

**AK:** Greetings and welcome to our conference, which is devoted to the first-quarter earnings of the CD PROJEKT Group. My name is Adam Kiciński; we are also joined by...

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

**AK:** The presentation we will discuss – a fairly brief one, as usual with Q1 and Q3 earnings – can be found in the presentation system. Your invitations should contain a link to the system. Navigate to the website and log in using your credentials. The slide deck can also be found in PDF format on our website; if you cannot access our presentation system you can always visit <http://cdprojekt.com> – the slides are available for download in the second row, in the first white box in the top right corner. We will now proceed with discussing the slides, starting with slide no. 2. Over to you, Piotr.

**PN:** Greetings. The first slide presents our Q1 earnings summary. The Group generated nearly 81 million PLN in sales revenues; this is more than in the corresponding reference period in 2018. Sales revenues include sales of products and services – mainly products developed by CD PROJEKT RED. This year's figure is only slightly lower than last year's; of course The Witcher 3, along with its expansion packs, is still our main workhorse in terms of sales, followed by GWENT and Thronebreaker. With regard to revenues from sales of goods and materials, these reached nearly 30 million PLN, mainly due to strong performance in the GOG.com segment. This year's results were 30% higher than the corresponding Q1 2018 figure – so our digital distribution platform continues to perform very well. Of course, these revenues are offset by the cost of products, goods and services sold – here, a new factor has come into play affecting the reported cost of products and services sold: the 7 million PLN figure corresponds to depreciation of past development expenditures related to GWENT and Thronebreaker. Such depreciation was not recognized in the first quarter of 2018 as back then both products remained in development. Consequently, we have to report higher costs during the current period, but those costs were not actually incurred in the first quarter of 2019 – they represent past expenditures.

The reported value of goods and services sold corresponds to sales carried out in the GOG.com segment and licensing royalties paid by GOG to its suppliers. Altogether, our gross profit from sales was slightly over 52 million PLN. This is offset by operating costs in the amount of 31.6 million PLN – nearly the same as during the reference period. Notably, having completed and released the full versions of both GWENT and Thronebreaker, we continue to report as costs all expenses incurred by teams responsible for maintenance and further development of GWENT, including development of its mobile edition. This effort has not yet yielded any benefits in terms of Q1 sales – but it does affect the operating costs in both segments involved in the project, and therefore the entire Capital Group.

Regarding EBIT, we posted 20.5 million PLN in profit, on top of which we also obtained profits from our financial activities; just over 2 million, mostly related to interest on bank deposits to which we allocate our surplus cash. We also paid nearly 5 million PLN in income tax and thus ended up nearly 18 million in the green.

The next slide presents our balance sheet. Concerning our fixed assets, much like during past periods the biggest change relates to an increase in the accumulated balance of expenditures on development projects and is associated with ongoing development of our future releases as well as technologies in the GOG.com segment. Note that in recent days GOG revealed its latest project – GOG Galaxy 2.0, which has been under development for several months. We will have more to say on this subject later on. The aggregate increase in expenditures on development projects – 21.5 million PLN – is due to creation of assets valued at 28.6 million PLN and Q1 depreciation valued at 7 million PLN. Concerning other fixed assets, the reported growth – by 17 million PLN – is mainly due to introduction of IFRS 16 which requires us to recognize as assets the rights acquired under lease agreements, particularly concerning office space. This disclosure is balanced by the equivalent disclosure of other financial liabilities, both short- and long-term.

Concerning working assets, our trade receivables decreased, which is quite natural in the first quarter of the year since we continue to collect receivables associated with strong Q4 sales. The next item – Other receivables – shows an increase from just over 19 million to nearly 42 million PLN, i.e. by almost 23 million PLN, mostly due to advance payments remitted by CD PROJEKT to its suppliers in relation to production of physical components of the collector's edition of Cyberpunk 2077. This production is carried out at a remote location; hence it needs to begin early and calls for advance payments. Another contribution to this figure is from production of marketing materials for the ongoing campaign, including the approaching E3 fair.

