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**PCF GROUP
SPÓŁKA AKCYJNA
GROUP**

**DIRECTORS' REPORT ON THE OPERATIONS OF
PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP IN 2022**



This Directors' Report on the operations of PCF Group S.A. and its Group in 2022 has been prepared pursuant to Par. 70.1.4, 70.1.6, 70.1.7 and Par. 71.1.4, 71.1.6, 71.7 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2018, item 757, as amended).

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

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

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, its consolidated entities as well as changes in the Group's organisation structure and reasons for such changes

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

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

The chart below presents the composition and structure of the Group as at December 30th 2022.



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

The subsidiaries do not have any branches.

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

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

The following changes occurred in the Group's structure in the 12 months ended December 31st 2022:

- **Spectral Games S.A.** – on April 11th 2022, Incuvo S.A. entered into five share purchase agreements with entities unrelated to Incuvo S.A., concerning the sale by Incuvo S.A. of all shares in Spectral Games S.A., i.e., 2,934,286 shares representing 32.14% of the share capital and of voting rights at the General Meeting of Spectral Games S.A. The sale was effected upon entry of the buyers in the register of Spectral Games S.A. shareholders, i.e., on April 26th 2022. From the time of acquisition of 50.01% of shares in Incuvo S.A., PCF Group S.A. did not have control over Spectral Games S.A.
- **Spectral Applications Sp. z o.o. w likwidacji (in liquidation) ("Spectral Applications")** – on June 30th 2022, the Annual General Meeting of Spectral Applications Sp. z o.o. resolved to wind up the company and open its liquidation.

As Spectral Applications was placed under liquidation, the direct parent of Spectral Applications, i.e., Incuvo S.A., concluded that it did not have control over Spectral Applications, within the meaning of Art. 3.1.34 of the

Accounting Act of September 29th 1994 (consolidated text: Dz. U. of 2021, item 217, as amended), having no power to govern the financial and operating policies of Spectral Applications so as to obtain economic benefits from its activities, and therefore Spectral Applications ceased to be a subsidiary of Incuvo S.A. and ceased to be consolidated with Incuvo S.A. as of July 1st 2022.

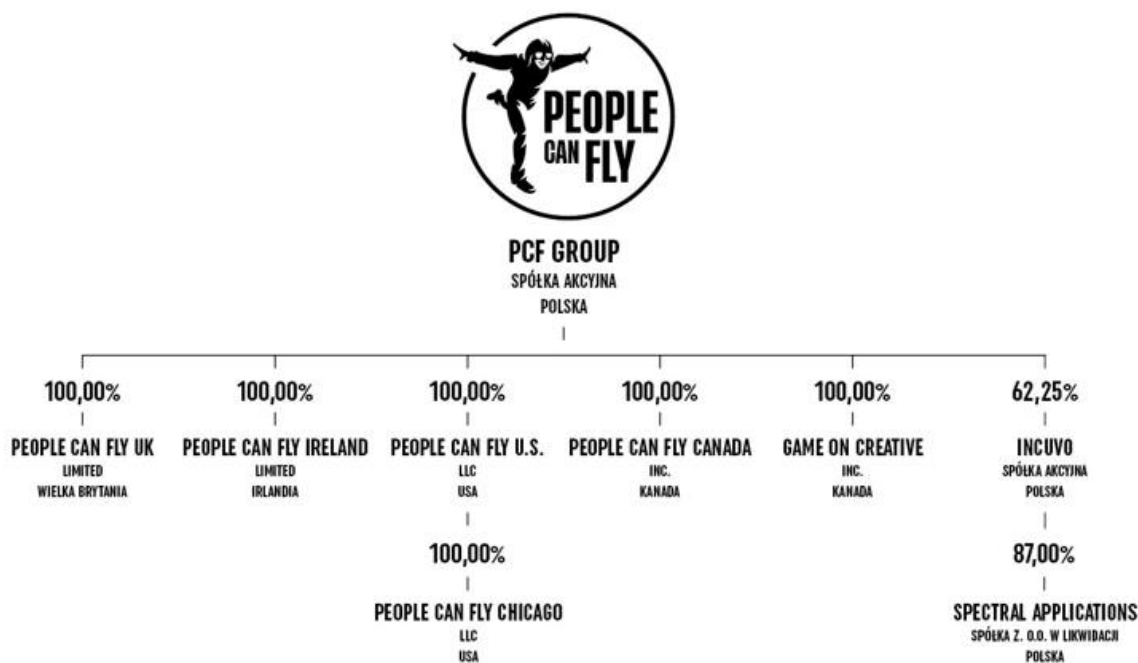
Consequently, the Parent has also concluded that it does not have control over Spectral Applications within the meaning of IFRS 10 having no power to govern the financial and operating policies of Spectral Applications so as to obtain economic benefits from its activities and therefore Spectral Applications is not a subsidiary of the Parent and is no longer consolidated with the Parent (as of July 1st 2022).

In addition, 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 March 3rd 2023, the Parent's share capital was increased through the issue of Series E ordinary bearer shares following an increase in the equity interest in Incuvo S.A. to 62.25%. For details, see Section 4 of this Report.

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.

The chart below presents the composition and structure of the Group as at the issue date of this Report.



Other equity holdings

As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2022, there were no joint ventures or other companies outside the PCF Group in which any of the Group companies would hold equity interests with potentially material bearing on the assessment of the Group companies' assets, liabilities, financial condition and profit or loss.

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

As at December 31st 2022, PCF Group S.A. and its subsidiaries held no direct or indirect equity interests in other entities.

Branches (establishments)

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

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

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



PCF, GROUP SPÓŁKA AKCYJNA GROUP

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2. Key products

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 activities;
- other activities.

The Group’s 2022 revenue totalled PLN 171.5m, down 5% year on year. The largest source of revenue was contract development of video games, contributing PLN 153m (89% of total revenue) in the reporting period. In 2022, the self-publishing segment contributed PLN 16.9m (10%) to the Group’s revenue, while the contribution of the segment of copyrights to developed games (royalties) was PLN 1.6m (1%).

In the twelve months ended December 31st 2022 and December 31st 2021, the **development segment** included primarily revenue from game development projects carried out by the Group with two publishers: Square Enix Limited and Take-Two Interactive Software, Inc. (in the case of Take-Two Interactive Software, Inc., such revenue was only earned until April 2022) therefore revenue from contracts with these external entities represented a material part of revenue generated by the Group. Positive cash flows from this segment enable the Group to partially cover expenditure on games that the Group intends to publish on its own (the self-publishing model). In 2022, the consideration received from the two material trading partners in that segment accounted for over 75% of total revenue.

Project Gemini

In the twelve months ended December 31st 2022, the Group carried out work contracted by the publisher Square Enix Limited under content riders for the development and publishing agreement. The Group has executed a content rider with the publisher which sets out the terms of further work until the end of the Project Gemini pre-production phase.

Project Dagger

In the six months ended June 30th 2022, the Group completed all work contracted by the publisher under a schedule to the development and publishing agreement and received all consideration due for this work under the agreement. Despite talks conducted by the Parent’s Management Board with the publisher with a view to agreeing on the terms of further cooperation, the parties did not sign another content rider setting out the terms and conditions of further work on Project Dagger. As a result, in the six months ended June 30th 2022, the Group ceased to generate revenue from the game. Considering the circumstances, in particular no new content rider with the publisher, the publisher choosing not to exercise the option to purchase intellectual property rights to deliverables produced under the development and publishing agreement, and work being continued on Project Dagger by the Group in the self-publishing model with no possibility of earning further revenue from its production under the agreement with Take-Two Interactive Software, Inc., after meeting the criteria set out in International Accounting Standard 38 *Intangible Assets* the Group recognised expenditure incurred on the production of this game as development expenditure.

On September 23rd 2022, the Parent’s Management Board received a letter from the publisher, Take-Two Interactive Software, Inc., concerning its intention to terminate the development and publishing agreement of July 21st 2020, providing for the financing and publishing of Project Dagger, by entering into a termination agreement.

On October 1st 2022, People Can Fly U.S., LLC and the publisher Take-Two Interactive Software, Inc. entered into an agreement to terminate the development and publishing agreement for Project Dagger, with effect from September 23rd 2022. The termination agreement sets out detailed rules for settlements between the parties following the termination of the development and publishing agreement, which differ depending on how the game will ultimately be released: in the self-publishing model or in partnership with a new publisher. In this respect, the termination agreement provides that People Can Fly U.S., LLC will have no obligation to repay to the publisher the developer advances received from the publisher but, instead, it will be obliged to repay to the publisher USD 20m (the “repayment amount”) as follows:

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



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

The publisher will not be entitled to receive the repayment amount if Project Dagger is not commercially released, regardless of the publishing model. The publisher did not exercise the contractual option to purchase intellectual property rights to deliverables produced under the development and publishing agreement and the licence granted to the publisher expired. Thus, in accordance with the agreement, People Can Fly U.S., LLC has retained intellectual property rights in Project Dagger as their sole owner. With effect from December 31st 2022, the rights were entirely transferred to the Parent.

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. In respect of *Bulletstorm*, the Parent has retained copyrights by granting the publisher an exclusive licence for an indefinite term.

Furthermore, in accordance with the development and publishing agreement signed on February 16th 2016 between the Parent and Square Enix Limited to develop *Outriders*, since the game was completed and released on April 1st 2021 the Group is entitled to receive consideration in the form of royalties. Their amount is directly linked to and represents a percentage of the profit earned on the sale of the game.

The Group received no royalties from the publisher for the period to December 31st 2022, which means that as at the reporting date net proceeds from the sale of *Outriders* were insufficient to recover the costs and expenses incurred by the publisher to develop, distribute and promote the title.

Self-publishing segment

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

Unlike in the development segment, in the self-publishing segment the Group carries out projects as a publisher, financing them with its own funds (or funds from third parties under distribution, licence and similar contracts) 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 twelve months ended December 31st 2022 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.), and VR headsets for PCs (distribution through the Steam platform owned by Valve Corporation of the U.S.).

For more information on projects implemented within the self-publishing segment, see Section 7 of this Report.

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 calculated 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 three segments, and no other analyses are performed.

In the twelve months ended December 31st 2022, there were no changes to the Group's accounting policies with respect to the identification of operating segments and the principles for measuring revenue, profit or loss and assets of the segments presented in the Group's most recent full-year consolidated financial statements.



PCF GROUP SPÓŁKA AKCYJNA GROUP

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BUSINESS ACTIVITIES OF THE PCF GROUP

3. Revenue structure and operating segments

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

In its full-year consolidated financial statements for the financial year ended December 31st 2022, the Group reported revenue broken down by geography, into Europe (PLN 117.9m) and Other countries (PLN 53.6m).

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

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

In the case of *Outriders*, since its release (April 1st 2021) the game has also been available through the Xbox Game Pass and Xbox Game Pass Ultimate subscription service for Xbox One and Xbox Series consoles, as well as Android-powered smartphones and tablets (through the xCloud streaming service). *Outriders* was also available through Stadia, a video game streaming service operated by Google, until the service was discontinued on January 18th 2023.

The Group is a video game developer who, upon its debut on the Warsaw Stock Exchange, started self-publishing activities. Since its IPO, the Group has developed and has been self-financing two projects in the self-publishing model: *Project Bifrost* and *Project Victoria*. Since 2022, following termination of the cooperation with the publisher Take-Two Interactive Software, Inc., the Group has also been pursuing *Project Dagger* under this model. Moreover, 2022 saw the premiere of the largest game developed to date by Incuvo S.A., a subsidiary of the Parent. On April 7th 2022, *Green Hell VR* made its debut on the Meta Quest 2 platform, and on June 9th 2022 the title was released on Steam. In addition, on July 29th 2022 it was released on the Oculus Rift platform.

In the Parent's opinion, except for the dependence on the publisher(s) of games developed by the Group, which provide the Group – as a developer that is developing a publishing business line – with financing to develop its own games, the Group is not dependent in its principal business on any other customers or suppliers. The Parent is of the opinion that this dependence will continue until the Group begins to recognise material revenue from the sale of its own games.

