**	**58,182**
Timing of transfer of goods/services					
At a point in time	-	772	-	4,776	**5,548**
Over time	52,634	-	-	-	**52,634**
Total revenue	**52,634**	**772**	**-**	**4,776**	**58,182**

3. The Group's achievements and factors with a material effect on the interim condensed consolidated financial statements

In the first six months of 2023, the Group pursued the strategic objectives defined by the Parent's Management Board, including those set out in the updated growth strategy described in detail in Section 4 below. The objectives include:

- Continued development work, in collaboration with Square Enix Limited, on Project Gemini (a game in the production phase as at the reporting date).
- Continued development work on Project Dagger (a game in the pre-production phase as at the reporting date). As announced in its updated Strategy in January 2023, the Group plans to publish the game on its own, in the self-publishing segment. However, the Group does not rule out cooperation with a reputable partner under the work-for-hire model should the opportunity arise.
- Continued development work on Project Bifrost (a game in the pre-production phase as at the reporting date), to be ultimately self-published by the Group using its own funds (or funds sourced from third parties under debt instrument agreements) and based on new intellectual property rights that would remain owned by the Group. As the same time, in accordance with the investment agreement of March 28th 2023 signed by the Parent and Sebastian Wojciechowski as the Parent's key shareholder and President of the Management Board with Krafton, Inc., if the Parent contemplates publishing 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 entering into any such agreements. For information on the investment agreement, see Section 4 below.
- Continued development work on Project Victoria (a game in the pre-production phase as at the reporting date), to be ultimately self-published by the Group using its own funds and based on new intellectual property rights that would remain owned by the Group. As in the case of Project Bifrost, if the Parent contemplates publishing Project Victoria 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.
- Continued development work on Project Red (a game in the concept phase as at the reporting date), which may be carried out by the Group in cooperation with a publisher on the work-for-hire basis or in the self-publishing model.
- Start of development work, in collaboration with Microsoft Corporation, on Project Maverick.
- Further strengthening of the international character of People Can Fly's studio and development team, and further expansion of the Group's development teams across all locations by hiring developers with experience in creating AAA video games and compact AAA video games (i.e. games with a shorter development timeframe, lower budget and narrower scope than triple-A titles but with a comparable quality to the latter).
- Further development of PCF Framework (i.e. proprietary, unique game development software and tools based on Unreal Engine technology) both through development of existing modules and new modules, particularly online services (an online service package comprising, among other things, servers acting as a central database access intermediary for video games, a set of libraries for server communication, tools enabling database access for customer service purposes, and tools enabling players to interact with each other in real time in the game world), as a platform enabling the Parent to expand its multiplayer capabilities.

In order to cover expenditures related to the updated strategy of the Parent and its Group, as described in detail in Section 4 below, and to ensure that the strategic objectives set out in the strategy continue to be pursued, the Parent carried out public offerings of new Series F and

Series G shares, raising approximately PLN 235m in proceeds. For detailed information on the public offerings of Series F and Series G shares of the Parent, see Sections 4 and 5 below.

4. Key events with a significant bearing on the Group's and the Parent's business and financial performance

Below are presented key events that took place in the six months ended June 30th 2023.

- **Registration of subscription warrants with CSDP**

  On January 24th 2023, in response to the Parent's application of January 12th 2023, the Central Securities Depository of Poland issued a statement to the effect that on January 25th 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 January 31st 2023, the Parent's Management Board passed a resolution to adopt an update of the Parent's and its Group's strategy (the "**Strategy**").

  The Strategy is focused on the following areas:

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

  The Parent set a strategic goal of earning at least PLN 3.0bn in total revenue in 2023–2027.

  In order to cover expenditures related to the Strategy, the Management Board raised some PLN 235m by issuing new shares of the Parent, with the financing level having been assumed at PLN 205m to 295m (see below for a description of the share capital increase through the issue of Series F and Series G ordinary bearer shares carried out to secure financing for the Strategy). All proceeds from the new issues will be used to expand the development teams to the level appropriate for the respective development phases of Project Dagger, Project Bifrost and Project Victoria. The proceeds from the new issues of Parent shares, together with (i) the Parent's own cash, (ii) the Parent's operating cash flows and (iii) other available sources of financing which do not result in dilution of shareholders' equity interests, will facilitate full implementation of the Strategy.

  For details of the Strategy, see Current Report No. 3/2023 of January 31st 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 February 10th 2023, the Parent's Management Board 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 jointly 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 February 17th 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 February 15th 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 March 3rd 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 February 28th 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 jointly 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.

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

On February 28th 2023, the Parent's Extraordinary General Meeting passed a resolution to amend the Parent's Articles of Association by waiving the provisions concerning authorised capital. The Parent's intention was to ensure that the shareholders' equity interests are not diluted any further (after 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 (described above) to increase the Parent's share capital, on March 28th 2023 an investment agreement was signed 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 agreed 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 Parent's General Meeting (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 March 28th 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 March 28th 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 subscribe for subscription warrants**

  On March 28th 2023, the Parent's Management Board made an offer to the publisher (which was accepted by the publisher on April 18th 2023), to subscribe, for no consideration, for 90,000 Series A registered subscription warrants of tranche A6, representing the last of the tranches of Series A subscription warrants offered to Square Enix Limited under the investment agreement, the terms of which are described in detail in Current Report No. 40/2021 of August 29th 2021. The offer to subscribe for the sixth tranche of the subscription warrants was made by the Parent as the Parent's revenue from agreements with Square Enix Limited exceeded PLN 270m.

