

Transcript of a conference call held on 25 May 2017

Investor conference call — transcript translation May 25th, 2017

Announcer: Good morning. Welcome to the conference call of the CD PROJEKT Group for Q1 2017. The speakers are Adam Kiciński, President of CD PROJEKT S.A., and Piotr Nielubowicz, Vice-President and CFO of CD PROJEKT S.A. After presentations, we will have Q&As. Now, over to the speakers.

Adam Kiciński (AK): Good morning, this is Adam Kiciński and Piotr Nielubowicz. Welcome. In the first part, we will discuss the presentation, which is available on our corporate website. If you don't have it, please go to our corporate website at cdprojekt.com, tab Q1 2017 Results – it's the first white tile on the website. Click the second option: Q1 2017 Presentation, to display the presentation. We will now discuss the slides.

Piotr Nielubowicz (PN): Let's look at Slide 3 with the P&L first.

Q1 2017 was a good quarter, both in terms of financial results and the preparations for yesterday's event: the launch of the Public Beta tests of GWENT.

As for the financial results, the Group generated more than PLN 99 million of revenue, more than in Q1 2016. Our costs of products, goods and materials sold went down yoy, mainly because the cost of the production of The Witcher 3 and expansions had been recognised in the expenses of previous periods, and this year's sales revenue was not coupled by costs of production of the games. The costs presented in cost of products, goods and materials sold included current costs of physical items such as boxes sold in relatively small quantities. The higher revenue was reported both in the CD PROJEKT RED segment and GOG.com. More on this later when we discuss the segments.

Our operating expenses also decreased modestly year on year. The largest cost item was salaries, including performance-linked remuneration. Our Q1 2017 expenses also included costs of promotion, mainly the promotion of GWENT.

Our Q1 net profit was over PLN 45 million, up by 39% year on year. The profit margin was strong at more than 45%. We are very happy with the results.

The sales of The Witcher 3 in Q1 2017 exceeded our in-house projections. We are glad that The Witcher 3 and expansions are selling so well.

Next slide: P&L of the CD PROJEKT RED segment, our game development studio.

The sales revenue was PLN 75 million, an increase of more than 10% year on year.

Most importantly in Q1 2017, we sold more of The Witcher 3 games with expansions than last year, which is absolutely phenomenal. The revenue from the sales of The Witcher 3 and expansions increased year on year as well.

We also earned first revenue from the sales of GWENT in Q1 2017. However, GWENT had a negative contribution to the results of the production segment in Q1 2017 as we paid more for the promotion of GWENT than we earned. In our opinion, this is absolutely normal. Tests are part of production, necessary to develop the best game possible. We are building brand and product awareness. We're now focusing on developing the market for the product — time will come to focus on generating revenue.

The costs of products, goods and materials sold decreased significantly year on year. The costs of The Witcher 3 and expansions as well as other prior projects of previous years had been recognised in earlier periods. Consequently, the revenue is largely free of those costs.

Operating expenses decreased modestly year on year as well.

The net profit was PLN 43.7 million, i.e., up by 35% year on year.

And now, GOG. The revenue increased by 63%. The GWENT effect was tangible. GWENT contributed to the increase in revenue in Q1 2017 year on year. It is an important part of the GOG portfolio now, even though the game was in a closed beta tests in Q1 2017.

The increase of operating expenses in the GOG.com segment was driven mainly by the relevant part of the cost of GWENT allocated to the segments in the consortium created to produce and publish GWENT. GOG's net profit was more than PLN 1.5 million, much more than in Q1 2016 and a big contribution to the Group's consolidated profit.

Next slide: the Group's balance sheet.

There was no major change in the assets other than a change in the expenditures on development projects for , which increased by more than PLN 17 million as compared to the end of 2016. The increase was driven by our

pending projects, including mainly Cyberpunk, as well as GWENT which is still in production and under development.

As for current assets, receivables decreased, which is natural. Receivables were high as at the end of 2016 following Christmas sales. The receivables were paid to the Group and the balance sheet item decreased.

Cash balances and bank deposits of the Group companies increased to PLN 646 million as at the end of Q1 2017, an increase of PLN 49 million compared to the end of 2016.

As for equity and liabilities, equity increased by PLN 46 million mainly due to retained earnings. As for current liabilities, trade liabilities decreased, similar to trade receivables. Trade liabilities mainly relate to GOG. As at the end of Q4, GOG had high liabilities with respect to royalties due to product vendors and paid them in Q1 2017.

Other provisions mainly include provisions against future liabilities, including liabilities of the Company due to employees in respect of performance-linked remuneration.