GROUP'S REVENUE STRUCTURE

	Development segment	Copyrights segment	Self-publishing segment	Other activities	Total
Jan 1–Dec 31 2022					
Region					
Europe	117,863	24	15,265	-	133,152
Other countries	35,152	1,564	1,617	-	38,333
Total revenue	153,015	1,588	16,882	-	171,485
Product line					
Games	153,015	1,588	16,882	-	171,485
Total revenue	153,015	1,588	16,882	-	171,485
Timing of transfer of goods/services					
At a point in time	-	1,588	-	-	1,588
Over time	153,015	-	16,882	-	169,897
Total revenue	153,015	1,588	16,882	-	171,485
Jan 1–Dec 31 2021					
Region					
Europe	101,303	36	-	-	101,339
Other countries	77,066	1,888	-	-	78,954
Total revenue	178,369	1,924	-	-	180,293
Product line					
Games	178,369	1,924	-	-	180,293
Total revenue	178,369	1,924	-	-	180,293
Timing of transfer of goods/services					
At a point in time	-	1,924	-	-	1,924
Over time	178,369	-	-	-	178,369
Total revenue	178,369	1,924	-	-	180,293



PARENT'S REVENUE STRUCTURE

	Development segment	Copyrights segment	Self-publishing segment	Other activities	Total
Jan 1–Dec 31 2022					
Region					
Europe	108,351	24	-	4	108,379
Other countries	5,447	1,523	-	4,787	11,757
Total revenue	113,798	1,547	-	4,791	120,136
Product line					
Games	113,798	1,547	-	-	115,345
Trademark, performance bond and PCF Framework	-	-	-	4,791	4,791
Total revenue	113,798	1,547	-	4,791	120,136
Timing of transfer of goods/services					
At a point in time	-	1,547	-	4,791	6,338
Over time	113,798	-	-	-	113,798
Total revenue	113,798	1,547	-	4,791	120,136
Jan 1–Dec 31 2021					
Region					
Europe	91,566	36	-	4	91,606
Other countries	5,195	1,840	-	9,184	16,219
Total revenue	96,761	1,876	-	9,188	107,825
Product line					
Games	96,761	1,876	-	-	98,637
Trademark, performance bond and PCF Framework	-	-	-	9,188	9,188
Total revenue	96,761	1,876	-	9,188	107,825
Timing of transfer of goods/services					
At a point in time	-	1,876	-	9,188	11,064
Over time	96,761	-	-	-	96,761
Total revenue	96,761	1,876	-	9,188	107,825

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

Below are presented key events that took place in 2022:

- Continued development and production work on the Group's games in cooperation with Square Enix Limited, i.e., Project Gemini, as well as further development support and work on the DLC for *Outriders* entitled *Outriders Worldslayer*, which was released on June 28th 2022;
- Continued development work on Project Dagger (a game in the pre-production phase as at the reporting date). On October 1st 2022, People Can Fly U.S., LLC and the publisher Take-Two Interactive Software, Inc. entered into an agreement to terminate the development and publishing agreement for Project Dagger, with effect from September 23rd 2022, as discussed in detail above, in Section 2 of this Report; Initially, the Group assumed that the game would be released together with the publisher under the work-for-hire model. After termination of the agreement with the publisher and in line with the Group's Strategy update announced 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 and based on new intellectual property rights that would remain the Group's property. As the same time, in accordance with the investment agreement of March 28th 2023 signed by the Parent, key shareholder of the Parent and the President of the Parent's Management Board Sebastian Wojciechowski, and 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 Events after the reporting date of this Report.
- 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 the Group's property. 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.
- 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 world-class video games. In this respect, in November 2022 the Group announced the opening of a new studio in Kraków to boost recruitment efforts in this location. Its team will work on the development of Project Red. Further expansion of development teams, focused on hiring and training top tier specialists in order to achieve maximum success for the Group's games, is in line with the new Group Strategy announced in January 2023.
- Further development of PCF Framework (the proprietary, unique game development software and tools using 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.
- Development of VR capabilities in the Group and the subsidiary Incuvo S.A. 2022 saw the releases of the largest production in Incuvo's history. *Green Hell VR* had its debut on the Oculus Quest platform on April 7th 2022, and on the Steam platform on June 9th 2022. In addition, on July 29th 2022, it was released on the Oculus Rift platform, and in October 2022 on the Pico platform.
- In the period under review, the Incuvo development studio also worked on a VR game for the Parent (Project Thunder).

- Completion of the migration of all projects carried out by the Group from Unreal Engine 4 (UE.4) to Unreal Engine 5 (UE.5). The complexity of the migration process and the resultant delays forced the Group to update its publishing schedule. However, the transition to and the use of the new version of the engine (UE.5) in the Group's productions are considered by the Parent as crucial for maintaining the Group's competitiveness in the future.
- Development of self-publishing capabilities by expanding the publishing team and attracting talent to work for the Group as employees or independent contractors. In the period under review, work was also under way on the establishment of People Can Fly Ireland Ltd., an Ireland-based subsidiary of the Parent whose principal business will be to strengthen the Group's publishing capabilities. People Can Fly Ireland Ltd. was registered on February 2nd 2023.
- Acquisition by Square Enix Limited of the right to subscribe for Company shares On January 18th 2022, the Company's Management Board received a statement from Square Enix Limited to the effect that Square Enix Limited subscribed for the third tranche of Series A subscription warrants (tranche A3), i.e., 90,000 warrants issued by the Company, each conferring the right to subscribe for one Series C ordinary bearer share of the Company with a par value of PLN 0.02 per share for an issue price of PLN 50 per share, i.e., for an issue price corresponding to the final price for Company shares offered to institutional investors in the public offering carried out on the basis of the prospectus approved by the Polish Financial Supervision Authority on November 25th 2020. The offer to subscribe for the third tranche of the subscription warrants was made by the Company as the Company's revenue under agreements with Square Enix Limited exceeded PLN 135m.
- Registration of subscription warrants with CSDP On March 4th 2022, in response to the Company's application of February 23rd 2022, the Central Securities Depository of Poland issued a statement to the effect that on March 8th 2022 it would enter into an agreement with the Company to register 270,000 Series A registered subscription warrants (tranches A1-A3) issued for no consideration and with no par value under ISIN PLPCFGR00044. Each Series A subscription warrant entitles its holder, i.e., Square Enix Limited, to subscribe for one Series C ordinary bearer share in PCF Group S.A. with a par value of PLN 0.02 per share for the issue price of PLN 50 per share. For more information on the terms and conditions of the warrants granted to Square Enix Limited by the Company, including of their exercise by Square Enix Limited to subscribe for Company shares, see the Company's Current Report No. 40/2021 of August 29th 2021.
- Acquisition by Square Enix Limited of the right to subscribe for Company shares On June 30th 2022, the Company's Management Board received a statement from Square Enix Limited to the effect that Square Enix Limited subscribed for the fourth tranche of Series A subscription warrants (tranche A4), i.e., 90,000 warrants issued by the Company, each conferring the right to subscribe for one Series C ordinary bearer share of the Company with a par value of PLN 0.02 per share for an issue price of PLN 50 per share, i.e., for an issue price corresponding to the final price for Company shares offered to institutional investors in the public offering carried out on the basis of the prospectus approved by the Polish Financial Supervision Authority on November 25th 2020. The offer to subscribe for the fourth tranche of the subscription warrants was made by the Company as the Company's revenue under agreements with Square Enix Limited exceeded PLN 180m.
- Payment of dividend by the Company On August 3rd 2022, the Company paid dividend of PLN 8,086,561.02.
- Acquisition by Square Enix Limited of the right to subscribe for Company shares On November 1st 2022, the Company's Management Board received a statement from Square Enix Limited to the effect that Square Enix Limited subscribed for the fifth tranche of Series A subscription warrants (tranche A5), i.e., 90,000 warrants issued by the Company, each conferring the right to subscribe for one Series C ordinary bearer share of the Company with a par value of PLN 0.02 per share for an issue price of PLN 50 per share, i.e., for an issue price corresponding to the final price for Company shares offered to institutional investors in the public offering carried out on the basis of the prospectus approved by the Polish Financial Supervision Authority on November 25th 2020. The offer to subscribe for the fifth tranche of the subscription warrants was made by the Company as the Company's revenue under agreements with Square Enix Limited exceeded PLN 225m.
- War in Ukraine Since the very outbreak of the hostilities in Ukraine, the Management Board has been carefully and continuously analysing the situation in terms of potential risks that could affect the Company's operations and future financial performance. As a result of these analyses, the following risks have been identified:

- risk related to unavailability or shortage of employees and independent contractors, in particular those being Ukrainian nationals, as a result of the general mobilisation ordered in Ukraine,
- risk of further depreciation of PLN against EUR and USD.

As the Company does not employ a significant number of Ukrainian, Russian or Belarussian nationals and generates, or expects to generate, its main revenue streams in USD or EUR, the Company's Management Board does not believe that the ongoing war poses an existential threat to the Company as long as Poland is not directly engaged in the conflict. In particular, in the opinion of the Company's Management Board, as at the date of authorisation of this Report for issue the situation did not affect the figures presented herein, nor should it pose a threat to the Company's continuing as a going concern within one year from the reporting date.

Moreover, as the Company does not operate in Ukraine, Russia or Belarus, as at the issue date of this Report there was no risk of any of its non-financial assets being impaired as a result of the ongoing war or of it losing control of any part of its business.

Also, the Company does not sell its products in Ukraine, Russia or Belarus.

However, given the unprecedented nature of the current situation, no assurance can be given that it will not lead to materialisation in the future of risks that the Company has not assumed at present, and any assessments and forecasts in this respect are subject to uncertainty, and the Company will continue to review them on an ongoing basis.

Events after the reporting date

After December 31st 2022, the following events occurred:

- **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 the expenditure related to the Strategy, the Management Board intends to raise funds of approximately PLN 205m–PLN 295m from a new issue of Parent shares (see below for a description of a share capital increase through the issue of Series F ordinary bearer shares to secure financing for the implementation of the Strategy). The proceeds from the new issue of Parent shares will be entirely used to expand the development teams to the level appropriate for the individual development stages of games Project Dagger, Bifrost and Victoria. The proceeds from the new issue of Parent shares, together with (i) the Parent's own cash, (ii) funds generated by

the Parent from operations 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 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 of 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 amounts to PLN 601,726.60 and is divided into 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 no more than 5,853,941 Series F ordinary bearer shares ("Series F Shares"), representing jointly approximately 19.55% of the Parent's share capital and the same proportion of total voting rights at the Parent's General Meeting (the "Series F Shares Issue Resolution").

The adoption of the Series F Shares Issue Resolution was related to the Parent's intention to raise on the capital market funds to finance the implementation of objectives set out in the Strategy through a public offering of Series F Shares. Funds obtained for Series F Shares will be entirely used to expand the Group's development teams to the level appropriate for the individual development stages of games Project Dagger, Project Bifrost and Project Victoria.

As at the date of authorisation of this Report for issue, the public offering of Series F Shares was not carried out and no application was filed with the relevant registry court for entry in the Business Register of the National Court Register of an increase in the Parent's share capital. The Parent expects this to take place immediately after the expiry of the period of 10 business days from the date of issue of the Group's interim consolidated financial statements for the first quarter of 2023 (see below).

- **Waiver of provisions concerning authorised capital**

On February 28th 2023, the Parent's Extraordinary General Meeting passed a resolution to amend the Company's Articles of Association by waiving the provisions concerning authorised capital. The Company's intention was to ensure that the shareholders' equity interests are not diluted any further (after the increase of the Company'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 Company's share capital within the limits of the authorised capital, subject to the transaction to increase the Company'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 shareholders and President of the Management Board (the "Key Shareholder") and Krafton, Inc. as the anchor investor (the "Investor") defining the terms of subscription for Series F Shares by the Investor and other contractual rights and obligations of each party in connection with the investment, including the Parent's disclosure obligations towards the Investor (the "Investment Agreement").

Pursuant to the Investment Agreement, on the date specified therein the Investor is to subscribe for such number of Series F Shares (rounded to the nearest integer) which upon completion of the public offering of Series F Shares will represent 10.00% of the Parent's share capital and voting rights at the 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 will be subscribed for by the Investor for a cash contribution.

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.

The investor may terminate the Investment Agreement under certain circumstances, in particular if the Parent cancels or fails to carry out the offering, within 10 business days from the date of issue of the Parent's interim consolidated financial statements for the first quarter of 2023.

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

▪ **Submission by the Company of an offer to Square Enix Limited to subscribe for subscription warrants and acceptance of the offer by the publisher**

On March 28th 2023, the Parent's Management Board made an offer to the publisher, 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. The offer to subscribe for the sixth tranche of the subscription warrants was made by the Parent, because 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.

5. Major research and development achievements

Expenditure on game development projects carried out under the self-publishing model meets the definition of development work under *IAS 38 Intangible Assets*. For details, see 'Development work in progress' in Note 4 to the Group's consolidated financial statements for the financial year 2022.

In 2022, the Group did not incur any significant expenditure on research projects.

6. Development policy for the Group

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

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

With respect to the games the Group develops, PCF's mission is simple: the player is key. The Group aims to give players the best possible gaming experience through its games.

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

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

On January 31st 2023, the Parent's Management Board adopted an updated growth strategy of the People Can Fly Group. The full text of the strategy was published on the same day in the Company's Current Report No. 3/2023. The summary of the strategy is presented below.

The Group adopted the updated growth strategy based on the conviction that all of its short-term strategic objectives have been met, and in many cases more than met, since the Company's IPO in December 2020. As a result, the Company has become one of the world's largest independent development studios that has been creating intellectual property (IP) rights in the AAA segment for years.

Over the last two years, the Group has:

- successfully completed work on *Outriders* and the *Outriders: Worldslayer* DLC;
- successfully completed the transformation of the Group's development studios:
 - switched from working on a single game to simultaneously working on several games;
 - expanded from one to several creative teams;
 - implemented modern game development methods and practices;
 - established Centers of Excellence;



- strengthened its back office teams globally, which have been set up with a view to building an innovative working environment and accomplishing one goal: to support the Group's employees;
- acquired new development teams in the United States, Canada and Poland to develop competencies and new projects:
 - the Phosphor Games, LLC development team of Chicago;
 - Game On Creative Inc., a studio providing MoCap, animation, cinematics and audio services on a contract basis;
 - Incuvo S.A., developer of games for virtual reality (VR) platforms;
- opened new development studios in Kraków and in Montreal, Canada;
- adopted a hybrid and remote working model when the COVID-19 pandemic changed the way the industry operated. This allowed PCF to recruit, regardless of the location, top-tier professionals and to maintain staffing levels sufficient for project needs,
- expanded its structures based on seven development studios (Warsaw, Rzeszów, Kraków, Katowice, Newcastle, Montreal and New York), which helped better support the employees in North America and Europe;
- using the Group's IP, the Group and Incuvo S.A. entered into a development and publishing agreement to create games for all major VR platforms;
- continued the development of the PCF Framework;
- strengthened its global brand as a leading independent video game developer and its reputation as a creator of top quality AAA games;
- launched work on two brand new projects – in addition to Project Gemini and Project Dagger announced during the IPO, Project Bifrost and Project Victoria are also in the pre-production phase;
- been exploring opportunities for growth in other segments of the entertainment industry using the Group's brand and IP.

