

## Transcript of a conference call held on 9 November 2016

**Announcer:** Ladies and gentlemen, welcome to our quarterly results teleconference covering the third quarter of 2016. The conference will be hosted by Mr. Adam Kiciński, President of the Board of CD PROJEKT S.A., and Mr. Piotr Nielubowicz, Vice President and CFO of CD PROJEKT S.A. We will begin with a presentation and then follow up with a Q&A session. I will now turn it over to our presenters.

**AK:** Good morning, this is Adam Kiciński.

**PN:** Piotr Nielubowicz here; good morning.

**AK:** We wish to greet you on this rather surprising morning. To loosen the atmosphere I will begin by recounting something I overheard earlier today. Standing by the coffee machine are two of our colleagues whom I haven't personally been introduced to. They're not Poles – they're having a conversation in English. They're looking out the window, gazing at the melting snow, when suddenly one of them says: “Ever seen snow before?” - “Yeah, three years ago.” - “Wow. It's my first time.” I suppose we could all use some cheering-up on this rather somber morning. Well, our results, as you already know, are pretty good, as Piotr will soon explain. Have all of you been able to access our slides? They're posted on our website and it would be good if you could keep them open right now because we'll be referring to specific items. Should any of you have problems finding or opening the presentation – let me know and I'll see if I can help you.

**PN:** Good morning. We'll begin with slide no. 3, the finances of CD PROJEKT for Q3 of the current year. The Witcher has been out for a year and a half now, and as you can see we continue to report high revenues, comparable to the third quarter of 2015. This year the Group generated nearly 101 million in sales revenues. Over the same period the cost of products, goods and materials sold decreased markedly compared to the same period in 2015, as the development expenses corresponding to The Witcher 3 and both expansion packs have been fully discounted in previous periods. Ongoing sales of all these products do not correspond to any further costs. Of course there are some costs attributable to GOG.com, and also those associated with sales of physical box editions, which are ongoing. Regarding gross sales revenues we posted a slight increase in margin – by 3% – to over 82 million PLN. Selling costs have also increased. Why? Well, in the third quarter we conducted aggressive PR and marketing campaigns connected with GWENT. This game will be published by the Group in most territories, without involving external partners. So, unlike The Witcher 3 where some of the marketing costs were borne by publishers and then subtracted from royalties due to us, we will cover all the relevant costs ourselves and report them on the fly. The next item – general and administrative expenses – increased from 4.4 million to 5.6 million, mostly as a result of expansion of the Group's activities both regarding development and GOG.com. We have far more in the works now, following the release of The Witcher 3, than ever before. No significant changes have occurred with regard to financial revenues and expenses, which brings me to the summary section – the Group's net profit was 36.6 million PLN, and that's in a quarter where we had no events comparable to the release of The Witcher 3 or its expansion packs. This indicates steady sales, resulting in high net profitability. Moving on to the next slide, the CD PROJEKT RED results. Most of what I said while discussing groupwide results also holds true for this segment. CD PROJEKT RED is responsible for the bulk of the consolidated figures. We see revenues slightly exceeding 80 million PLN with a much lower cost of products, goods and materials sold – mostly costs associated with boxes, data carriers and other components of physical editions, improved margins – over 75 million PLN – and an increase in operating costs, that is selling costs, general and administrative expenses and GWENT promotional expenses. This translates into 39.2 million PLN in net profit. Regarding GOG.com we posted a 12% increase in sales, reaching over 23.5 million PLN. Note that we're dealing with a very high baseline – the reference point, Q3 2015,

