

**Adam Kiciński (AK):**

Good afternoon.

My name is Adam Kiciński and I'll be your host during today's conference dedicated to the CD PROJEKT Group's financial results for the third quarter of 2022. I'll run the presentation together with Piotr Nielubowicz. Michał Nowakowski will join us for the Q&A session.

Alright, let's get right down to the short summary of the past months.

In the Cyberpunk franchise, two important events took place in September. On the 6<sup>th</sup> we released Patch 1.6, or the EDGERUNNERS update, bringing another batch of substantial updates to Cyberpunk 2077.

This was followed a week later by our first anime series: Cyberpunk: EDGERUNNERS aired on NETFLIX – a co-creation between ourselves and the Japanese studio TRIGGER.

The update featured multiple improvements to the game, many of which had been directly requested by the community. It also contained tie-ins to Cyberpunk: EDGERUNNERS, encouraging anime fans as well as gamers to immerse themselves in the dystopian world of Cyberpunk.

Our goal was to establish transmedia synergy between these two formats – and it worked well.

Now let's move on to slide no. 3.

High scores on review sites, favorable impressions from key media outlets and a great deal of positive feedback from the community – all of this greatly exceeded our expectations. In its first week Cyberpunk: EDGERUNNERS hit the top 10 most watched non-English shows on NETFLIX, and remained on that list for nearly a month.

The popularity of the anime generated fresh interest in the game. For four weeks in a row over a million gamers, both new and returning, explored Night City each day. What's more, the share of positive reviews of the game on Steam reached 90%. It's an incredible result that once again proves we have a great game on our hands.

Now let's move to the next slide.

In the past two years we worked hard to introduce the necessary changes to the company's operations, and to prepare internally for the big public reveal of our future plans.

In our strategy update, presented on the 4th of October, we confirmed the key directions in which we want to expand our business focused on the long term product outlook.

Speaking of which – let's move to slide no 5.

In the second half of October, we disclosed that Canis Majoris, one of the projects originally announced during the strategy update, would be a remake of the first Witcher game. This project will be developed by an external studio, Fool's Theory, a company run, in big part, by experienced ex CD PROJEKT RED developers. Of course we will also be involved.

Still on the subject of The Witcher, December 14th will see the launch of the next-gen update for the Witcher 3: Wild Hunt. The update will feature multiple visual, performance, and technical enhancements over the original. These include, among others, Performance and Ray Tracing modes on consoles, a new camera option available when playing the game, cross-progression and a photo mode feature, which was highly requested by the community.

The update will also offer a variety of community-created mods and additional content inspired by The Witcher NETFLIX series.

As for our current operations and development - let's move on to slide 7. As you can see, our focus remains unchanged. We're concentrating on the final stage of the development of Phantom Liberty, an expansion for Cyberpunk 2077 scheduled for the next year. Right now almost 350 developers are working on that project. At the same time, we have strengthened the Polaris and Sirius teams. The former has grown to more than 150, while the latter accounted for around 60 developers at the end of October.

Now, let's get back to the strategy outlook.

Our ambitious product plans for the years to come are strongly linked to the recent announcement that we're opening a new studio based on two hubs: one in Boston and one in Vancouver. The goal behind this move is to expand our development capabilities by tapping into the Northern American talent pool.

This brings me to the last slide of my part of the presentation. Attracting highly skilled employees and effectively motivating those we already have on board is crucial for us to succeed in the long run.

That's why, during the upcoming Extraordinary General Meeting, we want to put to a vote a new Incentive Program for the years 2023 - 2027, replacing the existing one. We expect this change to boost our position as an employer of choice in the highly competitive global gaming industry. It will also contribute to the long-term value of our Company, which is aligned with the interest of our shareholders.

If you have any questions in this matter - do not hesitate to contact us.

Now it's time for the financials. Piotr, the floor is yours.

**Piotr Nielubowicz (PN):**

Thank you Adam.

Now let's dive into our 2022 Q3 results.

Let's start with slide 10 - Consolidated Profit and Loss account.

Although due to seasonality Q3 is usually the weakest quarter of the year, this year, so far it was the strongest one for us.

In total, our sales revenue reached 245 million złoty – which is 70% higher than for the third quarter of 2021. The Cyberpunk game was the main contributor to the achieved revenues. As you know since its release we have dedicated a lot of effort into patching and updating it. In February this year we released the next gen update. And, as Adam mentioned just now, in September we released another significant one - called Edgerunners update. It brought further enhancements and improvements to the game but also additional content related to the anime that was to be released one week later. And so it happened – on the 13<sup>th</sup> of September Cyberpunk EDGERUNNERS anime premiered on Netflix. Both events were supported by marketing and PR communication. All this resulted in a significant number of gamers playing the game – both returning and newcomers.

