

**Adam Kiciński (AK):**

Good afternoon,

Welcome to CD PROJEKT Group's 2022 half-year call. I'll start with a short recap of the highlights for the period. Then I'll move on to recent announcements. In the second part Piotr Nielubowicz will cover the financials. Michał Nowakowski will join us for the Q&A session after the presentation. The webcast of the presentation, as well as the audio feed, are streamed live on our corporate website and our YouTube channel.

Let's kick off with a summary of the key production milestones. In Q1, two separate CD PROJEKT RED teams were already working on two AAA projects. One team continued development of the expansion for Cyberpunk 2077. The other started preproduction of the next Witcher game. On top of that, we continued working on improving Cyberpunk. In February we released Patch 1.5, along with the next-gen version of the game. The positive response we received proved that we are heading in the right direction. Following the next-gen patch we continued working on the 1.6 update, which came out yesterday. More on that later on.

Back in March we announced a strategic partnership with Epic Games. Our future productions will now rely on Unreal Engine 5 and its potential next versions. We also used this opportunity to announce work on the new Witcher saga game that I've already referred to. As preproduction of the game began at the end of Q1, the corresponding development costs started being capitalized.

Now let's move on to recent project announcements. We are super excited that the Cyberpunk: EDGERUNNERS anime series is coming to Netflix on Tuesday next week. We've produced it in collaboration with Trigger, the acclaimed Japanese anime studio. CD PROJEKT was responsible for creating the story, while Trigger adapted it to the anime format. The first impressions of those who had the opportunity to watch the series during the recent PAX West show are very encouraging. We believe the series will broaden the interest in the Cyberpunk world and bring new players to the game. Indeed, this format provides a perfect match for the Cyberpunk universe.

Now let's move to slide 4 and focus on Patch 1.6 called the EDGERUNNERS update. It brings anticipated features to the game - new weapons, wardrobe, cyberware customization and the EDGERUNNERS content, to name just a few. With this new update we also rolled out a set of modding tools to Cyberpunk called REDmod. Thanks to it it's finally possible to modify almost every system and any aspect of the game, so it offers countless possibilities. Another thing we added is a performance mode allowing users of Xbox Series S to play the game at 60 fps. This has been one of the most highly requested features by our community and we are very happy to introduce it.

Moving forward, we decided to focus our attention and resources on the new-gen versions of Cyberpunk 2077 so we can further develop and upgrade the game on PC, Stadia, PlayStation 5 and Xbox Series X|S. Of course, the game will continue to operate on previous-gen consoles, and we will keep providing technical support.

Let's move to slide 5 and recap basic facts regarding the yesterday's announced expansion. We decided to develop one major expansion to Cyberpunk 2077 titled Phantom Liberty. To provide the best possible experience and great new features, the expansion will come to next-gens and PCs only. The release is planned for next year.

Now let's move to slide 6, presenting the current allocation of our developers. As you can see, the largest team is working on Phantom Liberty; and the second largest on the new Witcher game. You can also see that the share of developers working on The Molasses Flood project has grown significantly since the end of 2021. At the same time the GWENT team was adjusted to the scope of the game operations. A small portion of the team continues to work on the next-gen version of The Witcher 3.

Speaking of which, moving on to slide 7, I can confirm that this game is on track to launch in the fourth quarter. Stay tuned.

Now, let's move to slide 8. I'm happy to invite you all to the presentation of the CD PROJEKT strategy update. The event will take place in October with details to be confirmed in the upcoming weeks. We are eager to share our long-term vision and business outlook. Can't wait.

Now let's move on to the financials. Piotr, the floor is yours.

**Piotr Nielubowicz (PN):**

Thank you Adam.

Now I will guide you through our results for the first half of 2022. Let's start with slide 10 - Consolidated Profit and Loss account.

In total, our sales revenue reached 378 million PLN – which is 20% lower than for the first half of 2021. As you may remember, in H1 2021 we were adjusting our sales and costs provisions created after the release of Cyberpunk. As a result, in the 1st half of 2021 nearly 40 million in sales provisions were dissolved, and slightly over 40 million in costs provisions were created. This led to an increase in our costs as well as revenues reported last year.

It is also worth mentioning that the reference period immediately followed the release of Cyberpunk when the high post-release curve in sales of the game could still be observed. And this year during H1 our revenues from sales of products, supported by the release of the next-gen edition of Cyberpunk, reached nearly 286 million PLN.