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

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

  On May 24th 2023, the Parent's subsidiary People Can Fly Canada Inc. of Montreal, Canada, as the borrower, and Bank of Montreal, as the lender, signed a credit facility agreement (Offer of Financing), the terms of which are described in detail in Note 10 to the condensed consolidated financial statements for the six months ended June 30th 2023.

- **Start of negotiations on a credit facility agreement with Bank Polska Kasa Opieki S.A.**

  On May 30th 2023, the Parent received a term sheet prepared for the Parent by Bank Polska Kasa Opieki S.A. ("**Bank Pekao**") and confirmed by the Bank Pekao Credit Committee (the "**Term Sheet**").

  The Term Sheet concerns a revolving credit facility of up to PLN 50,000 thousand which Bank Pekao is ready to provide to the Parent to finance costs related to the development of video games on a work-for-hire basis. The proposed term of the revolving credit facility and the final repayment date of the facility is up to three years from the date of execution of the credit facility agreement.

  Performance of the Parent's obligations is to be secured with security instruments typically used in this type of transactions.

  Having considered the Term Sheet, the Parent decided to enter into negotiations on the execution of credit documents on the terms specified in the Term Sheet.

  As at the date of authorisation of the interim condensed consolidated financial statements for issue, the negotiations were continuing and the documents had not been executed.

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

  On June 13th 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 will be developed by the Parent in the work-for-hire model, based on the intellectual property rights of the Publisher. Its production will be 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 January 31st 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 May 29th 2023 to June 1st 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 June 6th 2023.

  The full amount of proceeds from the public offering of Series F Shares will be used to expand the Group's development teams to the level appropriate for the respective development phases of Project Dagger, Project Bifrost and Project Victoria.

- **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 June 14th 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 March 28th 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 December 31st 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 June 22nd 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 February 28th 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.

  The amendments concerned an increase in the Parent's share capital 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.

- **Settlement with OÜ Blite Fund**

  On August 21st 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 December 13th 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 August 31st 2023. In accordance with IAS 10, the Additional Payment has been recognised in the Group's financial results for first six months of 2023.

5. Events after the reporting date

Events which occurred after June 30th 2023 and which were not required to be disclosed in this half-year Directors' Report:

- **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 July 19th 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 August 7th 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 August 9th 2023 to August 10th 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 August 18th 2023.

  The proceeds from the public offering of Series G Shares, together with the proceeds from the public offering of Series F shares, described above, will be used to expand the Group's development teams to the level appropriate for the respective development phases of Project Dagger, Project Bifrost and Project Victoria.

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

  On August 28th 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 August 7th 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.

The amendments concerned an increase in the Parent's share capital 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.

- **Receipt of a notification under Art. 69 of the Public Offering Act**

  On August 30th 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 July 29th 2005.

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

- **Registration of subscription warrants with CSDP**

  On September 4th 2023, in response to the Parent's application of August 9th 2023, the Central Securities Depository of Poland issued a statement to the effect that on September 5th 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 August 29th 2021.

6. 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 condensed consolidated financial statements for the six months ended June 30th 2023.

In the six months ended June 30th 2023, the Group did not incur any significant expenditure on research projects.

7. Financial instruments

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

The Parent and its Group do not use derivatives to hedge their currency risk exposure. The fair value of financial instruments held by the Parent and its Group as at June 30th 2023 and December 31st 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.

8. 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 the publisher

The Group has signed development and publishing agreements and content riders with:

- Square Enix Limited, as the publisher, for the development of the game Outriders and its DLC – Outriders Worldslayer;
- Square Enix Limited, as the publisher, for the development of Project Gemini;
- 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.

The Group is of the opinion that consideration from the publishers will remain the key source of revenue to the Group at least until the end of 2023. Any decline in revenue from the publishers in the said period would translate directly into a decline in the Group's total revenue, which would have a material adverse impact on the Group's business and financial results should the consideration received from the publishers be significantly lower.

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

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

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. Losing a significant number of game developers at various levels across the organisation could entail additional costs for the Group on recruiting new talent for the development team, and given the intense competition in the labour market, the recruitment of talented developers could be a time-consuming process without any guarantee of success. Any such events could adversely affect the Group's business and results. The fact that a significant number of the staff in Poland holding managerial functions in game development are shareholders in the Parent and that some of its employees and independent contractors became Parent shareholders following the public offering of Parent shares carried out in the fourth quarter of 2020, as well as the announced launch of the incentive scheme for 2023–2027 for key employees and independent contractors of the Group, which is to be implemented based on shares held by Sebastian Wojciechowski, the Parent's main shareholder and President of its Management Board, should, in the Parent's opinion, foster their ties with the Parent.

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 Dagger, Project Bifrost and Project Victoria). Given the stage of project work (as at the date of this Report the games are in the pre-production phase), the Parent cannot definitely rule out a scenario in which the games are not released within the scheduled time frame.

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 October 8th 2020, Square Enix Limited, the publisher of Outriders, announced a postponement of the game release date from the originally scheduled end of 2020 to February 2nd 2021, and then, on January 6th 2021, the release date was put off again to April 1st 2021. Along with the update of the Group's strategy, the publisher postponed the release date of Gemini from 2024 to 2026.