represented an improvement of nearly 80% over the corresponding period in 2014 due to the recent release of The Witcher 3. Even so, we managed to improve upon these already excellent results. At the same time the GOG sales margin decreased somewhat. This is due to increased participation of newer products in the GOG.com portfolio. Such products are typically covered by licensing agreements where 70% of revenues are remitted to the copyright holder while 30% remains at GOG. The modest increase in operating costs is due to expansion of GOG activities, especially involvement in GWENT – a dedicated GOG team is participating in development and maintenance of the beta release, and so some of the development costs are aggregated with the GOG.com financial result. Of course this incurs operating costs which are accounted for in the profit and loss account. At the end of Q3 the net result of GOG was nearly 300 thousand PLN. The next slide presents the balance of assets. Fixed assets increased in value during the reporting period. This item generally holds steady, except for expenses on development projects which grew by more than 13 million PLN – naturally, as a result of ongoing development work, particularly our flagship projects: Cyberpunk 2077 and GWENT. Regarding working assets, the most significant change is in receivables, which decreased from 103 million to 69 million PLN, that is by nearly 34 million PLN, as a result of collection of outstanding receivables previously reported at the end of June. Note that Q2 was a good period, saleswise, and saw the release of Blood and Wine. These receivables continue to trickle in without problems. Prepaid expenses underwent no significant changes – these are mostly distribution licenses acquired by GOG.com. Cash assets continue to increase, as I will explain while presenting the next slide. Regarding liabilities, our equity increased as a result of Q3 results but also due to new stock, worth slightly under 3 million PLN, issued under the incentive program for 2012-2015, whose goals have been attained. Other short-term liabilities also increased – mostly as a result of GWENT advances obtained from foreign clients in Q3. Provisions decreased significantly since some were used up to pay result-dependent bonuses – almost entirely to the The Witcher 3 development team, covering the one-year period which began with the game's release. Moving on to cash flows – the calculation begins with net profit after tax, then there are adjustments from Q3 changes in receivables, changes in provisions – that is, mostly result-dependent bonuses, and changes in liabilities resulting from collection of advances, as already mentioned. Altogether, positive cash flows from operating activities reached over 57 million PLN. Regarding investment activities, we posted some inflows here – mostly interest from bank deposits, and there are also expenditures – over 12 million PLN spent on development of future games, especially Cyberpunk and GWENT. No significant changes in significant activities, with 2.7 million PLN associated with issue of new stock under the incentive program for 2012-2015. Altogether we generated nearly 48 million PLN in positive Q3 cash flows and as of the end of September our cash balance exceeded 552 million PLN. That's 248 million more than at the end of Q3 2015, meaning that over the last four quarters the Group secured nearly 250 million PLN in positive cash flows. Interestingly, if we go back a year, to Q3 2015, we will note that the corresponding annual period was very similar, with 258 million PLN in positive cash flows. This shows persistent profitability and a steadily growing cash pool. That's all regarding finances; over to you, Adam.

**AK:** I want to say a few words about GWENT which entered the closed beta phase two weeks ago. First, I wish to remark that the game you're currently seeing is a very early iteration. We're very pleased with to-date tests. The first, fundamental aspect we wished to examine is technical in scope – we're looking at how the system operates. I'm talking about servers; about communication between player devices and servers. All of this technology is developed by us – the game is based on GOG Galaxy. So far everything works pretty much perfectly. Some minor glitches which we detect, often invisible to players, are fixed on the fly. This bodes well. Regarding the game itself – we're still in an early phase. There are only four factions and only one gameplay mode, the casual mode, where you play against randomly selected players. We also provide a basic deck builder tool, a basic card creation and destruction tool, a rudimentary rewards system and an initial special attack system. Thus far, the game is only available in six language versions. What's most important from

the point of view of monetization – and, again, this functionality is highly preliminary – you can buy cards; not very many of them available at the moment but they're sold in five types of bundles, from two to sixty per bundle. This monetization works, players are making purchases – naturally, I won't yet reveal specific results. Everything we've seen over the past two weeks fills us with optimism and while it's too early to draw long-term conclusions our mindset is very positive and we are hard at work on new features. In the coming months we'll be adding a lot of functionality; this is going to be an intensive development phase. We're working on the PS4 release, adding a new faction – the Nilfgaard Empire, and also working on single-player content. That last item is something I want to talk more about. Those of you who follow our announcements know that we have previously announced single-player campaigns, and that's a very important feature. Single-player campaigns are “minigames” – well, by “mini” I mean they will provide some 10 hours of gameplay – separate from the main multiplayer mode. In these campaigns we can relive the adventures of characters from The Witcher universe. As you know, we excel at storytelling and our fans eagerly await new storylines. So, our hopes are riding on this gameplay mode. As I've already mentioned, single-player content will be paid, and will tie into the main gameplay mode, the multiplayer mode. In single-player campaigns players will take control of Geralt and explore the world – of course, not in the same way as in The Witcher 3 – but we will explore, face tough decisions and bear consequences. At key moments – such as battles – we will play rounds of GWENT. These rounds may award special cards which strengthen our deck and can be used when facing other players.