Revenues from sales of goods for resale and materials mainly represent GOG business. The total figure here decreased by 9%. The main measurable reasons for that are:

- first, revenue booked by GOG on the PC version of Cyberpunk was naturally lower this year as the next-gen update mostly influenced our console sales and last year we were still in the post-release curve,

- second, this year the digital store recorded lower revenues from new releases from external partners as some of the new releases planned for H1 were postponed,
- and third, suspension of sales to Russia and Belarus added a bit on top of the above.

At the same time - and this applies both to CD PROJEKT RED and GOG, where the bulk of sales is denominated in US dollars - converting our revenues to Polish zloty benefitted from the increased exchange rate of USD vs. PLN.

Cost of products and services sold amounted to 37 million PLN. As mentioned a minute ago, the high figure reported for H1 2021 included adjustments of cost provisions in the amount of over 40 million PLN. Apart from that, both this and last year most of the reported amount comes from amortization of past expenditures on development of Cyberpunk. However, this year, unlike last year, we no longer have amortization of initial GWENT development expenditures which had already been fully amortized by the end of 2021.

Costs of goods for resale and materials sold came mostly from GOG and decreased in line with sales - or even a bit more.

All in all, our gross profit on sales exceeded 276 million PLN.

Moving to the operating costs: in 2022 our selling expenses decreased to 101 million PLN which is nearly 30 million less than a year ago. The amount reported for H1 2021 was largely influenced by our involvement in servicing Cyberpunk, which - as we indicated previously - was expected to decrease this year. And this indeed happened - from nearly 48 million PLN last year down to 15 million this year. The selling expenses line also includes over 27 million in expenses associated with - broadly speaking - our Cyberpunk publishing activity, mainly as a consequence of the next-gen release campaign.

Next line - in H1 2022 we also saved on administrative expenses. The decrease was driven by two main factors:

- first, expenses related to the valuation of the stock-based incentive program - which declined due to the change in our estimates regarding the likelihood of meeting the result goals of this program - which happened at the end of 2021.
- second, we can observe a decrease in early-phase research expenses related to our future products - that occurs as we progress to more advanced phases and further expenses are capitalized as expenditures on development projects.

Moving further, although our total sales revenue decreased by 20% vs last year, our EBIT actually grew by 12%. This result was primarily driven by CD PROJEKT RED; however, GOG also posted close to 2 million PLN in EBIT profit - unlike last year when the result of the segment was negative by nearly 5 million PLN. This significant improvement was made possible by reorganization and optimization of costs performed at GOG in recent months.

This year the balance of financial activities was more favorable to us, mainly due to the recent increase in interest rates allowing us to add 16 million PLN to the total result.

At the same time - same as in Q1 - the reported income tax for the period and the effective tax rate were higher than what we had observed in previous years. The increase was mainly caused by withholding taxes paid abroad by our international licensees. Having received confirmations of withholding tax payments this year, in accordance with existing treaties concerning double taxation, we deducted from our local corporate tax liabilities as much as was allowed. Obviously, the local R&D tax relief and IP Box tax regime which allow for preferential local taxation give us less capacity to deduct foreign withholding taxes. The excess withholding tax which we could not deduct locally was recorded in our P&L statement. The total amount of such excess in H1 this year reached nearly 25 million PLN. This amount is related mainly to license royalties collected after the release of Cyberpunk for which the corresponding tax payment confirmations were delivered to us this year.

All in all, our net profit for the first half of 2022 reached 114 million PLN. The absolute figure increased by 8% versus the comparative period. But what is worth mentioning, however, is that our net profitability grew from 22 to 30% year on year. And for CD PROJEKT RED alone it even exceeded 38% - which means that for each 100 PLN in sales revenue 38.4 PLN remained with us as net profit after taxation.

Let's now move to the next slide – number 11 – our consolidated balance sheet.

In Q1 of 2022 our balance of expenditures on development projects increased significantly, by nearly 84 million PLN. This figure represents the balance of new expenditures on development projects for the period - 121 million PLN - less amortization of past projects in the amount of nearly 37 million PLN. I will come back to expenditures on new developments in a moment.

Another noticeable increase among non-current assets is presented in the shares in the non-consolidated subsidiaries line item. This increase, by 28 million PLN, was driven by our capital contribution to Spokko, as well as the increased valuation of previously acquired US shares in The Molasses Flood - as a consequence of the US dollar getting stronger vs the zloty this year.

At the same time, looking at current assets, our receivables decreased by nearly 122 million PLN - mainly due to: a natural annual cycle after Q4, a decrease in tax receivables and a decrease in prepayments for development projects.

The total value of cash, deposits and t-bonds included in the three items marked with an asterisk is summed up under the table and totals 1 billion 178 million PLN as of the end of June 2022. This means that our financial reserves grew by 24 million PLN during the first six months of this year.