A postponement of the games' release dates would delay the payment of royalties, if any, to the Group, extend the period when expenditure is made on games developed by the Group in self-publishing model, and could also undermine the Group's image and players' interest in its games.

Furthermore, given that as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group for the six months ended June 30th 2023, the Group was mainly contracted to develop video games for third-party publishers and was developing its self-publishing activities, recognising revenue only from sales of the game Green Hell VR published by Incuvo S.A., development of the Group's games was financed solely with the Group's own funds (including proceeds from the SPO) and with funds generated from ongoing cooperation with Square Enix Limited under the development and publishing agreements signed with that publisher. 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.

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

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

As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group for the six months ended June 30th 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, 41.65% of its shares conferring 41.65% 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 5% or more 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 for the six months ended June 30th 2023, respectively, 7.18%, 5.05% and 5.02% of Parent shares and voting rights, and together with Sebastian Wojciechowski – an aggregate of approximately 58.91% 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 June 26th 2020 members of the Group of Qualifying Shareholders entered into a Qualifying Shareholders' Agreement whereby they agreed to vote in concert at the Company's General Meetings. The agreement was concluded for an indefinite period, with each party being entitled to terminate it at any time.

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

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

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

Risk of the Group's dependence on game publishers

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 for the six months ended June 30th 2023, the Group had not published any internally developed games, with the exception of Green Hell VR, published Incuvo S.A. 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 the choice of game publishers in the AAA segment is limited, as they must be able to secure adequate financing for the Group's budget-intensive game development projects, enjoy a solid reputation in the market, and ensure appropriate marketing, distribution and sale of the Group's products. Also, the conclusion of an agreement with a publisher is contingent on the publisher's positive assessment of the game concept proposed by the Group, the Group's development capabilities, working budget and project schedule, as well as approval of all the terms and conditions of business. In the past, the Group has been able to find suitable publishers and sign agreements to secure the necessary financing for its game development projects. However, no assurance can be given that the Group will always be able to find the right publishers who would provide adequate financing for the Group's game development projects or would have a market reputation meeting the Group's expectations. If the Group is unable to sign new game development and publishing agreements while its self-publishing activities are not advanced enough to generate revenue, the Group's game development business could be limited or even put on hold.

The dependence of 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, while a failure to reach such agreement could result in the Group not receiving any payment for the respective game development milestone, or even lead to termination of the development and publishing agreement by the publisher.

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

Risk of the Group's failure to achieve commercial success

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

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

Risk of the Group's inability to deliver its strategy

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 go over the budget. Such situations could adversely affect the delivery of the Group's strategy going forward and result in its failure to achieve the expected benefits or any benefits at all. Should the Group find it impossible to deliver its strategy within the assumed time horizon, this could adversely affect the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Currency risks

The Group is exposed to currency risk as a significant portion of the Group's costs are incurred in PLN, while the vast majority of the Group's revenue is denominated in foreign currencies, mainly in EUR, 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. As a result, the risk may adversely affect the Group's business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Risk factors relating to intellectual property rights

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

Under the development and publishing agreements concluded by the Group, 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 expected revenue and good name, which would have a significant adverse effect on the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

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

Under the 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 and, consequently, breach the provisions of an agreement it has signed with a publisher, triggering termination of the relevant development and publishing agreements and loss of both its expected revenue and good name, which could have a significant adverse effect the Group's prospects, business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

Risk factors associated with the Company's business environment

Risk of additional restrictions being imposed on game content

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

9. Factors and non-recurring events having a material bearing on the condensed financial statements

The Management Board believes that in the first six months of 2023, there were no factors or non-recurring events affecting the Group's profit or loss for the period, except that on August 31st 2023 the Parent paid PLN 2,050 thousand to OÜ Blite Fund, in the performance of a settlement entered into by the parties on August 21st 2023, on account of an increase in the purchase price for 7,143,900 shares in Incuvo S.A.; in accordance with IAS 10, the payment has been recognised in the Group's results for the first six months of 2023.

10. Material litigation, arbitration or administrative proceedings

As at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group for the six months ended June 30th 2023, neither the Parent nor any of the other Group companies were the subject of or a party to any material proceedings before a court, a competent arbitration body or a public administration authority.

PCF GROUP SPÓŁKA AKCYJNA GROUP

HALF-YEAR DIRECTORS' REPORT ON THE OPERATIONS OF PCF GROUP S.A. AND ITS GROUP

FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2023

Half-year Directors' Report on the operations of PCF Group Spółka Akcyjna and its Group for the six months from January 1st to June 30th 2023 (all amounts in PLN thousand, unless stated otherwise)

FINANCIAL CONDITION OF THE GROUP AND THE PARENT

11. Financial results of the Parent and its Group for the six months ended June 30th 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 the six months ended June 30th 2022 and June 30th 2023.