As far as the anime is concerned – in Q3 we also recognized full revenues and costs related to it. This resulted in increased costs of products and services sold line item which – together with amortization of our already released games – reached nearly 49 million zloty in Q3 this year. Although on the anime itself we enjoyed lower profitability than we usually see on CD PROJEKT RED games, the gross profit on sales amounted to 166 million zloty – 82% above Q3 last year.

Our selling costs – 54 million zloty – slightly decreased versus last year along with a change of their structure. We experienced a decrease of costs dedicated to servicing Cyberpunk 2077 and an increase of marketing and PR costs related to the franchise.

Next line – we also saved on Administrative expenses – although most cost categories were on the rise this year. The decrease versus the comparative period 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 – a change which we communicated in our 2021 annual report.
- second, our early-phase research expenses related to future products also decreased as we progressed our projects to more advanced phases and further expenses are capitalized as expenditures on development.

Moving further, decreasing operating costs and the growth of our sales revenue allowed us to increase the EBIT position. In Q3 this year it was over 6 times higher than in Q3 2021. This result was primarily driven by CD PROJEKT RED; however, GOG also posted over 2 million zloty in EBIT profit – unlike last year when the result of the segment was negative.

This year the balance of financial incomes less financial costs was also more favorable to us than last year, mainly due to the recent increase in interest rates.

All in all, our net profit for the third quarter of 2022 reached 99 million zł which is again 6 times more than a year ago. What is also worth mentioning is that our net profitability for this quarter reached 40%. And for CD PROJEKT RED alone it even exceeded 47%.

Let's now move to the next slide – number 11 – as I would also like to share with you that the last quarter was our best third quarter ever – both in terms of sales revenue and net profit. Also both for the whole Group and for CD PROJEKT RED alone. The chart speaks for itself.

Let's now move to the next slide – number 12 – our consolidated balance sheet.

In Q3 of 2022 our balance of expenditures on development projects increased by 15 million zloty only. This figure represents the balance of new expenditures on development projects for the period - nearly 65 million zloty – less the amount we have recognized as costs for the period in the amount of 49 million zloty, which also includes the already mentioned one-time amortization of our expenditures related to Cyberpunk EDGERUNNERS anime. As usual I will come back to expenditures on our new developments in a moment.

Another noticeable increase among non-current assets is presented in the Other financial assets line item which mostly includes part of the treasury bonds we acquired in order to diversify our cash position.

At the same time, looking at current assets, our trade receivables increased by 84 million zł – which is 2.3 times the balance as of the end of June. The growth was mainly caused by the high revenues we accounted for in Q3 this year.

The total value of cash, deposits and treasury bonds included in the three items marked with an asterisk is summed up under the table and totals 1 billion 95 million zloty as of the end of September 2022. This means that our financial reserves decreased by 82 million zloty during the last quarter. Taking into account the increase of trade receivables by 84 million zł and the fact of paying a dividend in the amount of 101 million zloty this is a very solid result. I will give you more details on that in the cash flow presentation.

Let's move on – to the next part of the balance sheet – slide 13.

As of the end of September our Group's equity had a value of nearly 2 billion zloty and grew by 95 million driven by our profit for the period.

Another noticeable change among the liabilities section involved the liabilities themselves, which decreased by 82 million zł. This was mainly caused by the July distribution of the already mentioned dividend which was approved by the General Meeting before the end of June and was recognized among our liabilities as of the end of Q2.

As regards provisions – this line item grew by 19 million zloty mainly in relation to provisions for team bonuses set based on this quarter result.

Now please move on to the next slide – number 14.

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 in recent quarters.

The yellow part represents our total costs of servicing our released games – mainly Cyberpunk and GWENT. Although we continue to support Cyberpunk and the Edgerunners Update was released just now, 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 and Q3 2022. At the same time the share of the team developing new projects is on the increase. This is represented by the blue part. Unlike last quarter this time we had no extraordinary one-time bookings related to cooperation with our external partners. Main projects included in the blue part this past quarter were: Cyberpunk: Phantom Liberty, Polaris, Sirius, Witcher 3 Next Gen edition and final expenditures related to Cyberpunk EDGERUNNERS.

And now – our simplified cash flow on slide 15.

Cashwise, the 99 million złoty in net book profit for the period was supported by:

- nearly 52 million zloty in depreciation and amortization for the period,
- and 18 million zloty increase in liabilities and provisions – not including the dividend liabilities.

The main outgoing cash drivers were:

- the already mentioned payout of the 2021 dividend in July, in the amount of 101 million zł.
- actual expenditures on development projects – in cash terms, 56 million zloty,

- increase in prepayments and deferred costs by 13 million zloty – mainly driven by new distribution contracts concerning future game releases, signed by GOG,
- and, last but not least, 84 million zloty increase in trade receivables, that should be collected in Q4.