The Group's cash balance decreased by nearly 37 million PLN which I will comment upon when discussing the next slide. Regarding our equity, the increase is mainly due to profits realized during the current period. Long-term liabilities increased due to implementation of IFRS 16 which calls for disclosure of long-term liabilities arising under lease agreements. The same factor is responsible for the reported increase in Other financial liabilities, in the Short-term liabilities category. The decrease in trade liabilities is mainly due to the same reason as the reported decrease in trade receivables: following strong Q4 sales these liabilities typically taper off in the first quarter of the following year.

That's all for now, we can move on to the next slide which presents the Group's cash flows in a slightly different form than in our financial statement. I tried to single out the most important factors affecting our cash balance over the first quarter of 2019. We wrapped up the past year with nearly 659 million PLN in cash and bank deposits. As noted when discussing our balance sheet, the increase in advance payments remitted to suppliers translated into nearly 23 million PLN in outflows. We also incurred 25 million PLN in outflows related to development of new games and technologies, including in the GOG.com sector. Finally, we paid slightly over 9 million PLN for immovable property whose purchase transaction was concluded on 31 December 2018. I'm mentioning this date because having signed the notarized purchase agreement we were unable to remit payment on the same day and thus the actual payment occurred in the first quarter of 2019. Regarding inflows, the most important contribution – nearly 18 million PLN – was from our net profit. The balance of all other flows and adjustments was almost 2.5 million PLN, mostly due to collection of Q4 receivables offset by discharge of Q4 liabilities, disclosure of depreciation as a non-cash expenditure and also certain investments related to our current activities. In summary, the balance of all these factors resulted in nearly 2.5 million PLN in net inflows. As of 31 March we held nearly 622 million PLN in cash and bank deposits, which is approximately 5.5% less than at the end of the final quarter of 2018. It is worth noting that throughout this period we engaged in extensive development activities related to our future releases and remitted significant advance payments for supplies.

That's all from me. I will now hand it back to Adam.

**AK:** A few highlights regarding our near-term plans – I will now move on to slides 5 and 6. We begin with GOG Galaxy 2.0. We announced this project several days ago, but the technology has been under development for some time. Our motivation was the observed fragmentation of the gaming market. We're dealing with an ever greater number of digital distributors – hence gamers need to manage an ever greater number of client applications, also known as launchers, to be able to play their games. Such applications can also be used to manage social media circles and communicate with friends. We want to aggregate all this in one place, which is where GOG Galaxy 2.0 comes into play: it will give you access to your entire game library and all your friends. Of course, there is a business concept to go along with this idea; we hope to be able to expand our user pool and reap the associated benefits in terms of sales in our own GOG.com store – currently offering nearly 3000 items.

The next slide – no. 7 – concerns CD PROJEKT RED STORE. This is a relatively limited undertaking given the scope of our business, but it brings us satisfaction to be able to present our fans with the

opportunity to purchase gadgets inspired by our games directly from us. Each and every item in the store was designed by us and meets our QA criteria. We want this merchandise to match our games in terms of quality. The launch was very successful; we sold nearly our entire stock right out of the gate, so of course we're busy restocking most items. The store's impact on our bottom line is relatively limited but we intend to expand it in preparation for the launch of Cyberpunk. All these activities are carried out within the Group. While a new company was incorporated for the purpose of maintaining the store, that company remains fully under our control.

Slide no. 8 is devoted to E3, which is fast approaching. This will be the most important fair in the CD PROJEKT Group's history. Traditionally held in Los Angeles, the fair officially opens on June 11 and lasts until June 13; however it is also accompanied by a number of tie-in events, so I invite you to follow social media both before and after the fair. Our presence at the fair itself, as Adam Badowski announced yesterday, will consist of two components. We will be present in roughly the same place as last year, except this year we are going to occupy three segments rather than two. Slide 10 also shows the location of our stand in the public exhibit hall – we will occupy part of the larger stand set up by our distributor, Warner Bros. This is where we will showcase selected fragments of the content available to people who visit us at our business stand. While these slides summarize the bulk of our presence at the fair, we are also preparing certain surprises so, again, I invite you to monitor social media and if you're able to – come to E3 in person. For anyone intending to participate in the fair, our IR department is there to help you; we can arrange meetings and supply you with information. In parallel with presentations of Cyberpunk, we will be holding investor presentations on an hourly basis. While these are mostly targeted at American investors, any investor present at the fair is welcome to participate – that is, if there are any free slots remaining, of which I'm not sure right now, but we will do our best to accommodate you.

