

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 2022. I'll run the presentation together with Piotr Nielubowicz. Michał Nowakowski will join us for the Q&A session.

Before discussing earnings, I'll sum up last year's main events.

2022 can be defined as the year in which we laid solid foundations for our future business.

First - beginning parallel development of two AAA projects. As we continued working on Phantom Liberty, we started production of the next Witcher game. Parallel development should eventually let us increase the frequency of releases.

Second - we entered into a strategic partnership with Epic Games. We decided to transition to the Unreal 5 engine for our future titles. This should eventually support more stable and efficient development.

At the same time we continued to improve our key products: Cyberpunk 2077 and The Witcher 3: Wild Hunt. They both received a number of significant updates.

Speaking of Cyberpunk, two important events took place in 2022. In February we released patch 1.5. This substantial update brought various improvements to the game. What's more we updated the game to the full next-gen version. This means Cyberpunk 2077 can make the most of the additional power delivered by next-gens. Later that year in September, we released patch 1.6, the so-called EDGERUNNERS update. It brought another batch of meaningful improvements to the game - many of which had been directly requested by the community. Also, the update contained tie-ins to the anime series Cyberpunk: EDGERUNNERS which was released on NETFLIX at the same time.

Speaking of the direct impact of these events - let's move to slide 4.

Analyzing the Steam reviews, there is a clear increase in positive ratings at the beginning of the year when patch 1.5 was released. It is worth mentioning that this was a nextgen patch, so the quality increase was especially noted by console players. But as we can see, PC players also appreciated the improvements. However, these results were disrupted by a review bombing linked to the war in Ukraine. It's clearly visible in March when we were hit with a massive number of negative off-topic reviews. Our understanding is that it was a direct effect of pulling out our games from Russia and Belarus and our financial support for Ukraine.

The impact of the war aside, starting from September the impact of the transmedia synergy was particularly visible. The release of the EDGERUNNERS update, combined with the very positive global reception of the anime, gave the game another boost. Sentiment around Cyberpunk is clearly good, laying a solid foundation before the release of the expansion - Phantom Liberty.

Now let's move to the next slide, no 5.

The highlight of late 2022 was definitely the release of the next-gen update for the Witcher 3: Wild Hunt. In December we invited players to return to the Witcher universe and enjoy Geralt's adventures in the best possible quality. The update featured multiple visual and technical enhancements including Performance and Ray Tracing modes. On both next-gens, Witcher 3 hit a 94 score on Metacritic and a 'must-play' distinction. We believe that thanks to this update we have extended the game's lifespan by another generation.

Now let's move to slide 6 to take a look at the long term revenues from our key games.

2022 was another year when our back catalog generated solid sales. Significantly, revenues of Cyberpunk grew on a year-on-year basis. This is a good sign ahead of the release of Phantom Liberty and its potential of supporting sales of Cyberpunk 2077 in the years ahead.

Now let me walk you through the effects of strengthening the RED team, presented on slide 7. We are rescaling as a company, now able to work on two AAA games simultaneously. We have turned to data, through employee surveys, to support our path for the next transformation steps. The initial results are encouraging. Especially the involvement of employees - more than 85% of the team took part in the survey. This is way above the benchmarks. At the same time, we see further room to develop the company as an attractive workplace - by giving not only a voice, but also real empowerment to each team. What's more, we have stabilized our teams - with a drop in turnover by 6 percentage points compared to 2021.

In order to further minimize turnover and compete for the best talents, we are transforming our payroll policy. This year's dynamics of salary increases will be maintained. On top of that we have already integrated our company-wide bonus system into the base salaries. So the total base salary growth in 2023 will be even higher than in previous years.

At the moment our compensation system does not include long-term incentive plans. To be even more competitive, we are proposing an Incentive Program. It will be voted on at the next shareholders meeting, which will take place on April 18th. If you have any questions in this matter - do not hesitate to contact us.

As for our current operations and development - let's move on to slide 8.