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

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

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

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

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

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

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

- Bolstering the publishing activities (the self-publishing model):
 - Promoting the People Can Fly brand as a leading and independent developer and publisher of AAA and compact-AAA games;
 - Creating, developing and maintaining contact with a loyal and engaged community of millions of gamers as the foundation for generating interest in new products from People Can Fly.
 - Expanding the market analysis and consumer research department as part of publishing activities to better understand gamers' needs and expectations during the development and in the full life cycle of the product.
 - Developing six games in the next four years with the help of all in-house development teams (for details, see below).
- Always Live:
 - Games in the Group's publishing portfolio will be based on the Game-as-a-Service (GaaS) or GaaS-ready models (in the case of the latter, projects may become live games after the initial phase as standalone products), with a focus on gamer engagement and retention. This approach makes it possible to employ multiple monetisation models tailored to individual projects in order to best suit target customers while providing gamers with a continuous, personalised experience in the long term.
 - The Company seeks to expand its competencies to include online live games, both under the Player versus Environment (PvE) and Player versus Player (PvP) gameplay modes. They will use both peer-to-peer (P2P) technologies and dedicated servers. To this end, the Company intends to continue to invest in the PCF Framework, the Online Backend Platform and the GaaS cloud infrastructure, capable of serving millions of gamers at the same time.
 - The GaaS model not only accelerates the publishing process, but also enables making regular updates, which helps maintain gamers' engagement for years. This improves gamer retention and significantly increases the value of games over time compared with games released under the traditional pay-to-play model.
 - The GaaS model also makes it possible to take into account feedback from the gaming community when games are still in the development phase and ensure that the games match players' needs and expectations. This not only boosts a game's potential, but also increases the engagement and loyalty of players.
- Various game monetisation models:
 - The Group's games will be monetised under a range of models.
 - The traditional pay-to-play model, in which the game is sold at a specified price through digital or retail distribution channels.
 - Microtransactions enabling players to download and play the game without incurring any initial costs, enabling them to buy items that modify and personalise their gaming experience.
 - Passes – a monetisation model allowing players to access additional content for a specified period of time, usually one season, for an additional one-off or subscription fee.
 - The hybrid model – combining two or more of the above monetisation methods.
- Further expansion of development teams and nurturing talent:
 - To maximise the success of games developed by the Group, the Company intends to further expand its development teams, focusing on hiring and training of top-notch specialists. The Company will also



continue to foster its unique organisational culture that support is high employee retention and satisfaction.

- The introduction of the 2023–2027 incentive scheme for the Group's key employees or independent contractors will allow the eligible persons to acquire no more than 1,237,500 shares without diluting the equity interests held by existing shareholders, representing 4.13% of the Company's current share capital, in particular if the Group generates cumulative EBITDA of PLN 1.5bn in that period. Once the 80% threshold of cumulative EBITDA is exceeded, 50% of the offered shares will be allocated to the eligible persons, with the balance to be allocated as the cumulative EBITDA increases to the target level, when all of the offered shares will be allocated to the Group's eligible employees or independent contractors. Shares for the employees or independent contractors will be offered by the Company's main shareholder. The price at which the shares will be offered to the Group's key employees or independent contractors will be the higher of: (i) the price of Company shares set on the date of their allotment to the eligible person (the date of the agreement between the eligible person and the Company's main shareholder), (ii) the price per share for institutional investors set on the date of the Company's IPO, and (iii) the price per share set in the new issue of Company shares referred to below.
- The lock-up period for the Company's main shareholder – excluding the shares allocated to the incentive scheme or purchased after the IPO – is extended until the end of 2027, with the exception of strategic transactions and tender offers for the sale or exchange of Company shares.
- Investing in new segments of the entertainment industry:
 - The Company intends to explore new business areas based on the Group's brand, knowledge and IP by investing in new segments of the entertainment and digital culture industry.

The Company has prepared a highly ambitious development plan (presented below with a breakdown into projects) and a marketing and sales plan for the next five years, setting the strategic objective to generate total revenue of no less than PLN 3.0bn in 2023–2027.

Project Gemini

Genre: not disclosed

Team size: 200 persons

IP: not disclosed (owner: Square Enix Limited)

Expected release date: 2026

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

Project Dagger

Genre: Co-op Action Melee RPG

Team size: 50 (currently) to 140 (ultimately)

IP: not disclosed (proprietary)

Expected release date: 2025-2026

Financed in whole by the Company, this AAA game is being developed by the Group in North America as an original ARPG with new gameplay elements and storyline solutions it has never used before. The project will be self-published, marking the start of a new series of games for new generation gaming platforms.

Project Bifrost

Genre: Online shooter

Team size: 70 (currently) to 150 (ultimately)

IP: not disclosed (proprietary)

Expected release date: 2025-2026

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

Project Victoria

Genre: Multiplayer survival

Team size: 30 (currently) to 120 (ultimately)

IP: not disclosed (proprietary)

Expected release date: 2025-2026

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

Project Red

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

Project Thunder

The game is being developed by Incuvo S.A., the Group's subsidiary, based on the Group's proprietary IP. It is now in the core production phase.

Financed in whole by the Company, the project is expected to be released under the self-publishing model by the end of 2023.

Green Hell VR

The game is a VR adaptation of a popular survival game for PCs and consoles, with an open world of Green Hell, created by Creepy Jar S.A. and developed by Incuvo S.A., the Group's subsidiary. The game was released in April 2022 for the Oculus Quest 2 platform and in June 2022 for PCs, and then in July 2022 for the Oculus Rift platform and in October 2022 – for the Pico platforms. The game is to be released for HTC hardware platforms in April 2023 or around that date, as well as for Sony's NGVR goggles, which can interoperate with Sony PlayStation 5, by the end of 2023.

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

Development and publishing agreements

Development and publishing agreement for Outriders and content rider to develop DLC for Outriders

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

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

The development and publishing agreement was a framework agreement, providing for the execution between the parties of content riders to specify (i) successive milestones of the game development process, along with a detailed scope of work to be performed by the Company with respect to each game development milestone, and (ii) the commercial terms applicable between the parties, including the amount and form of consideration payable to the Company for its development work. Upon completion of each milestone, the Company was obliged to provide its deliverables to the publisher, and the publisher

was obliged either to accept the works or to notify the Company of any defects therein involving non-conformity of the delivered product with the agreed specifications or other terms of the agreement. Upon receipt of a notice of defects, the Company was obliged to rectify the defects in line with the relevant procedure detailed in the agreement. The work on the game's DLC, entitled *Outriders Worldslayer*, was also performed on the basis of a content rider executed between the parties on August 12th 2023, which specified successive milestones in the game content expansion, technical specifications for each component, and consideration due to the Company once they were accepted by the publisher. The *Outriders Worldslayer* DLC was released on June 28th 2022.

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

Once the game and its DLC were developed and marketed on April 1st 2021 and June 28th 2022, respectively, the Company has been entitled to royalties payable if specific proceeds (as defined in the agreement) from their sales ensure that the publisher recovers a predetermined level of costs incurred in connection with the development, promotion and distribution of the game. The level of royalties depends on the amount of specific proceeds from the game's and the DLC's sales. The Group received no royalties from the publisher for the period to December 31st 2022, which means that as at the reporting date net proceeds from the sale of *Outriders* and its DLC *Outriders Worldslayer* were insufficient to recover the costs and expenses incurred by the publisher to develop, distribute and promote the game and its DLC. This was confirmed by the royalty statement for the fourth quarter of 2022, received by the Group from the publisher. There can be no assurance that net proceeds from the sale of *Outriders* and *Outriders Worldslayer* in future periods will be sufficient for the publisher to recover the costs incurred and to pay royalties to the Group.

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

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

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

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

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

Development and publishing agreement for Project Gemini

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

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

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

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

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

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

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

Project Gemini is scheduled for release in 2026, and the project scale is comparable to that of Outriders.

Development and publishing agreement and termination agreement for Project Dagger

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

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

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

On September 23rd 2022, the Parent's Management Board received a letter from the publisher, Take-Two Interactive Software, Inc., concerning its intention to terminate the development and publishing agreement of July 21st 2020, providing for the financing and publishing of Project Dagger, by entering into a termination agreement.

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

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

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

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

The agreement to terminate the development and publishing agreement is governed by the laws of the State of New York, USA.

As at the date of authorisation of this Report for issue, the Group continued to work on Project Dagger under the self-publishing model. The game is planned to be released in 2025–2026.

Development and publishing agreement for Project Thunder

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

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

The consideration for development of Project Thunder is payable by the Company to Incuvo S.A. in instalments, after Incuvo S.A. achieves and the Company accepts the agreed milestones. Upon completion of each agreed milestone, Incuvo S.A. provides its deliverables to the Company and the Company is obliged to notify Incuvo S.A. by an agreed deadline whether it accepts the works or not; in the latter case the Company provides to Incuvo S.A. a list of defects to be rectified by the developer. The agreement sets out a detailed procedure to be followed by the parties in rectifying any defects and obtaining the Company's acceptance. Once the respective milestones of Project Thunder are achieved, Incuvo S.A. is entitled to the corresponding consideration instalments (milestone payments) from the Company, in accordance with a schedule set out in the content rider.

After the game is completed and released, Incuvo S.A. is entitled to receive from the Company royalties payable if specific proceeds (as defined in the agreement) from its sales ensure that the publisher recovers a predetermined level of costs incurred in connection with the development, promotion and distribution of the game. The royalties are calculated as a percentage of specific proceeds from the game's sales.

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

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

The agreement may be terminated by either party with immediate effect, on written notice given to the other party, in the event of discontinuation of the other party's business, its insolvency, or actions taken with a view to liquidating the other party or declaring it bankrupt.

Furthermore, the Company has the sole right to the following types of termination:

- termination for convenience, on 60 days' notice;
- termination due to acquisition of control of the developer;
- termination with immediate effect for cause, including: (i) a delay of at least two months in the performance of the developer's material obligation as a result of force majeure; (ii) breach by the developer of its material contractual obligations, including obligations relating to the terms of use of open source software, confidentiality or non-

competition; (iii) failure by the developer to deliver a milestone by the relevant deadline; and (iv) the Company's refusal to confirm the execution of a milestone.

The developer may terminate the agreement, on 30 days' notice, in the event of a material breach by the Company of its payment obligations towards the developer, if such breach is not cured within 30 days after written notice thereof.

The agreement specifies detailed procedures to be followed by the parties in the event of termination of the agreement as described above.

The agreement is governed by Polish law.

Project Thunder is scheduled for release by the end of 2023.

Shareholder agreements

On June 26th 2020, the following shareholders of the Company: Sebastian Wojciechowski, Bartosz Kmita, Bartosz Bieleuszka and Krzysztof Dolaś, who are also members of the Group of Qualifying Shareholders within the meaning of the Company's Articles of Association, entered into a Qualifying Shareholders Agreement. As at the date of authorisation of this Report for issue, based on notifications submitted by the shareholders comprising the Group of Qualifying Shareholders as shareholders holding at least 5% of total voting rights at the Company's General Meeting and on transactions conducted by persons discharging managerial responsibilities pursuant to Article 19(1) of MAR, the shareholders who were parties to the Qualifying Shareholders Agreement held an aggregate of 21,173,389 shares, representing 70.38% of the share capital of PCF Group S.A., and 21,173,389 voting rights, representing 70.38% of total voting rights in the Company.

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

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

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

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



Insurance contracts

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

In connection with the development and publishing agreements concluded with the publisher Square Enix Limited for the production of *Outriders* and *Project Gemini*, the Parent took out the following insurance policies with Colonnade Insurance S.A. Poland Branch: (i) commercial general liability insurance, with a product liability clause, and (ii) professional liability insurance including an errors & omissions cover (to protect it from lawsuits claiming infringement of intellectual property rights), in each case with an indemnity limit of USD 5m for a single claim or USD 10m for the aggregate of claims. As at the date of this Report, the insurance cover under these policies expires on June 30th 2023. The errors & omissions policy provides full retroactive cover.

In connection with the development and publishing agreement with the publisher Gearbox Publishing, LLC for the development of a remastered version of *Bulletstorm* – *Bulletstorm: Full Clip Edition*, the requirement to hold errors & omissions insurance with an indemnity limit of USD 1m per claim and per the aggregate of claims is met by maintaining the policy with Colonnade Insurance S.A. Poland Branch.

Investment agreement with Square Enix Limited

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

In the performance of the investment agreement, on November 17th 2021 Square Enix Limited accepted the Parent's offer of October 11th 2021 to subscribe, for no consideration, for 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the Parent, each conferring the right to subscribe for one Series C ordinary bearer share in the Parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. Subsequently, on December 10th 2021, June 6th 2022, October 7th 2022 and March 28th 2023, the Company's Management Board submitted to the publisher further offers to subscribe, for no consideration, for 90,000 Series A registered subscription warrants (Tranche A3 warrants), 90,000 Series A registered subscription warrants (Tranche A4 warrants), 90,000 Series A registered subscription warrants (Tranche A5 warrants) and 90,000 Series A registered subscription warrants (Tranche A6 warrants). All the offers were accepted by the publisher on January 18th 2022, June 30th 2022, November 1st 2022 and April 18th 2023, respectively. Square Enix Limited acquired the right to subscribe for Series C shares upon subscription for the fourth tranche of the warrants. As at the date of authorisation of this Report, the Parent estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited under the Investment Agreement would represent approximately 1.79% of the current amount of the Parent's share capital.

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

Investment agreement with Krafton, Inc.

On March 28th 2023, the Company and Sebastian Wojciechowski, President of the Company's Management Board and the Company's key shareholder, entered into an investment agreement with Krafton, Inc. concerning: (i) subscription by Krafton,



Inc. for Company shares to be issued pursuant to Resolution No. 4/02/2023 of the Extraordinary General Meeting of the Company to increase the Company's share capital by no more than PLN 117,078.82 through the issue of up to 5,853,941 Series F ordinary bearer shares with a par value of PLN 0.02 per share (the "Offer"); and (ii) other contractual rights and obligations of each party relating to the investment, including the Company's disclosure obligations towards Krafton, Inc.

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

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

In addition, Sebastian Wojciechowski granted Krafton, Inc. the right to prevent dilution, the right of first refusal to acquire shares and the tag-right along (which corresponds to Sebastian Wojciechowski's drag-along right). Both Krafton, Inc. and Sebastian Wojciechowski agreed to standard lock-up arrangements regarding their shares in the Company, effective until 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.