Next slide: cash flows of the Group. With a net profit of PLN 45 million, positive cash flows from operating activities were more than PLN 64 million, mainly driven by the decrease in trade receivables. We had high receivables at 2016 YE, which were paid to our account in Q1 2017. Consequently, the cash flows from operating activities were higher than the results generated in the period.

As for investing activities, two factors are important to note. First, capex for development: we invested PLN 16 million of cash in our projects, notably Cyberpunk and GWENT. Second, following the change of presentation last year, our investments include bank deposits with maturities over 3M are treated as outflows. These are technical outflows as the deposits are naturally available to the Group, which can use all that cash. However, they are presented as outflows in the cash flow statement, generating negative cash flows from investing activities at PLN 497 million.

Financing activities did not have a material impact on the Group's cash flows. The net cash flows were PLN 433 million. Importantly, in Q1 2017, total cash balances and bank deposits of the Group were PLN 646 million, an increase of PLN 49 million year to date.

That's all from me. Now over to Adam.

AK: Let me discuss recent developments concerning GWENT. The next two slides talk about the Public Beta. The Public Beta of GWENT was launched at 3:00PM yesterday, less than 24 hours ago. In the Public Beta, the game is available publicly for the first time ever, and anyone can download and play it for free. The Public Beta offers a range of improvements. All in all, the content of the game has changed to a large extent. Most importantly, the game offers a new tutorial. We've decided to develop an extensive offline campaign with challenges which introduce the players to the details of the game. Newcomers who haven't played Gwent before now have the opportunity to discover the game before they play with other users. Naturally, we don't force anyone to go through the tutorial, but those who do get rewarded, so we assume that many players may use the function.

The launch of the Public Beta has been supported by a major promotion campaign on an unprecedented scale for GWENT. Future events, however, will be promoted on an even larger scale. You won't see it on television or read about it in the papers, as was the case with The Witcher 3, since we have launched targeted global social media campaigns with a huge reach.

As for the content, the Public Beta offers animated cards. I encourage you to try them out. Each card has an animated version, available for purchase in the GWENT store, which is another part of our monetising efforts.

Yesterday, we launched the PlayStation 4 version as well. We are very happy with it as it works seamlessly. In general, the first experience from the tests is very successful, except for incidental minor details. The game works fine from the very beginning, which we believe is one of the most successful technical launches of an online game. We are very happy with our collaboration with GOG and the launch of the game in the consortium. Moving on, we provide a crossplay between PCs and Xboxes and between PCs and PlayStations 4, but there is no crossplay yet between Xboxes and PlayStations, which is not really up to us as the crossplay would be technically feasible but it must be approved by the platform owners. The game is supported by GOG Galaxy on all platforms.

We have added a new language version in Japanese. The number of language versions has grown and will continue to grow.

Next slide: future plans for GWENT. As I have said, we will intensify promotion campaigns as we reach subsequent milestones, scalable in size to the level of revenue and other parameters that we will continue to observe.

We are still working to enter the Chinese market. These efforts have progressed but we still have some way to go. We expect that we will be present in China later this year with the first beta tests. However, it's not all in our hands. The game is still under certification. New language versions will be added. New play modes will be launched, as will the first and further single-player campaigns. This is crucial since we are known for telling

stories. Single-player campaigns are mini-games within the GWENT game: several hours of entertainment, quests, riddles to be solved by the character. Such single-player campaigns will be available for purchase. Following the success of the GWENT Challenger, the first official tournament which took place two weeks ago, we are planning to hold more tournaments. The plan of the playoffs has not yet been published but we want to develop GWENT for esports.

So much for the presentation. Let's hear your questions.

Announcer: The Q&A session is now open. Press 01 on your phone keypad to ask a question.

Michał Baryła, Altus TFI: Congratulations on a great quarter. I have two questions about GWENT.

The Public Beta was launched yesterday. Was 24 May your fixed deadline, or did the Public Beta depend on the delivery of content or on achieving certain parameters of monetisation or retention of GWENT before you moved to the next phase?

The second question is about the Chinese market. When do you expect the Chinese authorities to approve GWENT for the Chinese market? Have you held any promotional events in China to introduce the Chinese to the brand?