That's all from me – I will now invite you to ask questions.

**Moderator:** OK now, we've received our first question, Marcin Nowak, IPOPEMA Securities; your line is now open; please go ahead.

**MN:** Good morning and thank you for your presentation. I would like to inquire about expectations regarding the contribution of the merch store to your future earnings – I'm talking about the potential scale this activity might reach.

**AK:** Hello; Adam Kiciński speaking. First, we expect the contribution to be of a positive nature; the store is conceived as profitable enterprise; while regarding scale – as of today the scale is rather negligible, however we will see what the future brings. We don't want to overhype this; the store started off as a rather limited undertaking and we're mindful of the costs – I'm referring to the merchandise itself, which is of very high quality; this translates into greater costs, but quality is important for us. The enterprise as a whole is based on a sound calculation of revenues and costs. As I've said, we expect to turn a profit on this, but compared to profits generated by sales of our games – both existing and upcoming – the contribution of the store cannot be referred to as significant.

**MN:** Thank you.

**Moderator:** And we have another question on the telephone line from Grzegorz Suteniec, Puls Biznesu. The line is now open, please go ahead.

**GS:** Good morning, Grzegorz here. I would like to refer to what Adam said yesterday – that intensification of the trade conflict with China should not affect business in a meaningful way and that it is not a pending concern. If Steam and other distribution platforms are banned – would that not have

an effect, particularly after the release of Cyberpunk? And I also have another question – when will the merch store be fully available across all markets?

**AK:** Grzegorz, I couldn't hear you very well so I'll repeat your question to be sure that you weren't misunderstood – you asked whether our business would be immune to the perturbations on the Chinese market, especially in the scope of GOG, and also when would GOG be fully available throughout China, right?

**GS:** As for my first question, I meant to ask about a putative ban on western distribution platforms, such as Steam and GOG, and with regard to my second question – I was referring to the full availability of your online merch store.

**AK:** OK. Coming back to your first question – if there is a full ban on platforms such as Steam and GOG, then there might be an impact. That much is certain, since – for example when we look at Steam sales of The Witcher 3 – China is pretty high up on the list. Overall, however, the Chinese market does not account for a major portion of our earnings. We are working on expanding our presence there, but all three parts of The Witcher were geared towards western markets. The first product for which we specifically considered a Chinese release was GWENT, but that doesn't contribute much to our results as of now. Concerning Cyberpunk, it should be said that during the first year following release, when the product is offered at full price, the western markets are also expected to remain dominant. Digital sales in China ramp up over time and generally involve PC editions, while sales of console editions lag far behind. Thus, we're talking about a product that has already been discounted once or twice compared to its release price, and then only about the PC edition. I don't expect this situation to have a major effect on our earnings. Referring to your other question – the expansion of the merchandise store – we want it to occur prior to the release of Cyberpunk. Note that this is not a beta release. I may have referred to it as such yesterday but what I meant is that this is an activity that we're still in the process of becoming familiar with. We intend to add further items and optimize the store's operation. It's a cool project, though of course there's always room for improvement. And naturally we intend to launch it in America as well; right now it's only available in Europe, but we want to provide American gamers with access to the same selection as our European fans. This is coming soon – well, maybe not in a week or two, but soon.

**GS:** Thank you.

**PN:** I see we have a question asked in writing: could you comment on the expenditures on development projects – how much of the reported figure is attributable to Cyberpunk and how much – to GWENT and GOG? Should we expect similar expenditures in future quarters?

Regarding the first quarter of the current year, no GWENT or Thronebreaker expenditures appeared on the balance sheet; all were instead disclosed directly in our earnings report. Consequently, the cumulative increase in development expenditures which I talked about was mainly related to our largest ongoing project – Cyberpunk – as well as to other projects we're working on right now – though Cyberpunk remains by far the largest of these. As far as the breakdown of expenditures between CD PROJEKT and GOG is concerned, I don't have the relevant data on hand but you can find it in our financial statement, and you can also easily calculate the differences by comparing the figures for December and March.