Our focus remains unchanged. We're at the final production phase of Phantom Liberty with 340 developers on that project. In parallel, we have grown the Polaris team to almost 200.

Before I turn the floor over to Piotr, I would like to announce that in June we will be launching a marketing campaign for Phantom Liberty.

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

Piotr Nielubowicz (PN):

Thank you Adam. Now let's dive into our 2022 results. First, our Consolidated Profit and Loss account on slide 11. In total, our sales revenue in 2022 reached 953 million PLN – most of that was delivered on Sales of products of CD PROJEKT RED. 3 major events helped us to achieve this result - in chronological order: the release of the Cyberpunk Next Gen version, the whole event of the Cyberpunk Edgerunners update & anime launch, and last but not least - the introduction of the Witcher 3 Complete Edition on next gens.

In contrast to total group sales, our cost of sales slightly decreased - which is attributable mostly to the GOG segment. Moving on to operating costs - our selling expenses in the amount of 222 million zloty decreased by over one fourth. This was mainly driven by a decrease of Cyberpunk servicing costs from over 80 million zloty in 2021 to nearly 23 million zloty in 2022. The updates and improvements published over the past two years significantly enhanced gameplay performance and have been met with a positive response by gamers - as shown by Adam. Our focus and team involvement now naturally shifted towards future releases, including Phantom Liberty. Still overall the selling costs were high as last year we were actively promoting the 3 events I just mentioned.

Next line - our Administrative expenses - increased by 5%. On the one hand we spent less on early-phase research expenses as we progressed our projects to more advanced phases and further expenses were capitalized. But on the other - most costs are - in general - on the rise. Including costs related to our historic incentive program - which only this year increased our administrative expenses by over 5 million zloty vs last

year. Speaking of the historic incentive program - as you may imagine, due to a strike price of 390 PLN and goals practically out of reach for now, this program - although still costly for us - entirely lost its motivating function. We aim to replace it with a new one supporting our team retention, recruitment, growth and in consequence efficient and timely developments. Since the last General Meeting we collected feedback from the market and incorporated substantial changes into the new resolutions. We would like to invite you to support the company on that voting at the next General Meeting on the 18th of April.

Moving further to other operating income and expenses - I am aware that it's not great to hear from a company that a project is being reevaluated. But at the same time in order to stay innovative, we must experiment and be brave when trying new paths. And, to stay in control and keep the right course, especially with a project that is new to us in terms of design, developed by a new studio in our family - we need to keep evaluating the situation as we move along. It is better to cut costs early and even restart if needed than to carry on. As a result of this approach we experienced negative results on our other operating activity due to the impairment related to project Sirius - which we reported 10 days ago.

Moving on to the EBIT line. Our operating profit reached 377 million PLN - which is 62% above the result of last year. EBIT was supported by positive results on our financial activity - although the 16 million zloty positive financial activity's performance included 27 million PLN of revaluation of Spokko company shares upon this year's decision to sunset The Witcher Monster Slayer project.

All in all, our net profit for 2022 reached 347 million PLN which is a nice two thirds more than a year ago. Most of the result was delivered by CD PROJEKT RED segment however - unlike last year - GOG also delivered over 5 million PLN of net profit for the Group.

What is also worth mentioning is that the net profitability of The Group for this year exceeded 36%. And for CD PROJEKT RED alone it was even close to 44%.

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

Over 2022 our balance of expenditures on development projects increased by 123 million zloty. This figure represents the balance of new expenditures on development projects for the period - 262 million zloty - less the amount we have recognised as costs for the period in the amount of 139 million zloty. The latter includes impairment related to project Sirius and one time amortization of our expenditures related to Cyberpunk Edgerunners. As usual I will come back to expenditures on our new developments in a moment.

Our property, plant and equipment position increased by 25 million zloty - mainly due to our investments on the Warsaw campus and acquisition of office equipment. At the same time, looking at current assets, our trade receivables increased by 40 million PLN - which I see as a consequence of higher Q4 sales this year versus the comparative period. At the same time the other receivables line item decreased by 55 million zloty - this was mainly driven by limiting our tax related receivables and also decrease of advances on development works - due to completion and delivery of the Cyberpunk Edgerunners project.