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

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

GROUP

	Current liabilities		Non-current liabilities	
	Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
Financial liabilities measured at amortised cost				
Borrowings and subsidies	2,089	7,362	3,490	510
Financial liabilities measured at amortised cost	2,089	7,362	3,490	510
Total borrowings, other debt instruments	2,089	7,362	3,490	510

PARENT

	Current liabilities		Non-current liabilities	
	Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
Financial liabilities measured at amortised cost				
Non-bank borrowings	510	875	-	510
Financial liabilities measured at amortised cost	510	875	-	510
Total borrowings, other debt instruments	510	875	-	510

The Group's debt instruments as at December 31st 2022 are described below.

- On April 30th 2020, the Parent entered into a subsidy agreement with Polski Fundusz Rozwoju S.A. ("PFR") under the government-run 'Polish Development Fund's Financial Shield for Micro, Small and Medium-Sized Enterprises' programme (the "Programme") providing financial support to businesses as relief against the consequences of COVID-19. The subsidy of PLN 3,500 thousand was applied by the Parent for purposes specified in the terms of the Programme. Based on the statement submitted by the Parent accounting for how the subsidy was spent, PFR decided that half of the subsidy, i.e. PLN 1,750 thousand, had to be repaid. The repayment began in the 13th month from the first full calendar month after the disbursement, and is to be completed in 24 equal monthly instalments. The subsidy agreement, being a part of the government-run programme to support businesses as relief against the consequences of the COVID-19. pandemic, was concluded on preferential, non-market terms. The effect on to the fair value of the subsidy is not material. As at December 31st 2022, the balance outstanding to be repaid was PLN 510 thousand.
- Credit facility agreement between Game On and Royal Bank of Canada The purpose of the credit facility was to finance the management buyout in connection with the acquisition of Game On by the Parent. Game On has been repaying the facility in equal monthly instalments of approximately CAD 41 thousand each. As at December 31st 2022, the balance outstanding under the facility was CAD 1,501 thousand.

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

In the financial year 2022, PCF Group S.A. advanced the following loans:

▪ Loans advanced by PCF Group S.A. to People Can Fly Canada Inc.

On April 13th 2022, August 19th 2022 and October 7th 2022, PCF Group S.A. advanced loans to its single-member subsidiary People Can Fly Canada, Inc., to be used to finance publishing activities. The loan principals were CAD 3,000 thousand, CAD 2,000 thousand and CAD 3,000 thousand, respectively, with interest accruing at an annual rate of USD SOFR plus 2 percentage points. The term of the CAD 3,000 thousand loan, granted on April 13th 2022, was ten years. The other loans were granted for three years. The loans are secured over People Can Fly Canada Inc.'s assets, including intellectual property rights. The loans are to be repaid through a one-off payment at the end of the financing period, with a prepayment option. The loans were granted on market terms. As at December 31st 2022, the balance outstanding under the loans was CAD 866 thousand.

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

On October 7th 2022, PCF Group S.A. advanced a loan to its single-member subsidiary People Can Fly U.S., LLC, to be used to finance publishing activities and to cover operating expenses and costs. The loan principal was USD 5,000 thousand, with interest accruing at an annual rate equal to USD SOFR plus 2 percentage points. The loan was granted for three years. It is secured over People Can Fly U.S., LLC's assets, including intellectual property rights. The loan is to be repaid through a one-off payment at the end of the financing period, with a prepayment option. The loan was granted on market terms. As at December 31st 2022, the balance outstanding under the loan was USD 0.

▪ Loan advanced by PCF Group S.A. to People Can Fly UK Limited

On November 23rd 2022, PCF Group S.A. advanced a loan to its single-member subsidiary People Can Fly UK Limited, to be used to finance publishing activities and to cover operating expenses and costs. The loan principal was GBP 350 thousand with interest accruing at an annual rate of 3M SONIA Compound plus 2 percentage points. The loan was granted for three years. It is secured over People Can Fly UK Limited's assets, including intellectual property rights. The loan is to be repaid through a one-off payment at the end of the financing period, with a prepayment option. The loan was granted on market terms. As at December 31st 2022, the balance outstanding under the loan was GBP 0.

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

The Parent provided the subsidiary People Can Fly U.S., LLC, against consideration, with a performance bond in respect of the development and publishing agreement for the Project Dagger game. However, given that the development and publishing agreement for Project Dagger was terminated with effect from September 23rd 2022, rights under the performance bond became unenforceable. Therefore, on November 29th 2022, the parties agreed to terminate the agreement under which the performance bond was granted.

Apart from the performance bond agreement described above, as at December 31st 2022 the Group did not have any other financial guarantees or contingent assets or liabilities.

12. Financial instruments

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

The Parent and its Group do not use derivatives to hedge their currency risk exposure. The fair value of financial instruments held by the Parent and its Group as at December 31st 2022 and December 31st 2021 did not differ materially from the value disclosed in the financial statements for the respective years for the following reasons:

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

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

In 2022, there were no changes in the significant management policies at PCF Group S.A. or its Group.

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

As at December 31st 2022 and the date of authorisation of this Report for issue, there were no agreements concluded between PCF Group S.A. or its subsidiaries and management personnel providing for compensation in the event of their resignation or removal from office without a valid reason, or if they are removed from office or made redundant following PCF Group S.A.'s merger by acquisition.

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

As at December 31st 2022, there were no liabilities arising from pensions or similar benefits due to former members of management or supervisory bodies or former members of administrative bodies of PCF Group S.A. or its subsidiaries, or any liabilities incurred in connection with such pensions.

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

Remuneration and other benefits for members of the Management Board and Supervisory Board of the Parent are described in Note 29 to the consolidated financial statements for 2022.

Except for the Incentive Scheme for key employees and independent contractors of Incuvo S.A. described below, in 2022 neither PCF Group S.A. nor the Parent's subsidiaries adopted any equity-based incentive or bonus schemes for serving as members of the Parent's management, supervisory or administrative bodies, or for serving on the governing bodies of its subordinated entities.

On August 10th 2022, the Extraordinary General Meeting of Incuvo S.A. passed Resolution No. 5 to implement an Incentive Scheme for key employees and independent contractors of Incuvo S.A. (the "Incentive Scheme"). The Incentive Scheme consists in granting to eligible persons, for no consideration, Series A registered subscription warrants ("Series A Warrants") and Series B registered subscription warrants ("Series B Warrants") entitling their holders to subscribe for Series F ordinary bearer shares in Incuvo S.A.'s share capital at a specified price and on the dates and terms specified in Resolution No. 5 referred to above and in the Rules of the Incuvo S.A. Incentive Scheme, with Incuvo S.A. existing shareholders' pre-emptive rights waived. The Series A Warrants and Series B Warrants were issued pursuant to Resolution No. 7 of the Extraordinary General Meeting of Incuvo S.A. of August 10th 2022 on the issue of Series A and Series B subscription warrants, full waiver of the existing shareholders' pre-emptive rights to acquire all Series A and Series B subscription warrants, the seeking of introduction of Series F shares to trading in the NewConnect alternative trading system operated by the Warsaw Stock Exchange, and conversion of Series F shares as well as Series A and Series B subscription warrants into book-entry form.

Under the Incentive Scheme, eligible persons may be granted a total of up to 1,240,532 subscription warrants entitling their holders to subscribe for up to 1,240,532 Series F shares, including (i) up to 33,596 Series A Warrants, and (ii) up to 1,206,936 Series B Warrants. The term of the Incentive Scheme is three years, until December 31st 2025.

On January 24th 2023, the Management Board of Incuvo S.A. extended the eligibility to participate in the Incentive Scheme and decided to submit an offer to selected persons (the "Addressees of the Offer") to subscribe for a total of 33,596 Series A Warrants. On February 10th 2023, following proper subscription for Series A Warrants by the Addressees of the Offer, the Management Board of Incuvo S.A. granted a total of 33,596 Series A Warrants to the Addressees of the Offer. As at the date

of authorisation of this Report for issue, Incuvo S.A. was in the process of having the Series A Warrants registered with the Central Securities Depository of Poland.

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

Risk factors related to the Group's operations

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

The Group entered into a development and publishing agreement and a content rider with Square Enix Limited as the publisher, to develop the game Outriders and Project Gemini as well as a DLC for Outriders. 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. In the Company's opinion, consideration received from the publisher Square Enix Limited will remain the Group's main source of revenue at least for the next financial year. Any decline in revenue from the publisher in the said period, assuming that the Group does not enter into cooperation with another publisher under the work-for-hire model and does not generate any significant revenue from publishing activities, would translate directly into a decline in the Group's total revenue, which would have a major adverse impact on the Group's business and results should the consideration received from the publisher 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 video games talent in the labour market, combined with a noticeable shortage of highly qualified IT professionals. Despite attractive terms of employment which, in the Company's opinion, are competitive relative to the market, a risk of staff churn across the Group cannot be altogether excluded. Should the Group lose members of its game development team, in particular certain Directors or Leads, the Group's professional game design and development capabilities would be impaired, which could adversely impact the quality of a given game product or the timing of its release. Given the difficulty in recruiting highly qualified staff, especially on a short notice, such staff churn could undermine the Group's ability to meet its game development obligations towards the publishers. Losing a significant number of game developers at various levels across the organisation could entail additional costs for the Group on recruiting new talent for the development team, and given the intense competition in the labour market, the recruitment of talented developers could be a time-consuming process without any guarantee of success. Any such events could adversely affect the Group's business and results. The fact that a significant number of the staff in Poland holding managerial functions in game development are shareholders in the Company and that some of its employees and independent contractors became Company shareholders following the public offering of Company 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 Company's main shareholder and President of its Management Board, should, in the Company's opinion, foster their ties with the Company.

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

As at the end of 2022, work on the Group's games (Project Gemini, Project Dagger, Project Bifrost and Project Victoria) was in the pre-production phase. The games are due to premiere in 2026 (Project Gemini) and 2025-2026 (Project Dagger, Project Bifrost and Project Victoria). Given the stage of project work, the Company cannot definitely rule out a scenario in which the games are not released within the scheduled time frame, all the more so that game release dates have been postponed in the past. On October 8th 2020, Square Enix Limited, the publisher of Outriders, announced a postponement of the game release date from the originally scheduled end of 2020 to February 2nd 2021, and then, on January 6th 2021, the release date

was put off again to April 1st 2021. Along with the update of the Group's strategy, the publisher postponed the release date of Gemini from 2024 to 2026. With respect to the 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, therefore the Company cannot rule out a risk that the above planned release date for Gemini will also be postponed. Moreover, the Company may not rule out postponing the release dates for the games self-published by the Group. 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 in 2022, 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 IPO) 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 the majority of its revenue. Moreover, as game development is a highly complex process taking several years, the Group is exposed to a number of other risk factors, both within and beyond its control, which may delay game release dates and which the Group is unable to eliminate or avoid being affected by.

Although the Group has experience in the development of Triple-A games and is therefore able to organise the work of its game development team so as to meet the deadlines set out in the relevant agreements with 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 in 2022, 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 and UK, as well as being one of the two (three in the case of Ireland) Directors authorised to independently represent the Group's subsidiaries in 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, 49.76% of its shares conferring 49.76% of total voting rights. Therefore, he is able to exercise significantly influence on resolutions passed by the General Meeting.

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

In addition, together with other Company shareholders, namely Bartosz Kmita, Krzysztof Dolaś and Bartosz Biełuszko (holding – according to information provided by them as shareholders holding at least 5% of total voting rights at the Parent's General Meeting – as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2021, respectively, 8.58%, 6.04% and 6.01% of the Company shares and voting rights, and together with Sebastian Wojciechowski – an aggregate of 70.38% 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 in 2022, 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 video game developers (such as the Group) on publishers is also due to the very structure of development and publishing agreements typically applied in the video game industry. Such agreements are essentially signed as general framework agreements and subsequently supplemented, in keeping with the progress of game development work, with

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

With such structure of development and publishing agreements, its parties do not know the final schedule of game development work and, if a development and publishing agreement does not specify the total project budget (as was the case with *Outriders* and as is the case with *Project Gemini*), the parties have no way of knowing the final amount of consideration due to the developer (i.e. the Group), as a result of which the Group's revenue cannot be estimated even in the short term. Any delay in reaching an agreement between the parties as to the next game development milestone (i.e. a content rider) could result in delayed milestone payments to the Group, while a failure to reach such agreement could result in the Group not receiving any payment for the respective game development milestone, or even lead to termination of the development and publishing agreement by the publisher.

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 agreements with Square Enix Limited for *Outriders* and for the development by the Group of Project Gemini contain certain provisions that hedge the Group against the EUR/PLN exchange rate risk. Exchange rate fluctuations may reduce the amount of the Group's receivables or increase the amount of its liabilities, resulting in exchange differences charged to the Group's profit or loss. As at the date of 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 agreement concluded by the Group with the publisher Square Enix Limited, the Group is liable towards the publisher 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 agreement to which the Group is a party, the publisher holds the intellectual property rights defined therein to products developed by the Group. For example, the Company has transferred to Square Enix Limited its copyrighted property rights, both existing and future, in *Outriders* as well as any DLCs, sequels and additional game-related products. The Company has also waived its moral rights for the benefit of Square Enix Limited. Similar provisions apply to the deliverables of further support work in connection with the game's development and content expansion (DLC) with respect to *Outriders* and *Project Gemini*.

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).

18. Material litigation, arbitration or administrative proceedings

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

During the financial year, under other receivables the Parent presented a PLN 254 thousand fine imposed on the Parent in connection with a manifest error made in the VAT settlement statement for January 2021. On August 24th 2022, the Parent received a decision of the tax authority on the discontinuation of the tax proceedings in their entirety, and the fine together with due interest was returned to the Parent on July 13th 2022.



PCF GROUP SPÓŁKA AKCYJNA GROUP

DIRECTORS' REPORT ON THE OPERATIONS OF
PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP IN 2022

FINANCIAL CONDITION OF THE PARENT AND ITS GROUP

19. Financial results of the Parent and its Group in 2022

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 2021 and 2022.

