

Adam Kiciński (AK): Good morning, I would like to welcome everyone to the earnings teleconference of the CD PROJEKT Capital Group for Q3 2019. My name is Adam Kiciński and I'm the joint CEO of the company. Today's conference will be co-hosted by Piotr Nielubowicz, CFO of CD PROJEKT, and by Michał Nowakowski, Member of the Board.

To begin with, I will summarize key business events from July till now, while Piotr will discuss financials. And later on we will have time for a Q&A with all three of us. The presentation is available on our website cdprojekt.com.

Let's start with Cyberpunk. During the summer and fall we have continued with the promotional campaign. The focus is still on introducing the Cyberpunk universe to as many gamers as possible around a globe. This year's presentations of gameplay footage began in earnest in June, at E3, which was very successful for us. In August we carried on with the same scenario at gamescom, Europe's largest game fair, where we ran one-hour-long gameplay demos at closed sessions for media and business partners, along with 25-minute demos at our public stand.

In the second half of the year Cyberpunk was present at 18 game shows and fairs, and was viewed by 60 thousand spectators. All those events are on the second slide of the presentation.

On October 15th, The Witcher 3 and its expansions debuted on Nintendo Switch - so, for the first time, it can be played "on the go". The game is available in both physical and digital editions priced at 60 dollars. According to preliminary estimates, physical copies account for the vast majority of to-date sales, however detailed sales figures will be known after the close of the fourth quarter, since physical distributors submit their reports in quarterly cycles.

Before we depart from The Witcher universe, I would like to briefly summarize GWENT - a joint project of our two segments - CD PROJEKT RED and GOG - which was released for iPhones and iPads on October 29th.

The mobile edition of GWENT is receiving excellent scores from users. As of today, the game's average rating stands at 4.8 out of 5, which makes GWENT one of the most highly scored mobile card games. In the first three weeks following the iOS release, 68% of our revenues were generated by mobile devices, with PCs accounting for 28% and consoles 4%. However, even though we have expanded GWENT's user base, the game remains a relatively small part of our business.

The next step will be to proceed with an Android release scheduled for the first quarter of next year.

Moving on to GOG, the most important project is the ongoing development of GOG GALAXY 2.0, currently in closed beta. This platform is our answer to the growing fragmentation of the PC digital distribution market, with more and more platform-exclusive releases being published. The idea is to enable users to have all their games in a single library and have all

their friends on one friends list where users can track one another's progress and achievements across gaming platforms.

So far feedback from closed beta users is very positive. Now over to Piotr.

Piotr Nielubowicz (PN): Thanks, Adam. Let's move to the next page - our consolidated profit and loss calculation.

Our Sales revenues in the third quarter of this year reached nearly 93 million zł, which is 38% more than during the reference period in 2018.

The greatest contribution to the Group's revenues was from Revenues from sales of our own products at CD PROJEKT RED, mostly comprising:

- a) royalties associated with sales of The Witcher 3 – which increased this year vs the third quarter of 2018,
- b) and - in a smaller amount - royalties associated with Thronebreaker and in-game sales of GWENT.

Another important contribution to our revenues was from Revenues from sales of goods and materials – 43 million zł - comprising mostly of:

- a) at GOG - revenues from digital distribution – over 30 million zł – which grew by 12% quarter to quarter;
- b) at CD PROJEKT RED – over 14 million zł altogether which came from 2 groups:
 - first - revenues from sales to distributors of components of physical editions of our own videogames, including in particular first shipments of the Witcher 3 for Nintendo Switch and components of the collector's edition of Cyberpunk;
 - and second - revenues from sales of merchandise at CD PROJEKT RED online store – our new activity which, as a separate company, is included in our consolidated results for the first time.

On the cost side, our Cost of products and services sold of over 6 million zł represents mostly ongoing depreciation of development expenses for GWENT and Thronebreaker, which commenced in the 4th quarter of 2018 along with the release of both games. Therefore, this position did not exist in the reference period.

The Value of goods and materials sold corresponds mainly to costs incurred by GOG.com – over 21 million zł - in association with GOG digital sales.