12. Consolidated statement of profit or loss

	Jan 1–Jun 30 2023	Jan 1–Jun 30 2022	Change	Change in %
Continuing operations				
Revenue	68,666	90,592	(21,926)	-24%
Cost of sales	43,695	44,295	(600)	-1%
Gross profit (loss)	**24,971**	**46,297**	**(21,326)**	**-46%**
General and administrative expenses	31,140	25,109	6,031	24%
Other income	381	949	(568)	-60%
Other expenses	3,099	766	2,333	305%
Operating profit (loss)	**(8,887)**	**21,371**	**(30,258)**	**-142%**
Finance income	-	7,417	(7,417)	-100%
Finance costs	2,474	1,013	1,461	144%
Profit (loss) before tax	**(11,361)**	**27,775**	**(39,136)**	**-141%**
Income tax	1,709	2,295	(586)	-26%
Net profit (loss) from continuing operations	**(13,070)**	**25,480**	**(38,550)**	**-151%**
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	**(13,070)**	**25,480**	**(38,550)**	**-151%**
Net profit (loss) attributable to:				
- owners of the parent	(13,435)	23,152	(36,587)	-158%
- non-controlling interests	365	2,328	(1,963)	-84%

Revenue

Revenue for the six months ended June 30th 2023 and June 30th 2022 amounted to PLN 68.7m and PLN 90.6m, respectively. The 24% year-on-year increase was attributable to:

- completion of work on a DLC for Outriders, which was released on June 28th 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 June 30th 2022.

Cost of services sold

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

General and administrative expenses

General and administrative expenses include mainly salaries and wages of the Group's employees and independent contractors (not directly involved in games development), lease of office space and services not related to games development.

The year-on-year increase in general and administrative expenses in the six months ended June 30th 2022 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 medical services and other services for entities cooperating with the Group.

Other expenses

Other expenses include expenses related to:

- purchase of medical services and other benefits for entities cooperating with the Group;
- cost of an additional payment (PLN 2,050 thousand) made by the Parent to OÜ Blite Fund on account of an increase in the purchase price for 7,143,900 shares in Incuvo S.A. For more details, see Section 4 above.

Finance income and costs

Under finance income and finance costs, the Group recognises interest on bank deposits of free cash (as income) and interest on leases and credit facilities (as costs). In addition, finance income and finance costs include the effect of realised and unrealised exchange differences.

Half-year Directors' Report on the operations of PCF Group Spółka Akcyjna and its Group for the six months from January 1st to June 30th 2023 (all amounts in PLN thousand, unless stated otherwise)

Income tax

On April 30th 2020, the National Revenue Information System issued a private letter ruling in response to the Parent's enquiry concerning the application of the IP Box tax relief. When settling corporate income tax for the six months ended June 30th 2022 and June 30th 2023, the Parent used the IP Box tax relief in accordance with the ruling, and so it applied a preferential corporate income tax rate of 5% to eligible income from eligible intellectual property rights within the meaning of the IP Box regulations. Accordingly, the current portion of the Parent's corporate income tax was calculated at the rate of 19% for taxable income from other sources and at the rate of 5% for the taxable income from eligible intellectual property rights (IP Box).

As a result, the Group's effective tax rate for the six months ended June 30th 2023 and June 30th 2022 was -15.0% and 8.3%, respectively.

13. Consolidated statement of financial position

ASSETS	Jun 30 2023	Dec 31 2022	Change	Change in %
Non-current assets				
Goodwill	53,610	55,503	(1,893)	-3%
Intangible assets	183,951	130,023	53,928	41%
Property, plant and equipment	12,574	11,780	794	7%
Right-of-use assets	31,510	30,095	1,415	5%
Long-term prepayments and accrued income	294	277	17	6%
Deferred tax assets	60	222	(162)	-73%
Non-current assets	**281,999**	**227,900**	**54,099**	**24%**
Current assets				
Contract assets	9,200	30,451	(21,251)	-70%
Trade and other receivables	24,005	23,448	557	2%
Short-term prepayments and accrued income	1,302	1,022	280	27%
Cash and cash equivalents	165,351	67,983	97,368	143%
Current assets	**199,858**	**122,904**	**76,954**	**63%**
Total assets	**481,857**	**350,804**	**131,053**	**37%**

The Group's assets rose 37%, by PLN 131.1m, to PLN 481.9m as at June 30th 2023, from PLN 350.8m as at December 31st 2022.

As at June 30th 2023, the Group's assets of the most material value were:

- goodwill, representing 11% of total assets;
- cash and cash equivalents, representing 34% of total assets;
- intangible assets, representing 38% of total assets.

Changes in goodwill:

Half-year Directors' Report on the operations of PCF Group Spółka Akcyjna and its Group for the six months from January 1st to June 30th 2023 (all amounts in PLN thousand, unless stated otherwise)

	Jun 30 2023	Dec 31 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	**(1,893)**	**1,075**
As at end of period	**53,610**	**55,503**

The increase in intangible assets as at June 30th 2023 relative to December 31st 2022 was mainly attributable to expenditure on the development of new games intended to be produced in the self-publishing model and further development of PCF Framework.