Let's move on to the second part of the balance sheet - slide 12.

As of the end of H1, our Group's equity had a value of nearly 1 billion 903 million PLN and grew by nearly 9 million. Two main counterbalancing drivers should be mentioned here:

- first, an increase related to our profit for the period,
- second, a decrease related to the 101 million PLN dividend for 2021 approved by the general meeting just before the end of June.

Another change affecting the liabilities section at the end of June 2022 involved the liabilities themselves, which increased by nearly 92 million PLN. And again, this was related mainly to recognition of our liability to pay out the 101 million PLN dividend - approved by the GM before the end of June and paid out in July.

As regards provisions - we no longer have any post-release sales provisions. Our cost provisions decreased by nearly 49 million PLN in the first half of 2022. Those related to team bonuses decreased by nearly 23 million PLN due to 2021 bonuses being paid out in Q2 of this year, while other costs provisions decreased naturally by 26 million PLN over the first half of 2022.

Now please move on to the next slide - number 13.

CD PROJEKT RED's expenditures on Research, Development, and Service of released games are presented quarterly for 2021 and 2022 to illustrate the changes happening at the studio after the release of Cyberpunk.

The yellow part represents our total costs of servicing our released games – mainly Cyberpunk and GWENT. Although we continue to support Cyberpunk and Patch 1.6 was released yesterday, the team is progressively moving on to new projects, and so this allocation continues to decrease. A similar situation can be observed with early-phase research work - represented by the green slice, which is actually barely visible in Q2. At the same time the share of the team developing new projects is on the increase. This is represented by the blue part – development phase of new projects. And this time, since the development part is bigger than usual, we have 3 shades of blue to present it in more detail. The dark blue part at the top shows the amount related to outsourcing costs of the next-generation version of The Witcher 3 we booked last quarter. The medium shade of blue corresponds to outsourcing expenses related to Cyberpunk: EDGERUNNERS - mainly due to a shift in its status from prepayments for development projects to capitalized development projects, as the anime series has now been delivered by our partner animation studio Trigger. In both cases, we're talking about kind of "one-time" events related to finalizing works on projects handled by our outsourcing partners. And finally, the light blue part at the bottom represents our typical development activity, and its growing scope.

And now – our simplified cash flow on slide 14.

Cashwise, the 114 million PLN in net book profit for the period was supported by:

- over 43 million PLN in depreciation and amortization for the period
- and nearly 73 million decrease in receivables over the first half of 2022,

The main outgoing cash drivers not included directly in the P&L statement were:

- nearly 43 million PLN decrease in liabilities and provisions,
- actual expenditures on development projects - in cash terms, nearly 90 million PLN,
- purchases of intangible and tangible fixed assets, at over 25 million PLN,
- increase in prepayments and deferred costs by nearly 20 million PLN - mainly driven by new distribution contracts concerning future game releases, signed by GOG; and actually among

others this position includes a contract with a new important partner of GOG - SEGA - and it covers a wide catalog of SEGA games - some of which are already available on GOG,

- and the last outgoing cash driver is a capital contribution to the Spokko company, which is excluded from consolidation; the contribution allowed Spokko to pay back its loans to CD PROJEKT and the net effect of these two types of transactions amounted to 17.5 million PLN.

Altogether our financial reserves increased by 24 million PLN, reaching 1 billion 189 million PLN in cash, bank deposits and T-bonds as of the end of June 2022. The increase was generated during the first quarter - mainly thanks to the collection of our receivables for the preceding 4th quarter, and for the February next-gen digital release of Cyberpunk. In Q2 we paid out our annual team bonuses for 2021, and incurred over two thirds of our increased expenditures on development projects for the first half of the year.

That's all from me for now – thank you for your attention.

We can now proceed with the Q&A session.

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**Q1:** Good afternoon; I've got two questions. First of all – when I'm focusing on the sales of products line, you reported in Q1 478 million and in Q2 – 112 million; when I'm thinking about that line in particular for the second half, am I right in thinking that you normally have seasonally lower Q3 and there are no other factors that would move that number up, and in Q4 the only factor that could change it is TW3 next-gen update? Am I missing anything other than those factors when I'm thinking about how to model Q3 and Q4 sales of products? That's my first question. Second one – slide 6; it looks that as of July 31 there was only a small team working on the next-gen version of TW3? Have you stepped the team up since then, or was it more or less complete when you picked it up from Sabre? Are you still very confident of releasing that in Q4 this year? Thank you.