**AK:** Another question coming from Trigon – Does the company intend for GOG Galaxy 2.0 to support the next generation of gaming consoles? Does the company expect the beta tests of GOG Galaxy 2.0 to last longer than the beta phase of GWENT?

Concerning the next generation of consoles – it might be too early to discuss this given that the consoles themselves have not yet been announced. Nevertheless, GOG Galaxy 2.0 is conceived as an open platform, so I cannot imagine a situation where a new generation of consoles appears on the market and cannot be made to operate with GOG Galaxy 2.0. This does not appear to be a significant concern.

As for beta tests – will they take longer than the beta tests of GWENT? I don't expect them to, although don't take this as a definitive statement. The beta phase of GWENT took a very long time, over 2 years; so I would expect this to go faster – but, again, this is not a promise on my part.

**AK:** Another question, from MetLife OFE: Does your engine support integration with VR technology? Console manufacturers and product developers are currently pushing hard in this direction; so – will Cyberpunk and The Witcher support VR similarly to Skyrim?

As for VR – technically speaking, it is not terribly difficult to add support for it. We render our graphics in 3D anyway – of course the screen itself is flat, but if someone owns a 3D adapter and a pair of VR glasses, they can enjoy rudimentary VR. The issue becomes more challenging when we factor in game design. There are substantial changes which must be taken into account when working on a VR-specific product. Our current focus is on the PC and console editions of Cyberpunk, so we're not moving in that direction right now.

**AK:** The next question comes from Mr. Daniel Paczkowski; Stopwatch: how long will the beta testing of GOG Galaxy 2.0 take and when will the platform be released?

We are already accepting applications from beta testers and the beta will launch – I believe – a month from now. It's difficult to speculate about the duration of this phase; by its nature beta testing is needed to try out certain solutions, and further decisions are made on the basis of collected feedback. Still, I expect the process to be shorter than in the case of GWENT.

**PN:** The next question comes from Bloomberg News: will the advance payments for Cyberpunk merchandise, as reported in the current quarter, undergo further increases in future quarters?

The advance payments disclosed in Q1 2019 were due to manufacturers of components of the game's collector's edition, so ultimately they will count towards our cost of products and materials sold. This process has not yet been completed but it's difficult for me to say right now whether the production of additional components will call for advance payments or not. Note that the reported figure also aggregates expenses related to our planned marketing activities – the next major event is E3, but the campaign will go on afterwards, which may call for additional advance payments in future periods. These, of course, will eventually be set against the value of services and marketing gadgets delivered to us.

**AK:** We have another question from Bloomberg: can you reveal whether you will be announcing the release date of Cyberpunk at E3, or not yet?

Sorry, but we cannot say that – I mean, we can neither confirm nor deny this.

**AK:** Another question from Stopwatch: 400 people are working on Cyberpunk, which is equal to the number reported at the end of 2018. Is the team still growing?

No, it isn't anymore. It has reached its maximum size, except of course for the QA branch which may still expand – and that is normal given that QA activities are carried out both internally and by subcontractors. In general, QA teams tend to expand in the run-up to the release of any game.

**AK:** Another question from MetLife OFE – Can you share statistical data concerning GWENT?

No, unfortunately we do not publish such data. Since GWENT entered its regular service cycle, that is since the beginning of the year, we have observed a noticeable change in some key statistics and trends regarding this service – I’m referring especially to player retention – but we continue to work on this product and have further add-ons in the pipeline, so I expect these parameters to keep improving.

**AK:** Another question from Trigon: once the Cyberpunk release date is officially announced, will the company begin accepting preorders?

I’m sorry, we cannot answer this question right now, although we did do this with The Witcher 3. If I remember correctly, the preorder campaign launched concurrently with the release announcement.

**AK:** As there are no further questions, I would again like to thank you and invite you to keep track of our social media activities, especially around E3. Of course, I also invite you to take part in E3 and to attend our next conference, which will accompany our semiannual earnings in the form of a live presentation.