Moving on with other subjects I can mention – and note that there are many features I'm not going to reveal today, so please do not treat this list as comprehensive. We are going to introduce a ranking system. Right now only casual gameplay is supported – while the system attempts to match players representing similar skill levels, no ranking ladder is available right now. We want to add this feature as soon as possible since some players – particularly the most advanced ones – would like to see their current standing. We're also working on the Chinese version of GWENT. Note that even though a Chinese edition of The Witcher 3 has been released, we never officially entered the Chinese market. GWENT will be the first game officially released in China, and one which stands to succeed on the local market. Allow me to clarify: the game represents a genre which Chinese gamers find appealing – multiplayer card games, and we believe that, together with our regional partner which we enlisted in the summer – we will be successful in China. The Chinese version will be slightly delayed – well, at this stage it's difficult to talk delays since we're still in closed beta – but a Chinese beta will be released soon. We are also adding new language versions and will shortly have 12 distinct versions available. This is a “flavor” of sorts – as with all our Witcher-themed games, we want to have as many localizations as possible since they enhance player immersion. As I've said – these are things I can talk about today; we're also working on other unannounced features which will be revealed in the coming year. That's all about GWENT; let me just briefly address The Witcher 3 – Game of the Year Edition, published in early fall. An important note here regarding the current year: Black Friday kicks off a series of holiday sales involving both physical and digital distribution channels. This is an important period for The Witcher 3 GOTY and we will be part of all major sales campaigns in all key markets around the world. The game will enjoy good exposure and while I obviously can't refer to specific results, we expect to provide good value for gamers, which should result in increased sales in Q4. That's all from me – I now invite you to ask questions.

**Announcer:** Ladies and gentlemen, we're opening the Q&A session. To ask a question please dial 01 on your phone keypad. (...) The first question will be asked by Mr. Tomasz Rodak representing BOŚ Brokerage House.

**Tomasz Rodak:** Good morning, this is Tomasz Rodak, BOŚ. I would like to ask whether any provisions were dissolved or created by your distributors during the third quarter.

**AK:** The relative importance of these provisions – both those which cover past periods and have

now been dissolved, and those created with future reporting periods in mind – is decreasing. Note that sales spikes typically follow each new release, which naturally results in large provisions being created. Right now the sales curve has flattened out – it's no longer spiking by several hundred percent – so these provisions are not that important anymore and do not receive the same sort of attention on our part.

**TR:** I see. I have another question: could you provide more details regarding advance payments from foreign clients associated with GWENT – I'm talking about the Q/Q increase of 20 million PLN?

**AK:** This item comprises minimal guarantees associated with GWENT, that is royalties guaranteed by our foreign partners. A similar situation occurred in the case of The Witcher 3, though note that we will distribute GWENT ourselves on most markets, so there are fewer external distributors. Still, we've decided not to provide a breakdown of this figure and list specific partners.

**PN:** Also note that GWENT differs from a classic box videogame release, so these advances are not exactly the same thing – but, like Adam said, they come from our foreign partners and are associated with GWENT.

**TR:** So they're similar to advances for The Witcher – to be recognized upon release of GWENT and aggregated with revenues?

**PN:** Regarding the launch of GWENT – the game is already available as a beta and will steadily progress towards the final release, so unlike a boxed videogame there is no single release date – but yes, there will come a moment when these advances become nonrefundable – this is specified in each distribution contract – and at that moment we will recognize them as revenues.

**TR:** Thank you.

**Announcer:** Ladies and gentlemen, to ask a question please dial 01 on your phone keypad. (...) As there are no further questions I will now again turn it over to our presenters.

**PN:** We're very happy to have satisfied your curiosity. Looking at the list of participants – we're in touch with nearly all of you, so if you have any further questions you can call or e-mail Karolina or Kasia; we're always available. Thank you for your attention; we're heading back to work on GWENT.

**AK:** Thank you very much.

**Announcer:** Thank you for participating in the conference. You may now disconnect.