EQUITY AND LIABILITIES	Jun 30 2023	Dec 31 2022	Change	Change in %
Equity				
Equity attributable to owners of the parent:				
Share capital	669	599	70	12%
Share premium	259,554	121,869	137,685	113%
Other components of equity	48,207	54,988	(6,781)	-12%
Retained earnings	81,415	94,850	(13,435)	-14%
Equity attributable to owners of the parent	**389,845**	**272,306**	**117,539**	**43%**
Non-controlling interests	**4,347**	**5,323**	**(976)**	**-18%**
Equity	**394,192**	**277,629**	**116,563**	**42%**
Liabilities				
Non-current liabilities				
Borrowings, other debt instruments	2,509	3,490	(981)	-28%
Leases	27,039	27,822	(783)	-3%
Deferred tax liability	1,043	2,289	(1,246)	-54%
Long-term accruals and deferred income	3,021	9,817	(6,796)	-69%
Non-current liabilities	**33,612**	**43,418**	**(9,806)**	**-23%**
Current liabilities				
Trade and other payables	20,294	11,167	9,127	82%
Contract liabilities	1,707	2,792	(1,085)	-39%
Current tax liabilities	4,048	7,591	(3,543)	-47%
Borrowings, other debt instruments	7,040	2,089	4,951	237%
Leases	5,854	4,198	1,656	39%
Employee benefit obligations and provisions	2,257	1,717	540	31%
Short-term accruals and deferred income	12,853	203	12,650	6,232%
Current liabilities	**54,053**	**29,757**	**24,296**	**82%**
Total liabilities	**87,665**	**73,175**	**14,490**	**20%**
Total equity and liabilities	**481,857**	**350,804**	**131,053**	**37%**

As at June 30th 2023, the Group's equity rose by PLN 117.5m (42%) relative to December 31st 2022, mainly as a result of an increase in the Company's share capital through the issue of Series E and Series F ordinary bearer shares.

Half-year Directors' Report on the operations of PCF Group Spółka Akcyjna and its Group for the six months from January 1st to June 30th 2023 (all amounts in PLN thousand, unless stated otherwise)

14. Consolidated statement of cash flows

	Jan 1–Jun 30 2023	Jan 1–Jun 30 2022	Change	Change in %
Cash at beginning of period	**67,983**	**137,102**	**(69,119)**	**-50%**
Cash flows from operating activities	32,560	53,539	(20,979)	-39%
Cash flows from investing activities	(68,473)	(51,580)	(16,893)	33%
Cash flows from financing activities	134,545	(4,728)	139,273	-2,946%
Total net cash flows	**98,632**	**(2,769)**	**101,401**	**-3,662%**
Effect of foreign currency translation on cash	(1,264)	249	(1,513)	-608%
Cash and cash equivalents at end of period	**165,351**	**134,582**	**30,769**	**23%**

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.

In the six months ended June 30th 2023, the Group generated positive operating cash flows (PLN 32.5m), driven mainly by a positive effect of the change in working capital (PLN 37.6m), which was chiefly attributable to the change in contract assets and liabilities (+PLN 20.2m).

Investing activities

The Group recorded negative cash flows from investing activities (PLN -68.5m), attributable almost in full to the acquisition of intangible assets and property, plant and equipment. The most material expenditures were made on development work on new games intended to be produced in the self-publishing model and further development of PCF Framework.

Financing activities

Cash flows from financing activities were positive, at PLN 134.5m. The key contributing item was proceeds from the issue of Series E and Series F ordinary bearer shares in the Parent.

15. Consolidated profitability ratios

	Jun 30 2023	Jun 30 2022
Gross profit (loss) margin	36.4%	51.1%
EBITDA	583	28,975
EBITDA margin	0.8%	32.0%
EBITDA adjustments:		
issue of warrants (1)	-	693

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cost of additional payment in connection with acquisition of Incuvo S.A. shares (2)	2,050	-
pre-production costs of Project Maverick (3)	1,332	-
Adjusted EBITDA	3,965	29,668
Adjusted EBITDA margin	5.8%	32.7%
Operating profit margin	-12.9%	23.6%
Net profit (loss) margin	-19.0%	28.1%
Return on equity (ROE)	-3.4%	8.3%
Return on assets (ROA)	-2.8%	6.2%

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

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

16. Consolidated liquidity ratios

	Jun 30 2023	Dec 31 2022
Working capital	158,658	93,350
Current ratio	3.70	4.13
Quick ratio	3.70	4.13
Cash ratio	3.06	2.28

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

- Working capital = current assets - current liabilities + short-term accruals and deferred income

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- Current ratio = current assets / current liabilities
- Quick ratio = (current assets - inventories) / current liabilities
- Cash ratio = cash and cash equivalents / current liabilities

In the opinion of the Parent's Management Board, the Group has sufficient liquidity to pay its liabilities as they fall due.

17. Consolidated funding structure ratios

	Jun 30 2023	Dec 31 2022
Equity to assets ratio	0.81	0.78
Equity to non-current assets ratio	1.38	1.19
Total debt ratio	0.19	0.22
Debt to equity ratio	0.24	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

18. Separate statement of profit or loss

	Jan 1–Jun 30 2023	Jan 1–Jun 30 2022	Change	Change in %
Continuing operations				
Revenue	54,339	58,182	(3,843)	-7%
Cost of sales	35,981	22,218	13,763	62%
Gross profit (loss)	**18,358**	**35,964**	**(17,606)**	**-49%**
General and administrative expenses	16,557	13,624	2,933	22%
Other income	886	1,319	(433)	-33%
Other expenses	3,039	605	2,434	402%
Operating profit (loss)	**(352)**	**23,054**	**(23,406)**	**-102%**
Finance income	37	7,397	(7,360)	-99%
Finance costs	789	275	514	187%
Profit (loss) before tax	**(1,104)**	**30,176**	**(31,280)**	**-104%**
Income tax	1,481	2,613	(1,132)	-43%
Net profit (loss) from continuing operations	**(2,585)**	**27,563**	**(30,148)**	**-109%**
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	**(2,585)**	**27,563**	**(30,148)**	**-109%**

Revenue

Revenue for the six months ended June 30th 2023 and June 30th 2022 amounted to PLN 54.3m and PLN 58.2m, respectively. The 7% decrease was attributable to:

- completion of work on a DLC for Outriders, which was released on June 28th 2022; the project was carried out under a development and publishing agreement with the publisher Square Enix Limited.