**PN:** I'll start with the question about sales of products. Yes; typically Q3 is the low season for us while Q4 is the high season. As far as Q3 is concerned, the main events on our side are the release of the 1.6 patch and the premiere of the EDGERUNNERS series on Netflix. Obviously, they do not directly drive sales of the new game, but we dedicate a lot of communication to both events – the release of EDGERUNNERS and the EDGERUNNERS update for CP. The main event for us in Q4 will be the next-gen release of TW3, which, as Adam confirmed, is planned to take place by the end of the year, in Q4.

**AK:** Answering the second question – the team is appropriate. When we took over the product – it wasn't ready, of course – but the remaining work was very highly specialized technical work, so there's a group of professionals appropriate for the task, and they're finishing this work. Yes, we're on track to release the game in Q4.

**Q2:** Good evening everyone, I've got a couple of questions as well – first of all, on the next Witcher game. Could you update us on where you are in the development of that game? How far through are you and do you still anticipate it would take you 3 to 4 years to develop? And also – is that game all being developed on UE? Secondly – I guess on the CP expansion; a similar expansion: where are you in the development of that; how's that going; how is the expansion currently looking in terms of the

development process, and are you broadly targeting some point before the end of the year or can you be a bit more specific? Thanks.

**AK:** Answering the first question – we are in pre-production, as I've said – that is the first phase of development, and as of now we have the required team and we are in line with the plan, but I cannot comment on the total time of the project. As of now, we are where we should be and the game is being developed on UE, as we've said. On the expansion – of course the situation is very different; the expansion is the last project developed with our own technology. We are where we should be at this stage; it is a very advanced stage and the bulk of our development team is engaged in the project. I cannot comment on dates; we are saying that it'll be the next year. There will be time for further announcements.

**Q2:** Thanks; just one follow-up if I could – on The Witcher. You referred to a new Witcher saga; are you now talking about multiple new games? Could you elaborate a bit on what you mean by that?

**AK:** Sure. We've said there would be a new saga, but of course now we're preproducing the first game – but we have more than one game in mind. Our first saga consisted of three games; now we're thinking about more than one game, but for now we're working on the first game from the second Witcher saga.

**Q3:** Good evening. On the parallel development beginning – just to check if I'm reading the charts correctly – that capitalized parallel development on those two products started in Q2? And are we talking about the Witcher game and another AAA project, and if so – you had a statement in the press release about revisiting a world which is an integral part of CD PROJEKT's history – was that statement referring to the new Witcher saga game that you had mentioned, or another game? And another question – we've got the Phantom Liberty trailer out and next year's release date; could you give us an update – if there is one – on what the plan is for any subsequent major expansions or DLCs for Cyberpunk? Is it too early to say or should we expect a similar couple of expansions as we got for The Witcher 3? Thank you.

**PN:** I'll take the first question about capitalization. Actually, capitalization started early – for one project – at the end of 2021 and beginning of 2022, and for the second project in Q1 2022. I'm talking about two projects, since the first one is the next Witcher production, while we also work – together with The Molasses Flood – on their project, which is also part of our capitalized expenses.

**AK:** I'll add one more thing – referring to parallel development at CD PROJEKT RED I meant the development of the expansion, which – from the production perspective – is fully AAA; and in parallel with that we have begun development of the next Witcher game.

**Michał Nowakowski (MN):** Hi; this is Michał. On your question regarding further expansions for Cyberpunk – we've decided to develop one major expansion, which is going to take advantage of the capabilities of new-gen consoles. Having said that, we're totally committed to developing the Cyberpunk IP further, beyond this CP expansion. We've invested a lot of time and effort into building this franchise and we definitely want to build on top of what is there right now – new stories, new

experiences, new content – not just in the videogame format. In terms of expansions there's going to be just one major expansion; however, there's going to be new stuff.

**Q4:** Two questions. The first – when we're thinking of the potential sales of the CP expansion, should we be using the sales of W3 expansions as a guide? Is that the best thing to do or is there another methodology that you would recommend? And the second question – in the past when you've talked about this market consolidation, you've always said that you wanted to remain independent, run your own franchise and make sure that you fully exploit Cyberpunk. Is that still the case?

**MN:** I'll take the first one – the question about potential sales of the expansion. We've never been big on leading on the actual sales. I believe we have a great expansion on our hands and we have really ambitious goals; however, in this case it's important to remember that in this case we're targeting only the new-gen and PC, and the base of new-gen console owners – that's an important factor to keep in mind. And another thing to remember – we're also looking at long-term sales and on what adding this expansion is going to do for sales of the base game, any potential complete editions and so on. Look back at TW3 history when we made similar moves, and this will probably give you an idea. Again, I cannot specifically comment on the actual numbers, even in terms of percentages, etc.