AK: As for the date of the Public Beta of GWENT, it was fixed in advance but not too much in advance. Marketing initiatives are focused on the social media and you need to book the media in advance and then wait for the right moment with the release. The date depends on a number of factors, the ones you mentioned, as well as many others. We consider them all: the status of development, what we want to present, the parameters reached, etc. There is no one overriding factor but rather a nexus of different factors. There comes a time when you decide that it is the right time to launch. This is very different from our previous releases. The main parameter there was that the game must have a certain final quality. Here, we expect a certain quality for the beta, but we are still in beta, so we are flexible to some extent. This is what we're going to be doing in the future too. Release dates are not fixed much in advance. From now on, now that the game is publicly available, the next steps are crucial but symbolic in a way. The game is now available and gets monetised. It is still an early phase but the game has been launched in a public version.

As for the Chinese market, certification is out of our hands. We are well advanced and the progress is good. There are no issues at stake and the game is not controversial. However, we cannot tell you when exactly the process will be finalised. We expect, however, that we are approaching completion.

PN: As for the promotion in China, we have presented GWENT at the first fair – GameCore; the major fair ChinaJoy is still ahead. As at the end of April, we launched a subsidiary in Shanghai. We have a team in place, and they are preparing promotions in China. We are at an early phase but the work is well on track and underway. I hope we will soon see tangible results. The ChinaJoy fair takes place in late July, which is soon.

Jakub Taczyński, Generali OFE: Congratulations on your results.

I have several questions. What are the results of the GOG segment net of the GWENT effect, compared to Q1 2016? And about Cyberpunk, do you have a plan for a marketing strategy for the game, and when are you expecting to launch the campaign? And a third question about a news item: you must know that Andrzej Sapkowski has signed a contract with Netflix to produce The Witcher television series. Could this be good for you? Thank you.

PN: Let's start with your first question. We do not publish sales results by project, including GWENT. GWENT is a new project in GOG's revenue in Q1 2017. Hence, the growth we generated is partly attributable to GWENT. However, we do not publish more detailed figures.

AK: Concerning Cyberpunk 2077's promotion campaign, it is planned out. An element of surprise is part of that campaign, so I cannot tell you what's going to happen and when.

Concerning Netflix – it's your last question. We hold no film rights, and have never held them, as we said before. The film licence rights were held by Platine Image. As we know from the media, they signed a contract with Netflix and assigned the rights to Netflix, at least according to media reports. Netflix will develop The Witcher television series on its own. We are happy because we like Netflix, and the more the media promote The Witcher brand, the better for us. This is good news for us even though we do not take part in the process and do not control it. But we keep our fingers crossed.

Piotr Łopaciuk, Dom Maklerski PKO BP: Congratulations on your results. My question is about GWENT. Have you started to work on the adaptation of the game for mobile devices?

AK: Thank you all for your congratulations. We have never confirmed mobile versions. We cannot comment whether we have started to work on a mobile version now.

Tomasz Rodak, DM BOŚ (TR):

Congratulations on your results. Question: Could you tell us more about yesterday's release of GWENT. Are you happy with players' interest? Could you quantify it, if not in absolute numbers then in terms of a percentage increase in the number of downloads reflecting players' interest in the game, or in terms of a percentage increase in revenue day on day.

My second question is about the Open Beta. How does it compare to the final version, and what has to change so that you can move to the final version? Is it a matter of announcing the final version of the product to launch? Will there be no major difference in the number of players, or will the final version stir more interest than the move from the Closed Beta to the Public Beta?

AK: Thank you for the congratulations.

Let me take your first question first. We do not want to publish any figures for such a very short period of time. However, we are happy with the technical performance as well as the number of GWENT players over the 20+ hours of monetisation. As for percentages, one should speak of hundreds of percentages or even multipliers compared to the Closed Beta. There is no comparison really. The servers were off for two days before the Open beta and nothing was going on for those two days. But compared to the average of the previous period, we have moved to the next level. It's obvious: the game was only available by invitation. You had to subscribe and get a password before you could play the game. Now the game can be downloaded by anyone so the dynamics has changed completely. But it's still the beginning of a long process. I can't say much more though.

As for the official release: this will be a symbolic moment, and we will then provide another major update. There will be other updates before the final release of the game as well while the game develops. But we will provide a major update before the launch. The look and feel of the game will also be changing, which is typical of such products. We will add new play modes and a single-player mode, which we believe is crucial. We are not expecting the release to cause a sharp increase in the number of players overnight. However, we will implement a large-scale promotion campaign at the time of the release. Combined with the update, this should step up the increase in the number of players. But it never happens overnight, the process always takes time. Did I answer your question?

TR: Yes, thank you.

Announcer: There are no other questions. Let's get back to the speakers.

AK: Thank you for taking part in this call. The next H1 2017 conference will be held live. Please join us then. We are always there for you if you have any questions. Please contact Karolina, Katarzyna, or any one of us with your questions. Thank you.