Cost of services sold

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

General and administrative expenses

General and administrative expenses include mainly salaries and wages of the Parent's employees and independent contractors (not directly involved in games development), lease of office space and services not related to games development.

The year-on-year increase in general and administrative expenses in the six months ended June 30th 2023 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 Company's back office function.

Other income

Other income includes income from:

- provision of back office services to Incuvo S.A., a subsidiary;
- reinvoicing of medical services and other services for entities cooperating with the Company.

Other expenses

Other expenses include expenses related to:

- purchase of medical services and other benefits for entities cooperating with the Company;
- cost of an additional payment (PLN 2,050 thousand) made by the Company to OÜ Blite Fund on account of an increase in the purchase price for 7,143,900 shares in Incuvo S.A. For more details, see Note 23 to the consolidated financial statements for the six months ended June 30th 2023.

Finance income and costs

Under finance income and finance costs, the Company recognises interest on bank deposits of free cash (as income) and interest on leases and credit facilities (as costs). In addition, finance income and finance costs include the effect of realised and unrealised exchange differences.

Income tax

On April 30th 2020, the National Revenue Information System issued a private letter ruling in response to the Parent's enquiry concerning the application of the IP Box tax relief. When settling corporate income tax for the financial years 2020-2022, 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).

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As a result, the Parent's effective tax rate for the six months ended June 30th 2023 and June 30th 2022 was -134.1% and 8.7%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 1.7m and PLN 1.3m in the six months ended June 30th 2023 and June 30th 2022, respectively, while deferred income tax was PLN -0.2m and PLN 1.3m, respectively.

19. Statement of financial position

ASSETS	Jun 30 2023	Dec 31 2022	Change	Change in %
Non-current assets				
Intangible assets	227,926	156,283	71,643	46%
Property, plant and equipment	4,408	4,345	63	1%
Right-of-use assets	13,915	14,794	(879)	-6%
Investments in subsidiaries	61,118	55,404	5,714	10%
Receivables and loans advanced	-	2,905	(2,905)	-100%
Long-term prepayments and accrued income	294	58	236	407%
Deferred tax assets	44	-	44	-
Non-current assets	**307,705**	**233,789**	**73,916**	**32%**
Current assets				
Contract assets	9,200	30,355	(21,155)	-70%
Trade and other receivables	10,134	10,424	(290)	-3%
Short-term prepayments and accrued income	736	571	165	29%
Cash and cash equivalents	150,255	49,391	100,864	204%
Current assets	**170,325**	**90,741**	**79,584**	**88%**
Total assets	**478,030**	**324,530**	**153,500**	**47%**

The Parent's assets rose 47%, by PLN 153.5m, to PLN 478.0m as at June 30th 2023, from PLN 324.5m as at December 31st 2022.

As at June 30th 2023, the Parent's assets of the most material value were:

- investments in subsidiaries, representing 13% of total assets;
- cash and cash equivalents, representing 31% of total assets;
- intangible assets, representing 48% of total assets.

Changes in investments in subsidiaries:

	Jun 30 2023	Dec 31 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	-

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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**

The increase in intangible assets as at June 30th 2023 relative to December 31st 2022 was mainly attributable to expenditure on the development of new games intended to be produced in the self-publishing model and further development of PCF Framework.

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EQUITY AND LIABILITIES	Jun 30 2023	Dec 31 2022	Change	Change in %
Equity				
Share capital	669	599	70	12%
Share premium	259,554	121,869	137,685	113%
Other components of equity	49,898	49,898	-	0%
Retained earnings	96,546	99,131	(2,585)	-3%
Equity	**406,667**	**271,497**	**135,170**	**50%**
Liabilities				
Non-current liabilities				
Leases	10,896	12,850	(1,954)	-15%
Deferred tax liability	-	157	(157)	-100%
Long-term accruals and deferred income	-	7,477	(7,477)	-100%
Non-current liabilities	**10,896**	**20,484**	**(9,588)**	**-47%**
Current liabilities				
Trade and other payables	42,347	26,213	16,134	62%
Current tax liabilities	762	2,329	(1,567)	-67%
Borrowings, other debt instruments	73	510	(437)	-86%
Leases	3,593	3,163	430	14%
Employee benefit obligations and provisions	849	334	515	154%
Short-term accruals and deferred income	12,843	-	12,843	-
Current liabilities	**60,467**	**32,549**	**27,918**	**86%**
Total liabilities	**71,363**	**53,033**	**18,330**	**35%**
Total equity and liabilities	**478,030**	**324,530**	**153,500**	**47%**

As at June 30th 2023, the Parent's equity rose by PLN 135.2m (50%) relative to December 31st 2022, mainly as a result of an increase in the Parent's share capital through the issue of Series E and Series F ordinary bearer shares.