**AK:** Answering the second question – yes, definitely; we haven't changed our strategy. We are focusing on building franchises, on bringing more content to our franchises, and of course we put games at the center of our franchise flywheels.

**Q4:** Just a follow-up – have you given any thought to how the cost of living crisis could impact the company going forward?

**AK:** Of course, the cost of living and inflation impact wages. This isn't the only factor, but we see that wages are rising. Last year the average rise was 23%; this year we're expecting a similar trajectory. On top of that we have new factors such as working from home, which on the one hand is an opportunity because we can hire people from all around the world, but on the other hand wages are increasing and we need to adjust to it.

**Q4:** What I meant was the impact on consumer demand – this year inflation is going up, energy prices are going up, consumers have less money – how do you see that impacting the sales of the games?

**MN:** We're not fortunetellers, and the situation the world is currently in in many aspects is rather unprecedented – I think we can agree on that. Having said that, previously games were relatively crisis-proof and although no one can tell what's going to happen, we've not really seen any negative impact upon our sales to be honest.

**AK:** I can add one more thing – we are actually providing our customers, the gamers, with fairly cheap entertainment considering that our games last tens or sometimes hundreds of hours. With TW3 they pay 40 or sometimes 20 USD when on sale, and for CP the prices are very attractive as well, so they get a lot for a very decent price.

**Q5:** Hi; thanks for taking my question. A quick one on your player base across different console types. Could you give us an indication on what percentage is on next-gen consoles and the PC?

**MN:** Yes, we do have a very good idea in terms of PC. In terms of consoles that split is not as simple as with the PC; however, we do have insights into that.

**Q5:** Would you be willing to share that? Would you say the majority of console players have shifted onto next-gen, or are they still partly playing on the previous generation of consoles?

**MN:** No, we do not really provide guidance on that kind of stuff. Some of this information is confidential as well.

**Q6:** I have two questions if I may. Firstly, in terms of the CP expansion – what sort of price can we expect for this, or will these details be shared at a later date? And secondly – is there any potential for any future platform deals to bring Cyberpunk to Xbox Game Pass or PlayStation Now as a subscription service as well?

**MN:** Hello again; I can take these two. So – the first one was about the price. We're obviously not disclosing the price at this point in time; we're going to reveal that at an appropriate moment. Having said that, we did mention this is a major expansion; it's actually pretty sizeable and we're happy with its quality, so the price is going to be in line with what we present to the players, basically. As for the second question – whether there are any potential deals with Xbox and PlayStation – we've done some deals in the past, but if there's any deal happening, we'll only be able to talk about in the future, and anything that's going to happen will be announced at an appropriate time. We don't have anything on this matter to share now.

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### Questions asked in the webcast

**Q1:** How many developers in total did you employ at the end of June 2022?

**AK:** We have almost 800 developers at the Group, excluding GOG.COM we have approximately 730 developers working on different projects.

**Q2:** When looking at OCF in 1H22, your OCF was decreased by PLN 50m change in provisions. Could you please comment more on this line of OCF. What exactly is under this line of cash flow statement? Is this linked to cash provisions linked to salaries, bonuses?

**PN:** There were two main factors behind the decrease in provisions. Each year we set provisions for annual bonuses for the team, and we accumulate them quarter by quarter based on the results of each quarter. Once we close the year and we have the results for the whole year, we pay out bonuses. This happened in the second quarter of this year; we paid out bonuses for 2021. The second part was related to standard cost provisions we set at the end of 2021, and I would say that these provisions were consumed naturally; there was nothing surprising – certain costs materialized in 2022 and hence the decrease in provisions.

**Q3:** How does shifting to Unreal Engine work for you?

**AK:** We've just started, but the agreement was preceded by a very detailed evaluation of future plans of Epic Games and development plans related to Unreal Engine. It's a perfect match for us to use this technology. On top of that, Unreal is known for great developer tools, so we believe that some processes and pipelines should become more efficient once we fully roll out the technology. We're now running workshops and still learning, but there are also many more developers familiar with this technology – so the pool of potential hires is definitely bigger than before.

**Q4:** Why do you want to update your strategy? Will there be major changes in the direction of development? What should we expect?

**AK:** No, you shouldn't expect any major changes. The strategy stays the same but we want to share our vision of the future. We want to talk more about future plans and how we want to run our business. The previous update was mostly focused on the transformation; now we believe we are ready to talk about our business outlook.

**AK:** We're finishing our call. Thank you very much for your participation. Stay tuned, and – as I've said – in the coming weeks we'll present our strategy update, which will take place this October. Thank you, bye bye!