20. Consolidated statement of profit or loss

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021	Change	Change in %
Continuing operations				
Revenue	171,485	180,293	(8,808)	-5%
Cost of sales	85,202	90,270	(5,068)	-6%
Gross profit (loss)	86,283	90,023	(3,740)	-4%
General and administrative expenses	55,438	36,373	19,065	52%
Other income	1,141	9,334	(8,193)	-88%
Other expenses	908	1,329	(421)	-32%
Operating profit (loss)	31,078	61,655	(30,577)	-50%
Finance income	1,771	4,054	(2,283)	-56%
Finance costs	2,414	1,268	1,146	90%
Profit (loss) before tax	30,435	64,441	(34,006)	-53%
Income tax	8,451	3,115	5,336	171%
Net profit (loss) from continuing operations	21,984	61,326	(39,342)	-64%
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	21,984	61,326	(39,342)	-64%
Net profit (loss) attributable to:				
- owners of the Parent	18,672	61,367	(42,695)	-70%
- non-controlling interests	3,312	(41)	3,353	-8178%

Revenue

Revenue for 2022 and 2021 amounted to PLN 171.5m and PLN 180.3m, respectively. The 5% drop in revenue was mainly a consequence on a decline in recognised revenue from work performed for Take-Two Interactive Software, Inc. on the development of Project Dagger.

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 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;
- operating expenses generated by companies included in the Group during the 12 months ended December 31st 2021, namely People Can Fly Chicago, LLC, Game On Creative, Inc., Incuvo S.A., Spectral Applications sp. z o.o. w likwidacji (in liquidation).

Other income

Other income includes income from sublease of office space, technical infrastructure, medical services and other services for entities cooperating with the Group.

Other expenses

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

Finance income and costs

As part of its financing activities, the Group recognises interest on bank deposits of free cash (as income) and interest on leases (as costs). In addition, it accounts for exchange differences, which in 2022 represented the key factor with a negative impact on net finance income/costs (PLN -0.8m) relative to 2021 (PLN +2.9m).

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 Parent availed itself of the IP Box tax relief in accordance with the ruling, and so it applied a preferential corporate income tax rate of 5% to eligible income from eligible intellectual property rights within the meaning of the IP Box regulations. Accordingly, the current portion of the Parent's corporate income tax was calculated at the rate of 19% for taxable income from other sources and at the rate of 5% for the taxable income from eligible intellectual property rights (IP Box).

As a result, the Group's effective tax rate for 2022 and 2021 was 27.8% and 4.8%, respectively. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 9.2m and PLN 1.6m in 2022 and 2021, while deferred income tax amounted to PLN -0.8m and PLN 1.5m, respectively.

21. Consolidated statement of financial position

ASSETS	Dec 31 2022	Dec 31 2021	Change	Change in %
Non-current assets				



Goodwill	55,503	54,604	899	2%
Intangible assets	130,023	30,738	99,285	323%
Property, plant and equipment	11,780	10,846	934	9%
Right-of-use assets	30,095	28,205	1,890	7%
Other non-current financial assets	-	293	(293)	-100%
Long-term prepayments and accrued income	277	453	(176)	-39%
Deferred tax assets	222	203	19	9%
Non-current assets	227,900	125,342	102,558	82%
Current assets				
Contract assets	30,451	35,293	(4,842)	-14%
Trade and other receivables	23,448	18,030	5,418	30%
Other current financial assets	-	1	(1)	-100%
Short-term prepayments and accrued income	1,022	924	98	11%
Cash and cash equivalents	67,983	137,102	(69,119)	-50%
Current assets	122,904	191,350	(68,446)	-36%
Total assets	350,804	316,692	34,112	11%

The Group's assets rose 11%, by PLN 34.1m, to PLN 350.8m as at December 31st 2022, from PLN 316.7m as at December 31st 2021.

As at December 31st 2022, the Group's assets of the most material value were:

- intangible assets, representing 37% of total assets;
- cash and cash equivalents, representing 19% of total assets;
- goodwill, representing 16% of total assets.

As at December 31st 2022 and December 31st 2021, intangible assets amounted to PLN 130.0m and PLN 30.7m, respectively (up by PLN 99.3m). The increase was mainly attributable to expenditure on development work.

Changes in goodwill:

	Dec 31 2022	Dec 31 2021
As at beginning of period	54,604	-
Increase		
Acquisition/loss of control of companies	141	52,803
Failure to achieve planned earn-out	(317)	-
Exchange differences on translation	1,075	1,801
As at end of period	55,503	54,604

EQUITY AND LIABILITIES	Dec 31 2022	Dec 31 2021	Change	Change in %
Equity				
Equity attributable to owners of the Parent:				
Share capital	599	599	-	0%
Share premium	121,869	121,869	-	0%
Other components of equity	54,988	50,727	4,261	8%



Retained earnings	94,850	84,266	10,584	13%
Equity attributable to owners of the Parent	272,306	257,461	14,845	6%
Non-controlling interests	5,323	2,081	3,242	156%
Equity	277,629	259,542	18,087	7%
Liabilities				
Non-current liabilities				
Borrowings, other debt instruments	3,490	510	2,980	584%
Leases	27,822	25,439	2,383	9%
Deferred tax liability	2,289	2,991	(702)	-23%
Long-term prepayments and accrued income	9,817	975	8,842	907%
Non-current liabilities	43,418	29,915	13,503	45%
Current liabilities				
Trade and other payables	11,167	9,708	1,459	15%
Contract liabilities	2,792	2,030	762	38%
Current tax liabilities	7,591	2,444	5,147	211%
Borrowings, other debt instruments	2,089	7,362	(5,273)	-72%
Leases	4,198	3,869	329	9%
Employee benefit obligations and provisions	1,717	1,822	(105)	-6%
Short-term prepayments and accrued income	203	-	203	-
Current liabilities	29,757	27,235	2,522	9%
Total liabilities	73,175	57,150	16,025	28%
Total equity and liabilities	350,804	316,692	34,112	11%

- As at December 31st 2022, the Group's equity increased by PLN 18.1m (7%) relative to December 31st 2021, driven mainly by the net profit earned in the period.

22. Consolidated statement of cash flows

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021	Change	Change in %
Cash at beginning of period	137,102	41,302	95,800	232%
Cash flows from operating activities	59,168	59,254	(86)	0%
Cash flows from investing activities	(108,970)	(81,917)	(27,053)	33%
Cash flows from financing activities	(17,872)	118,399	(136,271)	-115%
Total net cash flows	(67,674)	95,736	(163,410)	-171%
Effect of foreign currency translation on cash	(1,445)	64	(1,509)	-2358%
Cash and cash equivalents at end of period	67,983	137,102	(69,119)	-50%

Cash decreased by PLN 69.1m, from PLN 137.1m as at December 31st 2021 to PLN 68.0m as at December 31st 2022.

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 2022, the Group generated positive operating cash flows (of PLN 59.2m), driven mainly by pre-tax profit (PLN 30.4m).

Investing activities

The Group recorded negative cash flows from investing activities (PLN -109.0m), attributable almost in full to the acquisition of intangible assets and property, plant and equipment. As regards property, plant and equipment, the Group invested in the development of its ICT infrastructure and upgrade of its hardware.

Financing activities

Cash flows from financing activities were negative, at PLN -17.9m, mainly due to:

- dividend payment,
- payment of lease liabilities.

23. Consolidated profitability ratios

	Dec 31 2022	Dec 31 2021
Gross profit (loss) margin	50.3%	49.9%
EBITDA	48,196	73,194
EBITDA margin	28.1%	40.6%
EBITDA adjustments:		
costs of offering / issue of Series B shares (1)	-	2,040
forgiveness of PPP and PPP2 loans (2)	-	(3,339)
subscription warrants (revaluation) (3)	-	(3,399)
subscription warrants (cost as incentive scheme) (4)	1,543	1,151
legal advisory / due diligence costs (5)	-	888
Adjusted EBITDA	49,739	70,535
Adjusted EBITDA margin	29.0%	39.1%
Operating profit margin	18.1%	34.2%
Net profit (loss) margin	12.8%	34.0%
Return on equity (ROE)	6.9%	23.8%
Return on assets (ROA)	5.3%	19.4%

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

- Gross profit margin = gross profit / revenue
- EBITDA = operating profit + depreciation and amortisation + goodwill impairment
- EBITDA margin = (operating profit + depreciation and amortisation + goodwill impairment) / revenue
- Adjusted EBITDA = (operating profit + depreciation and amortisation + goodwill impairment + adjustments*)
- Adjusted EBITDA margin = (EBITDA + adjustments*) / revenue
- Operating profit margin = operating profit / revenue
- Net 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) one-off costs classified as costs of the issue of Parent shares,

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

(3) 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,

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

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

24. Consolidated liquidity ratios

	Dec 31 2022	Dec 31 2021
Working capital	93,350	164,115



Current ratio	4.13	7.03
Quick ratio	4.13	7.03
Cash ratio	2.28	5.03

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

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

25. Consolidated funding structure ratios

	Dec 31 2022	Dec 31 2021
Equity to assets ratio	0.78	0.81
Equity to non-current assets ratio	1.19	2.05
Total debt ratio	0.22	0.19
Debt to equity ratio	0.29	0.23

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

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

26. Separate statement of profit or loss

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021	Change	Change in %
Continuing operations				
Revenue	120,136	107,825	12,311	11%
Cost of sales	50,099	45,435	4,664	10%
Gross profit (loss)	70,037	62,390	7,647	12%
General and administrative expenses	28,476	26,093	2,383	9%
Other income	1,758	5,788	(4,030)	-70%
Other expenses	654	1,126	(472)	-42%
Operating profit (loss)	42,665	40,959	1,706	4%
Finance income	2,957	3,371	(414)	-12%
Finance costs	1,093	431	662	154%
Profit (loss) before tax	44,529	43,899	630	1%
Income tax	2,193	2,147	46	2%
Net profit (loss) from continuing operations	42,336	41,752	584	1%
Discontinued operations				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss)	42,336	41,752	584	1%

Revenue

Revenue for 2022 and 2021 amounted to PLN 120.1m and PLN 107.8m, respectively. The increase (11%) was due to higher revenue from work performed for Square Enix Limited on the development of Project Gemini.

Cost of services sold

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

General and administrative expenses

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

Other income

Other income includes income from:

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

Other expenses

Other expenses include the costs of medical services and other benefits provided to the Parent's independent contractors, which are subsequently re-charged to those contractors, and a donation made to help those affected by the war in Ukraine.



Finance income and costs

As part of its financing activities, the Parent recognises interest on bank deposits of free cash and on loans advanced to subsidiaries (as income) and interest on leases (as costs). In addition, it accounts for exchange differences, which in 2022 represented the key factor with a negative impact on net finance income/costs (PLN -0.3m) relative to 2021 (PLN +2.1m).

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).

As a result, the Parent's effective tax rate for both 2022 and 2021 was 4.9%. Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax amounted to PLN 3.1m and PLN 2.3m in 2022 and 2021, while deferred income tax amounted to PLN -0.9m and PLN -0.1m, respectively.

27. Statement of financial position

ASSETS	Dec 31 2022	Dec 31 2021	Change	Change in %
Non-current assets				
Intangible assets	156,283	7,159	149,124	2083%
Property, plant and equipment	4,345	4,064	281	7%
Right-of-use assets	14,794	11,804	2,990	25%
Investments in subsidiaries	55,404	55,721	(317)	-1%
Receivables and loans advanced	2,905	31,134	(28,229)	-91%
Long-term prepayments and accrued income	58	101	(43)	-43%
Non-current assets	233,789	109,983	123,806	113%
Current assets				
Contract assets	30,355	22,385	7,970	36%
Trade and other receivables	10,424	33,199	(22,775)	-69%
Short-term prepayments and accrued income	571	575	(4)	-1%
Cash and cash equivalents	49,391	90,735	(41,344)	-46%
Current assets	90,741	146,894	(56,153)	-38%
Total assets	324,530	256,877	67,653	26%

The Parent's assets rose 26%, by PLN 67.7m, to PLN 324.5m as at December 31st 2022, from PLN 256.9m as at December 31st 2021.

As at December 31st 2022, the Group's assets of the most material value were:

- Intangible assets, representing 48% of total assets;
- investments in subsidiaries, representing 17% of total assets;
- cash and cash equivalents, representing 15% of total assets.

Changes in investments in subsidiaries:

	Dec 31 2022	Dec 31 2021
Change in investments in subsidiaries		
As at beginning of period:	55,721	7,862
Increase:	-	47,859
Share capital increase at People Can Fly U.S. LLC	-	1,849
Acquisition of all shares in Game On Creative Inc.	-	25,685
Acquisition of a 50.01% interest in Incuvo S.A.	-	20,325
Decrease:	317	-
Game On Creative Inc.'s unachieved earn-out	317	-
As at end of period:	55,404	55,721

EQUITY AND LIABILITIES	Dec 31 2022	Dec 31 2021	Change	Change in %
Equity				
Share capital	599	599	-	0%
Share premium	121,869	121,869	-	0%
Other components of equity	49,898	48,355	1,543	3%
Retained earnings	99,131	64,882	34,249	53%
Equity	271,497	235,705	35,792	15%
Liabilities				
Non-current liabilities				
Borrowings, other debt instruments	-	510	(510)	-100%
Leases	12,850	9,710	3,140	32%
Deferred tax liability	157	1,057	(900)	-85%
Long-term prepayments and accrued income	7,477	-	7,477	-
Non-current liabilities	20,484	11,277	9,207	82%
Current liabilities				
Trade and other payables	26,213	4,425	21,788	492%
Current tax liabilities	2,329	1,395	934	67%
Borrowings, other debt instruments	510	875	(365)	-42%
Leases	3,163	2,920	243	8%
Employee benefit obligations and provisions	334	280	54	19%
Current liabilities	32,549	9,895	22,654	229%
Total liabilities	53,033	21,172	31,861	150%
Total equity and liabilities	324,530	256,877	67,653	26%

As at December 31st 2022, the Group's equity increased by PLN 35.8m (15%) relative to December 31st 2021, driven mainly by the net profit earned in the period.