Altogether our financial reserves kept in cash, bank deposits and T-bonds decreased over the last quarter by 82 million zloty. As I already mentioned – taking into account the increase of trade receivables by 84 million zł and the dividend payout of 101 million zloty – this is a very solid result.

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:** Hi there; three questions if I may. First of all, on Cyberpunk sales in the quarter – I know you don't normally give an absolute number of units, but perhaps you could tell us whether this quarter's sales were the biggest so far – excluding the launch quarter? That would help us understand where the number's coming from. Secondly, on Phantom Liberty – you haven't told us in which part of 2023 you're planning to release it – which quarter you're currently targeting. I wonder if you could give us an update on that? And finally, on The Witcher next-gen – could you give us a sense of what the marketing campaign would look like if you benchmark it against previous expansion marketing campaigns? Is it going to be along the lines of Blood and Wine, or is it going to be more in line with some of your major game releases?

**PN:** I'll start with the first one. Definitely this year was the best quarter for CP sales – I cannot tell you right now how this year's Q3 compares to last year's Q4, which was also very good, but looking at the data I have in front of me for this year – this quarter was the best one for CP.

**Michał Nowakowski (MN):** For the second question, this is Michał Nowakowski – we are, unfortunately, not disclosing the specific quarter for the launch of Phantom Liberty, so I'll have to ask you for a bit of patience. We'll talk about when we're ready. I'll actually take the third question as well – whether the marketing campaign will be comparable to what we did with Blood and Wine – I'd say it's very difficult to compare one to the other; the market circumstances have changed; I don't think we'll be able to specifically home in on what that number may be – but of course it would not be the size of a full-game marketing campaign; it'll be commensurate with the size of the expansion – and it's a big expansion, so while there will be a lot of support, I would not put an equals sign between the Blood and Wine campaign and the Phantom Liberty campaign.

**Q2:** Good afternoon and thanks for taking my questions – I have two if I may. Firstly, thinking about the trend in CP sales, there's obviously been a big spike in sales with the recent update and the NETFLIX series this quarter – has it since normalized back to the trends that were in place before the release of EDGERUNNERS, or has it remained higher? And secondly – is there any guidance in terms of developer headcount you will need to reach in order to deliver on the strategy you announced recently, with the significant step-up in release activity? Does headcount need to double or even triple from current levels for this to happen – or is this the wrong way to think about things?

**MN:** I'll take the first one. When it comes to the sales trend, pre-EDGERUNNERS and right now, I can confirm that the sales level we're seeing right now is higher than prior to the EDGERUNNERS launch and immediately after that launch. We see that the stable bar has risen compared to where it was pre-EDGERUNNERS.

**AK:** And I'll take the second one. There's actually no final goal in terms of headcount. Our aim is to keep growing, and we'll see if the size of our current team doubles in the years to come. I don't want to restrict ourselves by giving specific numbers. It highly depends on the average skill of new team members, especially at our new NA studio which we're going to start opening next year – even though the Vancouver team already exists and is growing – so I don't want to refer to specific numbers, but we do want to keep growing. This year we've added around 100 people, in net terms, and we'll continue to grow according to our needs; we believe our existing team gives us a very good start to continue developing Polaris and then jump to Orion next year.

**Q3:** Good evening guys. First question – given that so many people have bought The Witcher 3 already – a huge success over so many years – and those people get the next-gen update for free, do you expect to see a step-up in revenue during Q4 and around that launch? Or will it just be a boost for the community rather than a step-up in revenues? The second question – when do you expect to start ramping up the cash spend on the Boston studio? Will that initially be expensed in the P&L, or will it be capitalized – since they will, from the beginning, be associated with a new yet-to-be-released game? And third question – thinking about Q4 vs. Q3, historically you've seen a seasonal boost in Q4 vs. Q3 – you reported a spike in September and now you've talked about that leveling off at a higher level – when thinking about the balance between these two quarters, can we still expect a seasonal step-up?

**MN:** I'll start with the first one. First and foremost – we do not really provide guidance when it comes to revenue for any of our launches, and that's also true for The Witcher 3 next-gen update. I will note that yes, it is free of charge for people who previously owned a copy of the game, but obviously if you've never owned a copy – and I believe there are people like that – they will obviously need to purchase the game one way or another. Still, we do not provide specific guidance related to any of our launches. Thank you.