At CD PROJEKT RED at the same time - costs of goods and materials sold related to sales of physical components of our games and – to a lesser degree – costs of selling merchandise products via our new online store.

Our Gross profit on sales reached nearly 55 million zł which is visibly higher than a year ago.

Regarding current-period costs, the largest contribution was from Selling costs – over 27 mln zł – which include marketing and promotional expenses incurred in each of the segments. However, most of these costs were borne by the CD PROJEKT RED segment in the scope of promoting Cyberpunk, GWENT and The Witcher 3 – prior to the October launch on Switch.

A notable part of this quarter's Selling costs in both segments was related to maintenance and development of GWENT - including work on its recent expansion Iron Judgment and iOS edition, both were published in October which was after the reporting period. These costs are split between CD PROJEKT RED and GOG.com, in line with the consortium agreement.

In the GOG.com segment selling costs correspond also to sales, marketing and transaction processing costs related to operation of the GOG.com platform.

The reported increase in selling costs compared to the reference period is mainly due to intensive promotional activities in the run up to the release of Cyberpunk.

The General and administrative expenses reached nearly 12 million zł in Q3 2019. This line includes compensation of the G&A part of the team, all costs related to the existing incentive program along with costs of bought-in services which qualify as general and administrative expenses. The reported increase compared to the reference period in 2018 is mainly due to a reassessment of the likely implementation timeframe of our incentive program – which we did at the end of the first half of this year. As a result of said reassessment, the costs of the program are spread over a shorter period and, consequently, generate proportionately greater costs comparing to last year.

Furthermore, general and administrative expenses have increased as a result of our Group expansion and recruitment of additional personnel over the past 12 months.

The Group's consolidated Net profit in the third quarter of 2019 was nearly 15 million zł, which is comparable to the net profit of Q3 2018. However this year, between July and September, we had a surplus of costs related to GWENT (including depreciation of its earlier development costs, work on Iron Judgment - the recent expansion and iOS version of GWENT which both were released in October) as well as large-scale expenses related to promotion of Cyberpunk.

Please go to the next page – our balance sheet. At the end of Q3 2019 the bulk of the Group's consolidated Fixed assets was represented by Expenditures on development projects which increased by 41 million zł and reached 333 million zł. In this position we aggregate mostly our expenses on development of new videogames and technologies. I will come back to this in a moment.

The next visible increase was for Inventories that reached nearly 11 million zł at CD PROJEKT RED segment which came from:

- a) initiating of production of box edition of The Witcher 3 for Nintendo Switch - released later on in October;
- b) initiating of production of physical components of collector's editions of Cyberpunk;
- c) recognition of inventories held by the CD PROJEKT RED store, which began distributing products to European customers in May and to North American customers in September this year.

One line below: the reported reduction by nearly 51 mln zł in the Group's Trade receivables at the end of September 2019 is mostly due to collection of receivables reported at the end of the second quarter. During the second quarter we generated strong sales revenues and launched the Cyberpunk preorder campaign, which translated into an exceptionally high value of trade receivables as of the 30th of June.

The biggest change in all our Assets is visible in the aggregate value of Cash and bank deposits – which reached a total of 594 million zł. Despite ongoing large-scale expenses related to development of new videogames and technologies as well as promotion of Cyberpunk, our cash position increased by 63 million zł compared to the 30th of June this year.

Moving to the Equity and liabilities side: at the end of Q3 2019 the Group's Equity was nearly 995 million zł, having increased mostly due to current-period profit.

Biggest change on the Liabilities was recorded in the Deferred revenues line which increased by 46 million zł and reached 130 million zł. The reported Deferred revenues comprise mainly the future-period sales of Cyberpunk – which are minimal guarantees from distributing partners and advances on royalties for preorder sales, as well as - in a smaller scale - GWENT expansion Iron Judgement and The Witcher 3 for Nintendo Switch. In this line we also include 9,5 million zł of deferred revenues associated with our subsidies.

Let's go to the next page - graphical presentation of our main cash flow drivers.