28. Statement of cash flows

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021	Change	Change in %
Cash at beginning of period	90,735	32,940	57,795	175%
Cash flows from operating activities	178,511	30,278	148,233	490%
Cash flows from investing activities	(205,713)	(90,759)	(114,954)	127%
Cash flows from financing activities	(12,697)	118,212	(130,909)	-111%
Total net cash flows	(39,899)	57,731	(97,630)	-169%
Effect of foreign currency translation on cash	(1,445)	64	(1,509)	-2358%
Cash and cash equivalents at end of period	49,391	90,735	(41,344)	-46%

Cash decreased by PLN 41.3m, from PLN 90.7m as at December 31st 2021 to PLN 49.4m as at December 31st 2022.

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 2022, the Parent generated positive operating cash flows of PLN 178.5m, comprising mainly a pre-tax profit of PLN 44.5m and liabilities offset of PLN 81.6m as at December 31st 2022, which was related to an offset of receivables under loans against trade liabilities to related parties.

Investing activities

The Parent recorded negative cash flows from investing activities (PLN -205.7m), attributable primarily to payments for acquisition of intangible assets.

Financing activities

The Parent recorded negative cash flows from investing activities (PLN -12.7m), attributable primarily to:

- dividend payment,
- payment of lease liabilities.

29. Separate profitability ratios

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Gross profit (loss) margin	58.3%	57.9%
EBITDA	51,347	48,339
EBITDA margin	42.7%	44.8%
EBITDA adjustments:		
costs of offering / issue of Series B shares (1)	-	2,040
issue of warrants (2)	-	(3,399)
subscription warrants (cost as incentive scheme) (3)	1,543	1,151
legal advisory / due diligence costs (4)	-	888
Adjusted EBITDA	52,890	49,019
Adjusted EBITDA margin	44.0%	45.5%
Operating profit margin	35.5%	38.0%
Net profit (loss) margin	35.2%	38.7%
Return on equity (ROE)	15.6%	17.7%
Return on assets (ROA)	13.0%	16.3%

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

- Gross profit margin = gross profit / revenue
- EBITDA = operating profit + depreciation and amortisation + goodwill impairment
- EBITDA margin = (operating profit + depreciation and amortisation + goodwill impairment) / revenue
- Adjusted EBITDA = (operating profit + depreciation and amortisation + goodwill impairment + adjustments*)
- Adjusted EBITDA margin = (EBITDA + adjustments*) / revenue
- Operating profit margin = operating profit / revenue
- Net 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) one-off costs classified as costs of the issue of Parent shares,
- (2) 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,
- (3) reversal of the estimated value of the subscription warrants due to Square Enix Limited,
- (4) one-off costs of advisory services related to acquisitions.

30. Separate liquidity ratios

	Dec 31 2022	Dec 31 2021
Working capital	58,192	136,999
Current ratio	2.79	14.85
Quick ratio	2.79	14.85
Cash ratio	1.52	9.17

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

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

31. Separate funding structure ratios

	Dec 31 2022	Dec 31 2021
Equity to assets ratio	0.84	0.92
Equity to non-current assets ratio	1.16	2.14
Total debt ratio	0.16	0.08
Debt to equity ratio	0.20	0.09

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

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

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

Neither PCF Group S.A. nor its subsidiaries released any forecasts for 2022.

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

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

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

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

In order to cover the expenditure related to the Group's new strategy discussed in Section 7 of this Report, the Management Board intends to raise proceeds of approximately PLN 205m – PLN 295m from a new issue of Company shares.

The proceeds will be entirely used to expand the development teams to the level appropriate for the individual development stages of games Project Dagger, Bifrost and Victoria. The proceeds from the new issue of Company shares, together with (i) the Company's own cash, (ii) funds generated by the Company from operations and (iii) other available sources of financing which do not result in dilution of shareholders' equity interests, will allow the Group to fully implement its strategy. As at the date of authorisation of this Report for issue, the Management Board planned to recommend that the General Meeting does not approve payment of dividend until the Company generates revenue, profits and positive cash flows from its planned self-publishing activities, i.e., no earlier than from profits earned for the financial year 2025.

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

In the six months ended June 30th 2022, the Group completed all work commissioned by the publisher Take-Two Interactive Software, Inc. under a content rider (schedule) to the development and publishing agreement for Project Dagger and received all consideration for this work under the agreement. Despite talks conducted by the Parent's Management Board with the publisher with a view to agreeing on the terms of further cooperation, the parties did not sign another content rider setting out the terms and conditions of further work on Project Dagger. As a result, in the six months ended June 30th 2022, the Group ceased to generate revenue from the game. Considering the circumstances, in particular no new content rider with the publisher, no information on whether the publisher intends to exercise the option to purchase intellectual property rights to deliverables produced under the development and publishing agreement, and work being continued on Project Dagger by the Group in the self-publishing model with no possibility of earning further revenue from its production under the agreement, after meeting the criteria set out in International Accounting Standard 38 Intangible Assets the Group recognised expenditure incurred on the production of this game as development expenditure.

On October 1st 2022, People Can Fly U.S., LLC and the publisher Take-Two Interactive Software, Inc. entered into an agreement to terminate the development and publishing agreement for Project Dagger, with effect from September 23rd

2022, as discussed in detail above, in Section 2 of this Report. As at the date of authorisation of this Report for issue, the Group continued to produce Project Dagger under the self-publishing model using its own funds.

In addition to expansion of the development teams working on Project Bifrost and Project Victoria, the end of cooperation with Take-Two Interactive Software, Inc. led to a significant increase, on an annual basis, in development work in progress as a consequence of higher allocation of developers' remuneration to the balance sheet in connection with development of these games by the Group. The end of cooperation with Take-Two Interactive Software, Inc. led to a deterioration of the Group's operating result in the financial year 2022.

In the Management Board's opinion, save for the circumstances described above, in the financial year 2022 there were no factors or non-recurring events which would affect the operating result in that year.

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

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

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

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

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

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
As at beginning of period:	284	236
New hires/new independent contractors in period	63	72
Employee/contractor terminations in period (-)	(44)	(24)
As at end of period	303	284

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

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Beginning of period	495	281
New hires/new independent contractors in period	254	245
Employee/contractor terminations	(137)	(31)
End of period	612	495



PCF GROUP SPÓŁKA AKCYJNA GROUP

DIRECTORS' REPORT ON THE OPERATIONS OF
PCF GROUP SPÓŁKA AKCYJNA AND ITS GROUP IN 2022

SHARES AND OWNERSHIP STRUCTURE OF PCF GROUP S.A.

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

Share capital of PCF Group S.A.

As at the date of authorisation of this Report for issue, the share capital of PCF Group S.A. was PLN 601,726.60 and comprised:

- 27,500,000 Series A ordinary bearer shares with a par value of PLN 0.02 per share,
- 2,062,512 Series B ordinary bearer shares with a par value of PLN 0.02 per share,
- 387,714 Series D ordinary bearer shares with a par value of PLN 0.02 per share,
- 136,104 Series E ordinary bearer shares with a par value of PLN 0.02 per share.

The shares have been paid up in full.

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

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

The warrants are intended to be offered to Square Enix Limited, but the Warrants Issue Resolution also permits their issuance to a publisher other than Square Enix Limited, provided that the Parent establishes a business relationship with such new publisher in the future and that it agrees with that publisher upon the terms of their cooperation and acquisition of warrants. As at the date of authorisation of this Report for issue, the Parent did not intend to enter into an agreement with another publisher concerning subscription by that publisher for Series B warrants and an equity interest in the Parent. The Parent believes that the maximum number of Series C shares that could be subscribed for by Square Enix Limited would represent approximately 1.79% of the current amount of the Parent's share capital.

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

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

As at the date of authorisation of this Report for issue, the Parent estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited under the investment agreement would represent approximately 1.79% of the current amount of the Parent's share capital.

On May 24th 2021, the Extraordinary General Meeting of the Parent resolved to increase the Parent's share capital through the issue of Series D ordinary shares, to waive the existing shareholders' pre-emptive rights with respect to all Series D shares,

to seek admission and introduction of Series D shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series D shares into book-entry form, to authorise the Management Board to execute an agreement to register Series D shares in the depository for securities, and to amend the Parent's Articles of Association.

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

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

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

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

On February 10th 2023, the Management Board of the Parent, acting pursuant to the authorisation given in the Articles of Association of the Parent, passed a resolution to increase the Parent's share capital within the limits of authorised capital through the issue of Series E ordinary bearer shares ("Series E Shares"), to waive the existing shareholders' pre-emptive rights with respect to all Series E Shares, to seek admission and introduction of Series E Shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series E Shares into book-entry form, to authorise the execution of an agreement to register Series E Shares, and to amend the Parent's Articles of Association ("Series E Shares Issue Resolution").

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

The issue of Series E Shares was carried out by way of a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, conducted by way of a public offering made exclusively to: (i) Andrzej Wychowaniec ("Investor AW") – an offer to subscribe for 87,820 Series E Shares, and (ii) Radomir Kucharski ("Investor RK", together with Investor AW referred to as the "Investors") – an offer to subscribe for 48,284 Series E Shares. Series E Shares were subscribed for by the Investors as follows: (a) in order to subscribe for 87,820 Series E Shares, Investor AK made a contribution of 1,128,450 ordinary bearer shares in Incuvo S.A., representing approximately 7.90% of Incuvo S.A.'s share capital and total voting rights at Incuvo S.A.'s General Meeting, plus cash of PLN 1.10; (b) in order to subscribe for 48,284 Series E Shares, Investor RK contributed 620,428 ordinary bearer shares in Incuvo S.A., representing approximately 4.34% of the share capital and total voting rights at Incuvo S.A.'s General Meeting plus cash of PLN 4.40. The full text of the Series E Shares Issue Resolution was published in the Parent's Current Report No. 6/2023 of February 10th 2023.

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

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

On February 28th 2023, the Extraordinary General Meeting of the Parent resolved 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 to Series F shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series F shares and allotment certificates to Series F shares into book-entry form, to authorise the execution of an agreement to register Series F shares and allotment certificates to Series F shares in the depository for securities, and to amend the Parent's Articles of Association (the "Series F Shares Issue Resolution").

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

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

The adoption of the Series F Shares Issue Resolution was related to the Parent's intention to raise, on the capital market, funds to be entirely used to expand the development teams of the Company's Group to the level appropriate for the individual development stages of games Project Dagger, Project Bifrost and Project Victoria. The proceeds from the issue of Series F Shares, together with (i) the Company's own cash, (ii) funds generated by the Company from operations and (iii) other available sources of financing which do not result in dilution of shareholders' equity interests, will allow the Group to fully implement the new strategy referred to above in Section 7 of this Report.

As at the date of authorisation of this Report for issue, the public offering of Series F Shares was not carried out and no application was filed with the relevant registry court for entry in the Business Register of the National Court Register of an increase in the Parent's share capital. The Parent's Management Board expects this to take place immediately after the expiry of the period of 10 business days from the date of issue of the Company's interim consolidated financial statements for the first quarter of 2023.

Ownership structure of PCF Group S.A.

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

Shareholder	Number of shares held	(%)***	Number of voting rights	(%)***
Sebastian Wojciechowski	14,969,480	49.76	14,969,480	49.76
Bartosz Kmita	2,579,910	8.58	2,579,910	8.58
Krzysztof Dolaś	1,815,862	6.04	1,815,862	6.04
Bartosz Bieluszko	1,808,137	6.01	1,808,137	6.01
<i>jointly parties to the Qualifying Shareholders' Agreement**</i>	<i>21,173,389</i>	<i>70.38</i>	<i>21,173,389</i>	<i>70.38</i>
Other shareholders	8,912,941	29.62	8,912,941	29.62
Total	30,086,330	100	30,086,330	100

* The shareholding structure is based the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of February 28th 2023, taking into account the registration on March 3rd 2023 of the share capital increase related to the issue of Series E 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.

*** Some 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 December 31st 2022, to the Parent's knowledge, there were no changes in major holdings of shares in the Parent.

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

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

Upon the issue of Series C shares and implementation of the Warrants Issue Resolution, the Parent's shareholding structure will be further diluted. The table below shows the hypothetical structure of the Parent's share capital following the issue of Series C shares provided that the maximum number of Series C shares is issued, in two scenarios: (i) without taking into account Series F shares, and (ii) taking into account Series F shares in the maximum number specified in the Series F Shares Issue Resolution, as described above in Section 38 of this Report.

Structure of the Company's share capital following issue of Series C shares		
Series of shares	Number of shares and voting rights	(%)
Series A	27,500,000	86.91
Series B	2,062,512	6.52
Series C	1,555,922	4.92
Series D	387,714	1.23
Series E	136,104	0.43
Total	31,642,252	100

Structure of the Company's share capital following issue of Series C shares, taking into account the maximum number of Series F shares		
Series of shares	Number of shares and voting rights	(%)
Series A	27,500,000	73.34
Series B	2,062,512	5.50
Series C	1,555,922	4.15
Series D	387,714	1.03
Series E	136,104	0.36
Series F	5,853,941	15.61
Total	37,496,193	100

The warrants are intended to be offered to Square Enix Limited, but the Warrants Issue Resolution also permits their issuance to a publisher other than Square Enix Limited, provided that the Parent establishes a business relationship with such new publisher in the future and that it agrees with that publisher upon the terms of their cooperation and acquisition of warrants. As at the date of authorisation of this Report for issue, the Parent did not intend to enter into an agreement with another publisher concerning subscription by that publisher for Series B warrants and an equity interest in the Parent. The Parent believes that the maximum number of Series C shares that could be subscribed for by Square Enix Limited would represent approximately 1.79% of the current amount of the Parent's share capital.

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

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

As at the date of authorisation of this Report for issue, the Parent estimated that the maximum number of Series C shares that could be acquired by Square Enix Limited under the investment agreement would represent approximately 1.79% of the current amount of the Parent's share capital.

On February 28th 2023, the Extraordinary General Meeting of the Parent passed the Series F Shares Issue Resolution described in detail in Section 38 of this Report. Pursuant to the Series F Shares Issue Resolution, the Parent's Extraordinary General Meeting resolved to increase the Parent's share capital by no less than PLN 0.02 and no more than PLN 117,078.82 through the issue of no fewer than 1 and no more than 5,853,941 Series F Shares.