**PN:** I'll take the second and the third question – when do we expect to start ramping up the Boston studio. Basically, after launching CP: Phantom Liberty we'll accelerate our work on the Orion project, which is handled by the Boston studio. The second part of this question was whether we'd be expensing the costs of this development in P&L or capitalizing them. So – initial research phases will be expensed directly in our P&L and once we move to the actual development phase, further costs will be capitalized. We'll apply the same formula as with our recent developments. The third question was about the seasonal boost in Q4 vs. Q3. First of all, we are not guiding, and of course Q4 is still in progress. Definitely, though, Q3 was our best Q3 ever, so the basis for comparison with Q4 is high. On the other hand, for this Q4 we have The Witcher 3 next-gen edition still ahead of us, which will definitely support revenues during this quarter. So there's no precise answer I could give you – especially as we do not want to guide on future results.

**Q4:** Thanks for taking my questions; I have two. You've indicated that with Sirius and Canis Majoris – that one of them will come after The Witcher 4 launch. The other one, which I think is Sirius – is that coming before TW4 or afterwards? How would you describe the size of that game? And the second question – if Cyberpunk cost something like 570 million to develop, what do you think the actual cash flows from development costs related to the projects you've outlined would be – to help us model? Thank you.

**AK:** Starting with Sirius – we are not guiding on this game when it comes to its size or what type of game it is; we only stated that it would be accessible to a broader audience. There's a very clear business purpose to this: we have to prepare ourselves to communicate more information around this project when the time comes. As the product is different than anything we've released so far, we have to be sure that gamers can understand what the game is about – this is why we're not describing what kind of game it is, or what its size will be. And as for the remake, and when it will come out – it will come after Polaris, which is a consequence of how we view this project. The remake will be largely based on technologies used in Polaris, so development will proceed in parallel with Polaris, but once Polaris is launched, its base technologies will be ready for partial reuse in the remake. But we are not saying whether Sirius will come before or after Polaris – only that these three Witcher games will be the first games we're going to launch in our pipeline; that's all I can say for now.

**PN:** The second question was about budgets or cash outflows related to our planned development work. We've not revealed any budgets for any of our future games. Once we release a game we usually disclose its budget, but we're definitely not at that stage yet. Having said that – we will develop all the products announced in our strategy update gradually, while we continue to sell our past titles; we will also release some new products such as The Witcher 3 next-gen edition or Phantom Liberty, which will allow us to increase our cash inflows. So – we will use such monthly income to help finance our development work on new products.

**Q5:** When do you plan to publish the result target for the incentive program?

**PN:** So, this question requires a broader answer. The nature of this program is different from that of our past programs. It's divided into two parts. In Part A, shares will be sold at nominal value, and which will therefore account for the bulk of the program's costs, there are no result goals - the scheme is based on the concept of deferred remuneration, payable in shares after 3 years of employment. The aim of the program here is to promote retention. In Part B, three-, four-, and five-year goals will be set in due course, for each stage separately, throughout the program's five-year duration. But what is also important, the exercise price for each stage in Part B will be based on the stock price on the corresponding grant date - this means that in order for participants to benefit from the program, it will be necessary for the CDR stock to gain value, and also for the Company to achieve its long-term goals. Part B, aimed at Members of the Management Board and other top managers, is much more demanding in terms of requirements than Part A. And as I've said, the goals will be set year by year over the duration of the program - given our policy to avoid guidance on future earnings, not to publicly reveal the internally planned release dates, we purposefully decided not to reveal our financial goals throughout the duration of the program.

**Q6:** Do you plan to open new studios outside of Poland in the next year?

**AK:** Let's open CD PROJEKT RED NA first – this is the plan for the next year. It is very ambitious in itself, so we have no further plans to open additional studios; of course – things may change in the future, but as of right now, there are no plans to open additional studios other than CD PROJEKT RED NA.

**Q7:** Do you expect to enter the pre-production phase of the Cyberpunk sequel in the next year?

**AK:** After releasing Phantom Liberty we will start working on the next Cyberpunk game. Of course, this will initially involve conceptual work, which – from a formal perspective – does not count as pre-production – there are, in fact, two perspectives: our internal language used in development and the formal perspective linked to how we allocate costs. So – initial phases are, in formal terms, research phases and the corresponding costs are reported directly in P&L. Once the conceptual framework is ready, we begin development – that's the bookkeeping approach – and development begins with pre-production. So, formally speaking, pre-production likely won't start next year as this is the first phase of development. Still, we will start working on the game, conceptually, during the coming year – of course, with a smaller team than the one currently working on Phantom Liberty – since some of those developers will join Polaris and help with the development of that project.

**Q8:** Are you planning a second season of Cyberpunk: EDGERUNNERS on NETFLIX?

**MN:** We're not confirming any specific plans related to the second season of EDGERUNNERS; we did, however, say a number of times that we have an appetite for transmedia – including animation and live action, and these plans haven't changed. When we're ready, you can expect to see more announcements in that regard coming from us.

**AK:** As we have no more questions, I would like to thank you again for joining us today. If you have any follow-up questions, do not hesitate to contact our IR team directly by mail. Have a nice evening and good bye!