20. Statement of cash flows

	Jan 1–Jun 30 2023	Jan 1–Jun 30 2022	Change	Change in %
Cash at beginning of period	**49,391**	**90,735**	**(41,344)**	**-46%**
Cash flows from operating activities	48,502	26,622	21,880	82%
Cash flows from investing activities	(77,172)	(22,326)	(54,846)	246%
Cash flows from financing activities	130,798	(2,565)	133,363	-5,199%
Total net cash flows	**102,128**	**1,731**	**100,397**	**5,800%**
Effect of foreign currency translation on cash	(1,264)	250	(1,514)	-606%
Cash and cash equivalents at end of period	**150,255**	**92,716**	**57,539**	**62%**

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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.

In the six months ended June 30th 2023, the Parent generated positive operating cash flows (PLN 48.5m), driven mainly by a positive effect of the change in working capital (PLN 43.8m), which was chiefly attributable to the change in contract assets and liabilities (+PLN 21.2m).

Investing activities

The Parent recorded negative cash flows from investing activities (PLN -77.2m), attributable almost in full to the acquisition of intangible assets and property, plant and equipment. The most material expenditures were made on development work on new games intended to be produced in the self-publishing model and further development of PCF Framework.

Financing activities

Cash flows from financing activities were positive, at PLN 130.8m. The key contributing item was proceeds from the issue of Series E and Series F ordinary bearer shares in the Parent.

21. Separate profitability ratios

	Jan 1–Jun 30 2023	Jan 1–Jun 30 2022
Gross profit (loss) margin	33.8%	61.8%
EBITDA	5,767	27,466
EBITDA margin	10.6%	47.2%
EBITDA adjustments:		
issue of warrants (1)	-	693
cost of additional payment in connection with acquisition of Incuvo S.A. shares (2)	2,050	-
pre-production costs of Project Maverick (3)	1,731	-
Adjusted EBITDA	9,548	28,159
Adjusted EBITDA margin	17.6%	48.4%
Operating profit margin	-0.6%	39.6%
Net profit (loss) margin	-4.8%	47.4%
Return on equity (ROE)	-0.6%	10.8%
Return on assets (ROA)	-0.5%	9.2%

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

- Gross profit margin = gross profit / revenue
- EBITDA = operating profit + depreciation and amortisation + impairment

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- EBITDA margin = (operating profit + depreciation and amortisation + impairment) / revenue
- Adjusted EBITDA = (operating profit + depreciation and amortisation + impairment + adjustments*)
- Adjusted EBITDA margin = (EBITDA + adjustments*) / revenue
- Operating profit margin = operating profit / 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

22. Separate liquidity ratios

	Jun 30 2023	Dec 31 2022
Working capital	122,701	58,192
Current ratio	2.82	2.79
Quick ratio	2.82	2.79
Cash ratio	2.48	1.52

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

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

In the opinion of the Parent's Management Board, the Company has sufficient liquidity to pay its liabilities as they fall due.

23. Separate funding structure ratios

	Jun 30 2023	Dec 31 2022
Equity to assets ratio	0.85	0.84

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Equity to non-current assets ratio	1.32	1.16
Total debt ratio	0.15	0.16
Debt to equity ratio	0.18	0.20

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

24. Position of the Management Board on the feasibility of published financial forecasts for the year

Neither PCF Group S.A. nor its subsidiaries released any forecasts for 2023.

25. 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 six months ended June 30th 2023, the Parent did not advance any loans

26. Factors which the Company believes will have a bearing on its performance in the following quarter or in a longer term

In the following quarter of 2023, the Group will continue to expand its existing business lines.

The Group's performance in the following quarters will be driven chiefly by:

- continued development work on the Group's key games;
- continued efforts to strengthen the international character of People Can Fly's studio and development team, and further expansion of the Group's development teams across all locations by hiring developers with experience in creating world-class video games;
- continued wage pressures directly affecting the Group's industry and experienced across all markets in which the Group operates (Poland, U.S., Canada, UK and Ireland);
- currency risk (as an external factor) considering its revenue denominated in foreign currencies (USD and EUR) and costs incurred in PLN and foreign currencies (USD, CAD, EUR);
- overall increase in costs resulting from the increased scale of operations, which translates into the need to expand the Group's back office function.

- release of Bulletstorm VR (earlier referred to by code name Thunder), scheduled for December 14th 2023.

PCF GROUP SPÓŁKA AKCYJNA GROUP

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FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2023

Half-year Directors' Report on the operations of PCF Group Spółka Akcyjna and its Group for the six months from January 1st to June 30th 2023 (all amounts in PLN thousand, unless stated otherwise)

SHARES AND OWNERSHIP STRUCTURE OF PCF GROUP S.A.

27. Shareholders holding, directly or indirectly, 5% or more of total voting rights at the General Meeting of the Company as at the date of issue of this half-year report, and changes in major holdings of Company shares since the issue of the previous interim report

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	41.65	14,969,480	41.65
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
*jointly parties to the Qualifying Shareholders' Agreement***	*21,171,188*	*58.91*	*21,171,188*	*58.91*
Other shareholders	8,806,456	24.50	8,806,456	24.50
Total	**35,940,271**	**100**	**35,940,271**	**100**

* The shareholding structure was determined on the basis of notifications made by shareholders in the performance of their obligations under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, and accounts for the registration on August 28th 2023 of an increase in the share capital related to the issue of Series G ordinary bearer shares.