The issue of Series F Shares will result in further dilution of the equity interests held by the Parent's shareholders. The table below shows the hypothetical structure of the Parent's share capital following the issue of Series F Shares provided that the maximum number of Series F Shares as specified in the Series F Shares Issue Resolution is issued.

Structure of the Company's share capital following issue of Series F shares		
Series of shares	Number of shares and voting rights	(%)
Series A	27,500,000	76.52
Series B	2,062,512	5.74
Series D	387,714	1.08
Series E	136,104	0.38
Series F	5,853,941	16.29
Total	35,940,271	100

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



Parent's share capital through the issue of Series E Shares within the limits of authorised capital, which took place on March 3rd 2023. The above amendment to the Parent's Articles of Association will take effect upon the entry of the amendments to the Articles of Association in the Business Register of the National Court Register, which as at the date of authorisation of this Report for issue did not occur.

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

40. Repurchase of shares

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

41. Control system for employee stock plans

With the exception of the Incentive Scheme described below, in 2022 neither PCF Group S.A. nor its subsidiaries had any employee stock plans in place.

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

The Incentive Scheme's control system comprises the following:

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

OTHER INFORMATION

42. Auditor details

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

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

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



Grant Thornton is an audit firm within the meaning of the Statutory Auditors Act, entered in the list of audit firms maintained by the Polish Audit Supervision Authority under Reg. No. 3654. Grant Thornton meets the independence requirements under the laws and standards applicable to audit firms and auditors. Grant Thornton has no interest in the Parent; in particular, as at the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2022 it did not hold any equity instruments of the Parent, including shares or subscription warrants issued by the Parent.

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

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Statutory audit of financial statements	274	183
Other assurance services	9	55
Total	283	238



CORPORATE GOVERNANCE STATEMENT OF PCF GROUP S.A. FOR 2022

Introduction

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

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

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

and at the registered office of the Warsaw Stock Exchange.

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

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

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

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

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



		Commentary
		<p>As a developer of AAA video games, the Company does not run operations which would have a material environmental footprint. However, in its day-to-day operations, the Company takes various measures and initiatives in the area of sustainable development to reduce its negative environmental impacts, such as the implementation of electronic document workflow across the Company and its Group or leasing space for the Company's registered office in an office complex which is platinum certified under the worldwide LEED (Leadership in Energy and Environmental Design) green building certification program.</p> <p>The Company has not ruled out revising its business strategy in the future to include ESG aspects.</p>
1.3.2.	<p>social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations.</p>	<p>This principle is not complied with.</p> <p>The Company's strategy does not address ESG issues. Nevertheless, the key asset of the Group's business is its global and multicultural team, committed to creating world-class video games. Thus, such human factors as, in particular, employee engagement and satisfaction have, in the Management Board's opinion, an impact on the Company's performance, and any negligence in this area may lead to reduced or inconsistent productivity, weakening the Company's competitive position. In view of the above, the Company offers its employees competitive employment terms, including a range of perquisites.</p> <p>Given the international character of the Company's and its Group's workforce, the Company is committed to promoting a sound diversity and inclusion policy, which the Company believes helps attract new talent as well as stimulate innovation within the organisation by bringing together different ways of thinking and different approaches to problem solving.</p> <p>The Company has been continuously and rapidly expanding its team and offers equal hiring and promotion opportunities as well as equal employment terms to all candidates and existing personnel irrespective of their gender. In particular, gender is not a criterion affecting the amount of remuneration paid to men and women holding the same positions.</p> <p>The Company has not ruled out revising its business strategy in the future to include ESG aspects.</p>
1.4.	<p>To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others:</p>	<p>This principle is not complied with.</p> <p>The Company publishes on its website information on the Company's business strategy and objectives, including in particular long-term objectives and planned activities.</p> <p>Subject to the disclosure obligations applicable to the Company, the Company does not publish on its website any information on progress made in delivering the strategy.</p> <p>As at the date of this statement of compliance with Best Practice for GPW Listed Companies 2021 ("Best Practice 2021"), the Company does not publish all metrics listed in this principle, including ESG information concerning the strategy.</p>
1.4.1.	<p>explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;</p>	<p>This principle is not complied with.</p> <p>As explained under principle 1.3., the Company's current business strategy does not address ESG aspects. It must be</p>

		Commentary
		stressed that the Company, as a developer of AAA video games, does not run operations which would have a material environmental footprint. The Management Board of the Company as well as the management bodies of the Group's subsidiaries are, however, committed to ensuring that environmental protection solutions are applied across the Group's administrative functions.
1.4.2.	present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.	<p>This principle is not complied with.</p> <p>The differences in remuneration at the Company and the Group's subsidiaries are attributable to the nature and type of positions held and the overall pay volatility in the video game development industry. Given that one gender represents the vast majority of all employees in the industry in which the Company and its Group operate, presentation of a general equal pay index for the entire Group in accordance with this principle would be unreliable and misleading.</p> <p>At the same time, as explained under principle 1.3.2, the Company observes the principle of equal pay for women and men employed in comparable positions and gender does not affect the terms of employment at the Company.</p>
2. MANAGEMENT BOARD, SUPERVISORY BOARD		
2.1.	Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.	<p>This principle is not complied with.</p> <p>While fully committed to the principles of diversity, the Company does not have in place a formal diversity policy applicable to the Management or Supervisory Board, approved by the Supervisory Board or the General Meeting, as appropriate. The Company ensures gender diversity at the level specified in the principle in the case of its Supervisory Board, while the 30% or higher minority participation is not ensured on the Company's Management Board.</p> <p>Members of the Company's governing bodies are appointed based on their qualifications and professional experience and regardless of their age, gender or other diversity criteria. When selecting candidates for supervisory and management positions, the authorised bodies or entities are guided by the interests of the Company and its shareholders, taking into account the relevant qualifications, skills and experience of the candidates. Given the nature of the Company's business, its size and the need to appoint to governing bodies persons with specialist knowledge, the key criterion applied by the Company in selecting staff is their qualifications and professional experience, while other criteria, such as their age or gender, are disregarded. Members of the Company's Management and Supervisory Boards and senior management are selected so as to ensure the relevant pool of educational background, qualifications and experience, in order to enable the Company to leverage their knowledge and experience across all business areas. In addition, considering its strong growth, the Company believes that incorporating diversity management principles into a formal policy could restrict its ability to attract talent with qualifications relevant to its business at a given point in time.</p>
2.2.	Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum	<p>This principle is not complied with.</p> <p>Members of the Company's governing bodies are appointed based on their qualifications and professional experience and regardless of their age, gender or other diversity criteria, subject to relevant laws and regulations. When selecting</p>



		Commentary
	participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.	<p>candidates for supervisory and management positions, the authorised bodies or entities are guided by the interests of the Company and its shareholders, taking into account the relevant qualifications, skills and experience of the candidates. Given the nature of the Company's business, its size and the need to appoint to governing bodies persons with specialist knowledge, the key criterion applied by the Company in selecting staff is their qualifications and professional experience, while other criteria, such as their age or gender, are disregarded. Members of the Company's Management and Supervisory Boards and senior management are selected so as to ensure the relevant pool of educational background, qualifications and experience, in order to enable the Company to leverage their knowledge and experience across all business areas. In addition, considering its strong growth, the Company believes that incorporating diversity management principles into a formal policy could restrict its ability to attract talent with qualifications relevant to its business at a given point in time.</p>
2.7.	A company's management board members may sit on corporate bodies of companies other than members of its group subject to the approval of the supervisory board.	<p>This principle is not complied with.</p> <p>Neither the Articles of Association nor other internal regulations in place at the Company require that members of its Management Board secure the Supervisory Board's approval for serving on the governing bodies of entities other than Group entities.</p> <p>The Company has not ruled out amending its non-compete policies so as to require members of its Management Board to secure prior approval of the Supervisory Board for sitting on management or supervisory boards of non-Group companies competing with the Company.</p>
2.11.	In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. Such report includes at least the following:	
2.11.3.	assessment of the company's standing on a consolidated basis, including assessment of the internal control, risk management and compliance systems and the internal audit function, and information about measures taken by the supervisory board to perform such assessment; such assessment should cover all significant controls, in particular reporting and operational controls;	<p>This principle is not complied with.</p> <p>In the 'Report of the Supervisory Board and its Audit Committee on Their Activities in 2020, Including the Assessments Referred to in Principle II.Z.10 of Best Practice for GPW Listed Companies 2016', as prepared by the Company's Supervisory Board and presented to the General Meeting, the Supervisory Board included assessment of the Company's standing and the systems referred to in this principle.</p> <p>However, the Supervisory Board's assessment was not based on formal reports prepared as part of the Company's internal control, risk management or compliance systems. For the purposes of the Supervisory Board's assessment, neither the Management Board nor risk or compliance managers prepared any reports on the effectiveness of those functions as the Company has not established the positions of Chief Compliance Officer or Chief Risk Officer.</p> <p>The Report of the Supervisory Board does not contain an assessment of the internal audit function as the Company has not established a separate organisational unit dedicated to performing such function.</p> <p>The Report of the Supervisory Board does not include information on the measures taken by the Supervisory Board</p>

		Commentary
		to assess the Company's standing, including the systems referred to in this principle, as no such disclosure is required under Best Practice for GPW Listed Companies 2016 (" Best Practice 2016 "). Such disclosures will be made starting with the Report of the Supervisory Board and its Audit Committee on Their Activities in 2021.
2.11.6.	information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.	This principle is not complied with. As principle 2.1. is not applied and the Company does not have in place a formal diversity policy applicable to the Management or Supervisory Board, approved by the Supervisory Board or the General Meeting, as appropriate, the annual Report of the Supervisory Board will not address the above matters.
3. INTERNAL SYSTEMS AND FUNCTIONS		
3.5.	Persons responsible for risk and compliance management report directly to the president or other member of the management board.	This principle is not complied with. The Company does not have a Compliance Officer in charge of the compliance department or a Risk Officer in charge of the risk department. Persons responsible for risk management and compliance systems at the Company report directly and indirectly to the President of the Management Board.
3.9.	The supervisory board monitors the efficiency of the systems and functions referred to in principle 3.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and makes annual assessment of the efficiency of such systems and functions according to principle 2.11.3. Where the company has an audit committee, the audit committee monitors the efficiency of the systems and functions referred to in principle 3.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.	This principle is not complied with. The Supervisory Board monitors and assesses the effectiveness of internal control, risk management and compliance systems and functions on the basis of, among others, documents, reports and statements submitted by the person responsible for internal audit as well as other information obtained by the Supervisory Board in the course of its work. However, the Company does not comply with principle 3.9 with respect to risk management and compliance systems as no individuals have been appointed to take charge of these areas, as explained in the commentary on principle 3.2. The Management Board does not prepare the report referred to in that principle either.
6. REMUNERATION		
6.2.	Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term standing of the company measured by its financial and non-financial results as well as long-term shareholder value creation, sustainable development and the company's stability.	This principle is not complied with. As at the date of this statement of compliance with Best Practice 2021, the Company had no incentive scheme in place. If such scheme is implemented, the Company intends to comply with this principle.

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

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

On December 1st 2020, the Parent took over the maintenance of its accounting records from a third party provider of accounting services, which, in the Management Board's opinion, enabled the Parent to adapt its in-house finance and accounting function to meet the Parent's needs. In 2022, the accounting records of PCF Group S.A.'s subsidiaries, except those of Game On Creative, Inc., were maintained by third party accounting firms. Supervision of the third party providers of accounting services has been the responsibility of the Chief Financial Officer as part of the internal control system. The Chief Financial Officer is accountable to and reports directly to the President of the Management Board.

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

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

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

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

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

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

The external auditor who audited the Group's full-year consolidated financial statements for the financial year ended December 31st 2022 and the Company's full-year separate financial statements for the financial year ended December 31st 2022 did not submit any comments on the operation of the internal control system.

Pursuant to Resolution No. 14/2022 of the Parent's Management Board of December 14th 2022, on January 1st 2023 an internal audit function was established at the Parent and an internal auditor was appointed to take charge of internal audit at the Parent. Pursuant to the Management Board's resolution referred to above, internal audit is an element that supports

the process of monitoring and assessing the Parent's internal control system, and its objective is to regularly, independently and objectively examine, evaluate and improve the internal control procedures and mechanisms in place at the Parent, including with respect to the preparation of financial statements and consolidated financial statements. Internal audit at the Parent is managed by an internal auditor, who reports organisationally to the President of the Parent's Management Board and functionally to the Chair of the Audit Committee of the Parent's Supervisory Board.

Shareholders with major direct or indirect holdings of Company shares

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

Shareholder	As at the reporting date*			
	Number of shares held	(%)	Number of voting rights	(%)
Sebastian Wojciechowski	14,969,480	49.98	14,969,480	49.98
Bartosz Kmita	2,579,910	8.61	2,579,910	8.61
Krzysztof Dolaś	1,817,936	6.07	1,817,936	6.07
Bartosz Biełuszko	1,808,137	6.04	1,808,137	6.04
<i>jointly parties to the Qualifying Shareholders' Agreement**</i>	<i>21,175,463</i>	<i>70.70</i>	<i>21,175,463</i>	<i>70.70</i>
Other shareholders	8,774,763	29.30	8,774,763	29.30
Total	29,950,226	100	29,950,226	100

* The shareholding structure is based the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of June 28th 2022.

**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.

Shareholder	As at the date of authorisation of this Report for issue*			
	Number of shares held	(%)***	Number of voting rights	(%)***
Sebastian Wojciechowski	14,969,480	49.76	14,969,480	49.76
Bartosz Kmita	2,579,910	8.58	2,579,910	8.58
Krzysztof Dolaś	1,815,862	6.04	1,815,862	6.04
Bartosz Biełuszko	1,808,137	6.01	1,808,137	6.01
<i>jointly parties to the Qualifying Shareholders' Agreement**</i>	<i>21,173,389</i>	<i>70.38</i>	<i>21,173,389</i>	<i>70.38</i>
Other shareholders	8,912,941	29.62	8,912,941	29.62
Total	30,086,330	100	30,086,330	100

* The shareholding structure is based the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of February 28th 2023, taking into account the registration on March 3rd 2023 of the share capital increase related to the issue of Series E 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.