We ended the second quarter having 530 million zł of cash and bank deposits. During the reported quarter the Group generated nearly 15 million zł of net profits. At the same time our total amount of receivables decreased by 51 million zł adding to our positive cash flow. During the last reported 3 months we also significantly increased the value of deferred revenues – mainly future period sales of Cyberpunk that I mentioned a minute ago - which was the third big stream of positive cash flows to us. On the expenses side – we financed the increase of inventory of The Witcher 3 for Switch, Cyberpunk physical components and merchandise of our CD PROJEKT RED Store. Last but not least – during Q3 we spent over 43 million zł on the development of games and technologies. All in all – at the end of September we had nearly 594 million zł of cash and bank deposits which was by 63 million zł more than at the beginning of the quarter.

Coming back to the core of our activity - development of games and technologies – the next page – presents our quarterly outgoing cash flow for development projects for this and last year.

The visible increase in our expenditures in recent quarter comes mainly from CD PROJEKT RED's development of Cyberpunk 2077, which has now entered its final, most intensive stage. More specifically, the main reason behind the increase involved expenses related to localization of Cyberpunk and especially the recording of multiple language soundtracks we are preparing as well as expenses on adapting The Witcher 3 for Nintendo Switch.

That is all from me. We can start the Q&A section.

Ken Rumph, Jefferies: Hello gentlemen and ladies. I hope you hear me OK. I have some questions looking towards the future. I know you don't want to talk about future games while your focus is on Cyberpunk, but if I can ask a couple of general longer-term questions. Firstly, you set out a strategic plan a few years ago. Do you have any plan to sort of refresh that at any point? Is there any schedule with which you would aim to do that? And secondly, you've already said that we should expect paid and free DLC following the Cyberpunk release. Does that mean that you would not wish to begin the marketing or attract attention to any future game until those DLCs have been released – I just wonder if, for instance, we might hear about a new game at E3 next year, for instance, after Cyberpunk has been launched with what we all expect will be great success in April? So – a couple of questions about the future, and then a final one, which is – any comment on how you will approach new-generation consoles and streaming, for instance with Cyberpunk, given that those come out later next year? Thank you.

AK: Hello, we do hear you. We update our plans from time to time. Last time we did it was after we finished our previous stock options plan, so I assume – it's not decided yet, because we are not yet there, but we are fairly close to finishing the current stock options plan, and this might be a good moment to refresh the strategy, although I would like to emphasize the strategy remains the same – we are here to develop AAA games, but then we can describe – maybe a bit longer period ahead, maybe 4 to 6 years; so it might happen sometime next year, but it has not been decided; it's due to the fact that we want to finish the current stock option plan.

The second question can be answered: in our promotional activities we like to surprise, so I cannot say whether we are going to talk about the next AAA single-player game during the campaign and the period of releasing expansions or not – so we can't comment on this.

Michał Nowakowski (MN): Hi; this is Michał Nowakowski; the last part of your question was about next-gen consoles and streaming services. So – streaming services; maybe we can start with that one. We actually went public with that, I think it was at gamescom this year, so August – that we are going to be present on Stadia with Cyberpunk. We did announce that it

wasn't going to be a day-one release, so it's not gonna be 16 April. We did not say anything specific, but of course you can assume that it's gonna be later than 16 April next year, and what we also did mention is that you would be able to access the game on Stadia. Stadia will be another sales channel, so you would be able to buy the full-price access and streaming would be the method of delivery to your device; not part of any subscription program.

When it comes to next-gen consoles, I mean – our game is coming to the present-gen consoles, and this is what we have announced, and of course we do have insight into what's around the corner; into what's happening with PlayStation and Xbox, and we are watching it closely, and one may probably safely assume that at some point we may do something with next-gen, however we cannot really be very specific what that may be, when exactly that may be. I will only safely assume that it's definitely not gonna be around the launch timeframe of these consoles, so I think that's pretty much it.

AK: And maybe I have one more thing – our games were always kind of ahead of technology; they were always played best on strong PCs, so in many areas we are kind of ready or almost ready for stronger specs – so, from a technical perspective this seems to be doable.