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

*** Percentages have been rounded off. For this reason, the percentage given in "*jointly parties to the Qualifying Shareholders' Agreement"* differs slightly from the total percentages for the individual shareholders who are parties to the Qualifying Shareholders' Agreement.

In the period from January 1st to the date of authorisation of this Directors' Report for issue, the following changes occurred in major holdings of Parent shares:

- on June 28th 2023, the Parent received a notification made under Art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (the "**Public Offering Act**") by Sebastian Wojciechowski, concerning a decrease in his interest in the share capital and total voting rights in the Parent, in which Sebastian Wojciechowski stated that he held directly 14,969,480 ordinary bearer shares in the Parent, representing 44.78% of the share capital and conferring 14,969,480 votes in the Parent's General Meeting, or 44.78% of total voting rights in the Parent;
- on June 28th 2023, the Parent received a notification made under Art. 69 of the Public Offering Act by Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and

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Krzysztof Dolaś, who are parties to an agreement referred to in Art. 87.1.5 of the Public Offering Act (the "**Qualifying Shareholders Agreement**"), concerning a decrease in their interest in the share capital and total voting rights in the Parent, in which the parties to the Qualifying Shareholders Agreement stated that they held directly 21,171,188 ordinary bearer shares in the Parent, representing 63.33% of the share capital and conferring the right to 21,171,188 votes at the Parent's General Meeting, or 63.33% of total voting rights in the Parent;

- on June 28th 2023, the Parent received a notification made under Art. 69 of the Public Offering Act by Krafton Inc., concerning exceeding 10% of total voting rights in the Parent, in which Krafton Inc. stated that it held 3,342,937 ordinary bearer shares in the Parent, representing 10.00% of the share capital and conferring the right to 3,342,937 votes at the Parent's General Meeting, or 10.00% of total voting rights in the Parent;
- on August 10th 2023, the Parent announced its intention to make an offer to Krafton Inc. to subscribe for 251,091 Series G ordinary bearer shares as part of a public offering of Series G shares, and subsequently, on August 18th 2023, reported that it had entered into subscription agreements for all Series G shares offered;
- on August 30th 2023, the Parent received a notification made under Art. 69 of the Public Offering Act by Nationale-Nederlanden Otwarty Fundusz Emerytalny ("**NN OFE**"),concerning exceeding 5% of total voting rights in the Parent, in which NN OFE stated that it held 2,368,599 ordinary bearer shares in the Parent, representing 6.59% of the share capital and conferring the right to 2,368,599 votes at the Parent's General Meeting, or 6.59% of total voting rights in the Parent;
- on September 1st 2023, the Parent received a notification made under Art. 69 of the Public Offering Act by Sebastian Wojciechowski, concerning a decrease in his interest in the share capital and total voting rights in the Parent, in which Sebastian Wojciechowski stated that he held directly 14,969,480 ordinary bearer shares in the Parent, representing 41.65% of the share capital and conferring the right to 14,969,480 voting rights at the Parent's General Meeting, or 41.65% of total voting rights in the Parent;
- on September 1st 2023, the Parent received a notification made under Art. 69 of the Public Offering Act by the parties to the Qualifying Shareholders Agreement, concerning a decrease in their interest in the share capital and total voting rights in the Parent, in which the parties to the Qualifying Shareholders Agreement stated that they held directly 21,171,188 ordinary bearer shares in the Parent, representing 58.91% of the share capital and conferring the right to 21,171,188 votes at the Parent's General Meeting, or 58.91% of total voting rights in the Parent.

28. Parent shares or rights to Parent shares held by management and supervisory personnel as at the date of issue of this half-year report, including changes in the holdings occurring after the date of issue of the previous interim report

As at the date of issue of this half-year report, Parent shares were held by Sebastian Wojciechowski, President of the Parent's Management Board.

Shareholder	Number of shares held	(%)	Number of voting rights	(%)
Sebastian Wojciechowski – President of the Management Board	14,969,480	41.65	14,969,480	41.65

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Other shareholders	20,970,791	58.35	20,970,791	58.35
Total	**35,940,271**	**100**	**35,940,271**	**100**

To the best of the Parent's knowledge, as at the date of issue of this half-year report, the Parent's supervisory personnel did not hold any shares in the Parent, and members of its management and supervisory personnel did not hold any shares in the Parent's related entities.

From January 1st 2023 to the date of issue of this report, there were no changes in holdings of Parent shares by the Parent's management personnel. However, as a result of the registration by the competent registry court of:

- on March 3rd 2023 – an increase in the Parent's share capital from PLN 599,004.52 to PLN 601,726.60 in connection with the issue of 136,104 Series E ordinary bearer shares in the Parent with a par value of PLN 0.02 per share;
- on June 22nd 2023 – an increase in the Parent's share capital from PLN 601,726.60 to PLN 668,587.34 in connection with the issue of 3,343,037 Series F ordinary bearer shares in the Parent with a par value of PLN 0.02 per share;
- on August 28th 2023 – an increase in the Parent's share capital from PLN 668,587.34 to PLN 718,805.42 in connection with the issue of 2,510,904 Series G ordinary bearer shares in the Parent with a par value of PLN 0.02 per share;

the percentage share of shares held by Sebastian Wojciechowski, President of the Parent's Management Board, in the total number of Parent shares fell from 49.98% as at January 1st 2023 to 41.65% as at the date of issue of this report.

PCF GROUP S.A.

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