*** Some 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.

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

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

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

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

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

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

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

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

Restrictions on the exercise of voting rights

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

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

Articles of Association

Pursuant to Art. 337 of the Commercial Companies Code, the Company's shareholders have the right to dispose of their shares. Such disposition of Company shares may include their sale (transfer of ownership) and other forms of disposition, including, in particular, through pledge, lease or establishment of usufruct over such shares. As at December 31st 2022, the Articles of Association did not provide for any restrictions on transferability of the Company's securities.

Lock-up Agreements

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

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

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

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

In addition, under subscription agreements executed between the Company and the investor Andrzej Wychowaniec, President of the Management Board of Incuvo S.A. ("Investor AW"), and investor Radomir Kucharski, Vice President of the Management Board, Chief Product Officer ("Investor RK"), each Investor was obliged to submit to the brokerage office maintaining their securities account an irrevocable instruction to lock up all Series E shares in PCF Group S.A. subscribed for by them (the "Series E Shares") until December 31st 2024. During the lock-up period, each Investor agreed: (i) not to assume any obligations or make any disposals with respect to Series E Shares, any rights conferred by Series E Shares, or any rights to Series E Shares; (ii) not to transfer Series E Shares, whether for a consideration or free of charge; (iii) not to encumber or dispose of Series E Shares in any other way that could lead to a change in the ownership of (title to) Series E Shares; (iv) not to offer for purchase or announce an intention to offer, not to transfer or encumber in any way Series E Shares or rights attached to Series E Shares, rights to Series E Shares, including through entry into any transaction (such as the grant of any call option or other rights relating to Series E Shares) transferring in whole or in part the economic consequences of ownership of Series E Shares or the rights referred to above, and not to create any encumbrance over Series E Shares or such rights; (v) not to take any action that causes or could cause seizure of Series E Shares, any rights attached to Series E Shares or any rights attached to Series E Shares or rights to Series E Shares by third parties.

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

Furthermore, in accordance with the investment agreement of March 28th 2023 between the Company, Sebastian Wojciechowski and Krafon, Inc., both Sebastian Wojciechowski and Krafon, Inc. made standard lock-up declarations concerning their shareholdings in the Company, which will be effective until March 28th 2024.

Legal regulations

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

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

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

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

Under the Articles of Association, the Management Board is composed of one or more members, including President of the Management Board. The number of Management Board members is determined by the Supervisory Board. If the Management Board is composed of more than one member, it may include Vice Presidents or other Management Board members in addition to the President of the Management Board. The Management Board members are appointed for a joint term of three years. As at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2022, the Management Board was composed of one member – President of the Management Board. The mandate of the President of the Management Board will expire on or before the date of the General Meeting convened to approve the financial statements for the most recent full financial year in which the President held the office. The mandate of the President of the Management Board will also expire upon the President's death, resignation or removal from the Management Board. If the Management Board is composed of more members, the mandate of a new Management Board member appointed prior to the expiry of the Management Board's term of office will expire simultaneously with the mandates of the other Management Board members.

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

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

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

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

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

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

Rules governing amendments to the Company's Articles of Association

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

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

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

Pursuant to Art. 402¹.1 of the Commercial Companies Code, a General Meeting is convened by way of a notice published on the Company's website and in the manner prescribed for the purposes of current disclosures pursuant to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005. The notice should be published at least twenty-six days prior to the date of the General Meeting (Art. 402¹.2 of the Commercial Companies Code).

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

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

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

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

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

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

Operation of the General Meeting

In 2022, the Company's General Meeting was held two times. The General Meetings of the Company are held in accordance with the rules set out in the Commercial Companies Code and the Articles of Association.

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

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

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

The Company's Articles of Association do not provide for the adoption of rules of procedure for the Company's General Meetings, and no such rules of procedure were in place at the Company as at the reporting date and the date of authorisation of this Report for issue.

Key powers of the General Meeting

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

Shareholders' rights and the manner in which they are exercised

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

The Company's Articles of Association do not provide for the adoption of rules of procedure for the Company's General Meetings, and no such rules of procedure were in place at the Company as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2022.

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

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

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

Pursuant to Art. 17.5 of the Articles of Association, if the General Meeting determines that the Supervisory Board shall consist of five members (this provision was effective as at the reporting date and the date of authorisation for issue of this Directors' Report on the operations of PCF Group S.A. and its Group in 2022), the Group of Qualifying Shareholders shall have the special personal right to appoint and remove three Supervisory Board members, including the Chairperson of the Supervisory Board to be appointed from among them.

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

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

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

Management Board

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

In the period from January 1st 2022 to the date of authorisation of this Report for issue, the composition of the Management Board did not change.

However, on May 31st 2022, Sebastian Wojciechowski resigned from the Management Board with effect from the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022). At the same time, on May 31st 2022, Sebastian Wojciechowski, acting in the exercise of his personal right to appoint and remove the Management Board member in the position of President of the Management Board, appointed himself as President of the Management Board for the second joint term of office of the Management Board, with effect from the day following the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022).

He had resigned as member of the Management Board for prudential reasons, i.e. to avoid any legal controversy as to the time of expiry of the Management Board member mandate in view of the approaching end of the Management Board's term of office, which expired on November 6th 2022. In the absence of unequivocal legal regulations it was not clear whether, if he did not resign as member of the Management Board, the Management Board member mandate would expire at the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022), or at the Annual General Meeting approving the Parent's financial statements for the financial year 2022, which will be held in 2023.

The Parent is of the opinion that the resignation of the member of the Management Board and his appointment for a new, second term of office with effect from the day following the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022) allowed the Parent to avoid doubts as to the correctness of appointments to the Management Board and the counting of the term of office of President of the Management Board.

Under the Articles of Association, the Management Board is composed of one or more members, including President of the Management Board. The number of Management Board members is determined by the Supervisory Board. If the Management Board is composed of more than one member, it may include Vice Presidents or other Management Board

members in addition to the President of the Management Board. The Management Board members are appointed for a joint term of three years.

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

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

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

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

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

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

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

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

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

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

Supervisory Board

As at January 1st 2022, the Company's Supervisory Board consisted of five members:

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

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

Aleksander Ferenc, PhD, resigned from membership of the Supervisory Board on March 3rd 2022, with effect from that date, as he received a proposal to cooperate with the Company in the area of Integration and M&A. On March 7th 2022, pursuant to Art. 23 of the Company's Articles of Association, the Company's Supervisory Board co-opted Dagmara Zawadzka onto the Supervisory Board of PCF Group S.A., with effect from March 7th 2022 until the end of the current three-year joint term of office of the Company's Supervisory Board, subject to approval of the appointment of Dagmara Zawadzka by the General Meeting. On April 13th 2022, the Extraordinary General Meeting approved the appointment of Dagmara Zawadzka to the Supervisory Board.

On May 31st 2022, all members of the Parent's Supervisory Board of the first joint term of office expiring on November 6th 2022, i.e. Mikołaj Wojciechowski as Chair of the Supervisory Board and the following members: Barbara Sobowska, Dagmara Zawadzka, Kuba Dudek and Jacek Pogonowski, resigned from the Supervisory Board with effect from the date of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (held on June 28th 2022).

At the same time, on May 31st 2022, a Group of Qualifying Shareholders within the meaning of Article 17.3 of the Articles of Association of the Parent, comprising Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and Krzysztof Dolaś, in the exercise of the personal right vested in the Group of Qualifying Shareholders to appoint and remove members of the Supervisory Board, appointed Mikołaj Wojciechowski, Barbara Sobowska and Kuba Dudek as members of the Supervisory Board for the second joint term of office, with effect from the day following the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022). The Group of Qualifying Shareholders also designated Mikołaj Wojciechowski as Chair of the Supervisory Board.

On June 28th 2022, the Annual General Meeting of the Parent appointed Dagmara Zawadzka and Jacek Pogonowski as members of the Supervisory Board of the Parent meeting the independence criteria for audit committee members, as set out in the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, for the second joint term of office of the Supervisory Board, with effect from June 29th 2022. Among the Supervisory Board members, Jacek Pogonowski and Aleksander Ferenc, PhD, satisfied the independence criteria under the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017, and Best Practice for GPW Listed Companies 2021.

As at the reporting date (December 31st 2022) and as at the date of authorisation of this Report for issue, the Company's Supervisory Board consisted of five persons:

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

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

Supervisory Board members were appointed for a joint three-year term of office, which commenced on May 31st 2022.

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

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

The scope of powers of the Supervisory Board is specified in the Commercial Companies Code and the Company's Articles of Association. Powers of the Supervisory Board include assessment of the Directors' Report on the Company's operations and the financial statements for the previous financial year, and assessment of the Directors' Report on the Group's operations and the Group's consolidated financial statements for the previous financial year, in terms of their consistency with the accounting books, underlying documents and facts, as well as assessment of the Management Board's proposals concerning distribution of profit or offset of losses and submission to the General Meeting of an annual written report for the previous financial year (the Report of the Supervisory Board).

Members of the Supervisory Board perform their supervisory duties collectively. The Supervisory Board may delegate one of its members to individually perform specific supervisory duties. The Supervisory Board may also appoint an ad hoc or standing committee of the Supervisory Board, composed of Supervisory Board members, to perform specific supervisory duties. A delegated member of the Supervisory Board and the Supervisory Board committee should report to the Supervisory Board at least once a quarter in a financial year on their performance of such supervisory duties.

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

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

In 2022, the Supervisory Board held six meetings and passed resolutions without convening a meeting. As part of its meetings and resolutions, the Supervisory Board's main activities included analysis of the financial statements and profit distribution, issuing opinions on resolutions of the Company's General Meeting, change in the composition of the Audit Committee in 2022, summary of Supervisory Board's activities in 2022, discussion of the Company's position on a consolidated basis, including internal control and risk management systems, compliance and the internal audit function, and read the information on the fulfilment of disclosure obligations by the Company.

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

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

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

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

Audit Committee

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

In the period January 1st – March 3rd 2022, the composition of the Audit Committee was as follows:

- Jacek Pogonowski – Chair of the Audit Committee

- Aleksander Ferenc, PhD – Member of the Audit Committee
- Mikołaj Wojciechowski – Member of the Audit Committee.

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

On March 3rd 2022, Aleksander Ferenc, PhD, resigned as Member of the Company's Supervisory Board with effect as of the same date.

On March 7th 2022, pursuant to Art. 23 of the Company's Articles of Association, the Company's Supervisory Board co-opted Dagmara Zawadzka onto the Supervisory Board of PCF Group S.A., with effect from March 7th 2022 until the end of the current three-year joint term of office of the Company's Supervisory Board. On April 13th 2022, the Extraordinary General Meeting approved the appointment of Dagmara Zawadzka to the Supervisory Board.

In the period from March 7th 2022 to the date of authorisation of this Report for issue, the Audit Committee of the Company's Supervisory Board consisted of:

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

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

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

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

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

Rules governing the operation of the Audit Committee

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

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

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

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

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

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

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

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

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

Permitted non-audit services

In the financial year 2022, the audit firm Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k. provided to the Company a permitted non-audit service consisting in an assessment of the Report on the remuneration of members of the Management Board and Supervisory Board for the period January 1st 2021 – December 31st 2021 in terms of completeness of the disclosures made therein as required under applicable laws and regulations; the assessment was expressed in the form of an assurance engagement report. The Audit Committee granted its consent to the provision of the service in Audit Committee Resolution No. 1/2022 of March 16th 2022.

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

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

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

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

Under the Supervisory Board's Resolution No. 17 of June 29th 2021: (i) Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Spółka komandytowa was appointed the audit firm authorised to (i) review the Parent's interim financial statements and the Group's interim consolidated financial statements for the six months ended June 30th 2021 and for the six months ended June 30th 2022 prepared in accordance with IFRS/IAS, and (ii) to audit the Parent's financial statements and the Group's consolidated financial statements for the financial years 2021 and 2022 prepared in accordance with IFRS/IAS.

At the time of appointment of the auditor, the Company was subject to the provisions of the Statutory Auditors Act, Audit Firms and Public Oversight of May 11th 2017 and therefore was legally required to develop and maintain a policy governing: (i) selection and appointment an audit firm to audit its financial statements; and (ii) provision by the audit firm, its affiliates and members of the audit firm's network of permitted non-audit services; and to define the procedure for selecting an audit firm by an entity of public interest.

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

In the financial year 2022, the audit firm Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k. provided to the Company a permitted non-audit service consisting in an assessment of the Report on the remuneration of members of the Management Board and Supervisory Board for the period January 1st 2021 – December 31st 2021 in terms of completeness of the disclosures made therein as required under applicable laws and regulations; the assessment was expressed in the form of an assurance engagement report. The Audit Committee granted its consent to the provision of the service in Audit Committee Resolution No. 1/2022 of March 16th 2022.

Number of Audit Committee meetings

In 2022, the Audit Committee held nine meetings during which it:



- reviewed the summaries of the processes carried out at the start and close of the audits of the full-year separate and consolidated financial statements for 2021 and of the interim separate and consolidated financial statements for the first half of 2022, as prepared by the Company's auditor;
- reviewed the additional report for the Audit Committee and submitted it to the Supervisory Board and the Management Board;
- reviewed the draft interim financial statements prepared in 2022;
- granted consent to the provision by the entity authorised to audit the financial statements of the Company and its Group of services other than auditing or reviewing financial statements;
- adopted the report of the Audit Committee of the Supervisory Board on its activities in 2021;
- read the information on the status of the Company's implementation of the auditor's recommendations resulting from the audit and review of the Company's and the Group's financial statements;
- discussed the introduction of internal audit at the Company.



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**DIRECTORS' REPORT ON THE OPERATIONS OF
PCF GROUP SPOLKA AKCYJNA AND ITS GROUP IN 2022**