Matilde Durazzano, Barclays: Hi, good morning. I want to ask a question regarding preorders. You mentioned at the half-year that you were expecting preorders to be a bit lower this quarter after the marketing campaign, I wanted to know whether your tracking aligns with your expectations. And then secondly – I want to know what kind of benefit you feel comes from The Witcher 3 on Switch and when we will have the full numbers by the end of 2019. Thank you.

PN: We still keep generating preorder sales for Cyberpunk and the cumulative number is definitely in line with our expectations. Obviously – the initiation of preorders generated a certain spike in preorders, they stabilized later on, which is a natural process, and probably the most important period for all of the preorder campaign will happen couple of days before the release where, basing on the example of Witcher 3 the spike was generally the highest and generated the majority of the total pre-sales we recorded for the game.

As far as the sales of The Witcher 3 for Switch and GWENT – both of the releases were releases of products that already existed on the market, however they allowed us to add these products to new customers, so we obviously should extend our revenue generation, but it's not another new release like in the case of The Witcher 3 or Cyberpunk. So, we will basically increase the sales but it's not changing the status quo like each new release.

Matthew Walker, Credit Suisse: Good morning everyone. Two questions please. The first is – could you tell us more about the Spokko mobile game? Interestingly, a lot of companies are getting Tencent to develop their mobile games, so if you could explain your strategy around the mobile market, that would be helpful. And secondly – on the multiplayer version of Cyberpunk – you haven't given a release date for that, but could you give us any feel for the likely intensity of monetization around that sort of F2P game? Thank you.

AK: OK, so – the people behind Spokko have been in this business for years; before they joined us they had released close to 30 small games. Most or all of them were casual, but they learned a lot during this and we had known them for years, and they approached us with a cool idea – and we decided to let them try, and they’ve built – under our wing – their studio. We have 75% in Spokko; they own 25%. Regarding development, we are not revealing anything about this, only that something like this exists. We are experimenting with ideas. The game is based on one of our IPs but we can’t share any details about this. And we decided to do it on our own because Spokko are behind this project with their experience, so that would be the reason.

MN: Can I also make a comment on the Tencent thing – I mean, Tencent doesn’t really help other developers develop games; they sometimes help adapt those games to the Chinese market. They are specialists in operating games and improving the operation of games, but there’s not actually a single Tencent game that I’m aware of that has been globally successful. There are Tencent co-owned studios from the West that have actually been successful prior to their acquisition by Tencent, but there is not a single game in the history of Tencent that has been successful globally and originated from Tencent, so they don’t really specialize in that. I just want to clarify the confusion – they’re high-level specialists in terms of improving operations and events and so on, and one has to give it to them, but I have not heard of Tencent develop from scratch a concept of a game – that is something that generally comes from studios from around the world and not from Tencent “magic”.

AK: As far as the monetization of multiplayer for Cyberpunk is concerned, we believe right now it’s definitely too early to share any details on that or give guidance; the project is in a relatively early stage. We keep experimenting – that’s our first multiplayer game. We check various options and possibilities, and it’s definitely not the time to point you to a specific direction on that. Of course you can expect that we won’t change our general policy towards “deals with gamers” so I expect wise monetization and – always – value for money.

Tomasz Rodak, BOŚ: Hi, Tomasz Rodak, BOŚ Brokerage House. If I understood you well, 68% of revenues from the GWENT project come from iOS devices right now. Could you comment on how many of these players are new to GWENT and how many just moved from PC to iOS? And the second question – could you comment on the sale of The Witcher 3 on Nintendo Switch; the game is currently in the top 20 most popular games on Nintendo Store; could you comment if the sales are above or below your expectations? And the third one – could you comment on the scale of revenues generated by the online merchandise store?

PN: First of all – new users coming from iOS – we didn’t reveal any detailed data, but the vast majority of iOS users are new to the project and they experience GWENT for the first time. Obviously, there was some migration from other platforms but that seems to be the minority as we see it right now. The Switch results – like Adam said, we have just a couple of first weeks and physical results are reported with a delay, and secondly the most important time of the calendar year – the pre-holiday season – is still in front of us, and I believe it will influence the

final results which we will report for the fourth quarter, but so far the sales are in line with our expectations; we had them quite precisely defined with our distribution partners and there are no significant surprises there; everything is going as planned. The third question was about the merchandise store. We included the store in consolidation for the first time within our current financial statement – since it grew to a significant scale, however on the side of revenues the store represented a relatively small part of our sales. Regarding profitability I would say it was neutral, since we had some investments in establishment of the store and right now we continue to increase sales and hope that in the future it will account for a more visible part.

Ken Rumph, Jefferies: A couple of follow-up questions. Firstly, at the result call for the full-year results of last year, you said – regarding dividends – that you prefer to pay out after you've had a success, then you went ahead and did make a payment. Obviously from a cash point of view, even before Cyberpunk the Group continues to be in a strong position. Is there any guidance or expectation regarding dividend payments that we can think about for the current year – that perhaps shareholders like a payment and you will continue that process? And my second question regards capitalized development, and generally – current game development staff that you have; how would you approximately divide them between Cyberpunk, GWENT and any other projects your mentioned that work has begun on? Is it still true that the vast bulk and most of the capitalized expenses relate to Cyberpunk? Thank you.

PN: So, first question – dividends. It's definitely too early to enter into a serious discussion on dividends for this year, especially taking into consideration the launch of Cyberpunk at the beginning of the next year. We focus on releasing the game instead of sharing the profits for this year. Once we make such a decision, it will require reporting so please follow our official reports. Secondly, the division of our expenses on development – first of all, all of the costs incurred in current period related to development and expansion of GWENT are now the costs of the current period, so they are not capitalized anymore since the forth quarter of last year when we released both GWENT and Thronebreaker, so they do not increase the total value of the expenses on development presented on our balance sheet. What's visible on the balance sheet comes mostly from Cyberpunk – single-player and multiplayer, the latter being a smaller project that's just starting. We also have some other things in early development, but as I said, the vast majority of expenses is related to the Cyberpunk universe.

Q: Good morning. A question on the announcement by Valve yesterday to release a new entry into the Half-Life franchise. Obviously the game is set to be released in VR only, but are you afraid that this may pull some of the gamers away from Cyberpunk due to the title being a highly anticipated release? The second question is whether you are considering to re-release some of your titles in VR seeing as how major publishers consider this to be a viable option for the future – and how hard, in technical terms, would it be to convert your existing games to work with VR technology?

MN: So – of course we’ve seen the Half-Life VR announcement. I think it was a surprise for everybody, but perhaps not in a way you are suggesting. VR remains an extremely narrow niche of the market – it’s very small. The only reason I can think of why Valve has decided to put this title on the market is because they have co-operation on the hardware side of things and I assume they are planning – this is probably a big effort for them – to try to expand that niche. The niche is really very, very – and I could add a few “verys” there – small. So, from the market perspective, are we afraid? No, because it’s a very different niche. This is an endeavor to push the hardware, while we are targeting the mass market where it is, which is major consoles and the PCs without the need for VR gear. I am actually unaware – in our conversations with other major publishers – of pushing hard for VR, but perhaps this information has missed me. I genuinely don’t know. I know there’s a few titles here and there that usually are a sort of showcase, but I am not aware of anybody building a valid business on the VR so far. That may very well change in the coming years; perhaps Half-Life will be this first stone that will turn into something larger as we go, but that’s definitely not gonna be the case come first half of the next year. I daresay it’s probably not gonna be next year – I don’t dare venture further because things may change and at some point VR may be a mass entertainment market that will validate the business model behind it, but it’s not a concern for us right now.

AK: And about converting our past games – hard to say but bear in mind that to prepare a game for VR you should design it with VR in mind. That’s the first comment, and the second – we are rather for working on new great things than on working on older stuff. It’s not always the case as we just released The Witcher 3 on Switch, but we prefer to deliver new games than work on old titles.

AK: Thank you for participating in the call. The next meeting is in March next year, our yearly conference – it will be streamed in both Polish and English, so you are invited, and see you next year.