And last but not least - 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 91 million zloty as of the end of 2022. I will walk you through our main cash flow drivers in a moment.

Let's move on - to the second part of the balance sheet - slide 13.

As of the end of 2022 our Group's equity had a value of over 2 billion zloty and grew by nearly 140 million zloty driven by our profit for the period. But what is also reflected here is that during 2022 we shared over 200 million zloty with shareholders - half half by way of share buyback and dividend payout.

Another noticeable change among the liabilities section involved the liabilities themselves, which decreased by 22 million PLN. This was mainly driven by other financial liabilities and reclassification of part of the liabilities to the other financial assets position - resulting from positive valuation of instruments hedging foreign exchange risk, as well as from the realization of part of our liability for the payment of the purchase price of shares in The Molasses Flood. Parallel to that we increased our trade liabilities and decreased our income tax liabilities.

As regards provisions - this line item grew by 10 million PLN mainly in relation to provisions for team bonuses set based on 2022 results.

Having mentioned the team bonuses I would like to add to what Adam said just now. Starting from the beginning of 2023 we have changed the general remuneration policy at CD PROJEKT RED. CD PROJEKT now offers a predictable remuneration system based on an attractive salary. This salary has just been revised upward with an annual raise, inflation adjustment and annual bonus - all rolled up into one flat monthly remuneration package. We believe that the ability to offer base remuneration which is both higher and more predictable should strongly support our recruitment activity as we look to attract top talent in our industry. At the same time when it comes to top management, the existing bonus system based on net profit is still in force, as the top management should be directly involved in maximizing our sales and profits.

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 recently.

The decreasing yellow part represents our total costs of servicing our released games – mainly Cyberpunk and GWENT. What is also clearly visible - the scope of our development continues to grow and the team is progressively moving on to new projects in development which are represented by the blue part. Main projects included in the blue part in Q4 were: Cyberpunk: Phantom Liberty, Polaris, Sirius and Witcher 3 Next Gen edition.

And now – our simplified cash flow on slide 15.

Cashwise, the 347 million PLN in net book profit for the period was supported by 117 million zloty in depreciation and amortization for the period. We used these positive cash flow drivers to finance 207 million zloty expenditure on development projects at CD PROJEKT RED. GOG also invested in its business - by contracting licenses for new games for the store - which drove the increase of prepayments and deferred costs presented by the next bar.

In cash terms the group also invested 48 million zloty into both intangible and tangible assets - mainly investments on our campus, software and equipment for our business.

In 2022 we also shared over 200 million zloty with our shareholders - over 100 as a dividend payout and close to 100 as share buyback program.

Altogether our financial reserves kept in cash, bank deposits and T-bonds decreased over the last year by 63 million zloty. Which means that putting aside the transfers to shareholders we were able to self finance from our 2022 positive cash flows all our outflows, including investments into development, and on top generate 138 million PLN surplus.

That's all from me for now – thank you for your attention. We can now proceed with the Q&A session.

Q1: Many thanks for the presentation. Can you talk a little bit about the migration to the new engine? What's the progress there? Do you see, or expect to see, a fall in productivity for your developers – as they learn to use the new engine?

AK: We are preparing things on the pipeline and toolset side; some developers are still learning the technology. At the same time there are teams working together with Epic on all aspects that are needed for open-world story-driven RPGs. Definitely, for our first project – Polaris – the process will not slow down, but won't accelerate either. With regard to further projects, we assume that production should proceed more smoothly. This was one of the reasons why in our strategy update we said we wanted to release three big Witcher games in six years, starting with the release of Polaris, which is Witcher 4.

Q1: That's very helpful; thank you very much. Another question is on your development costs: what is the effective inflation rate in your development costs? Given the indexation that you're doing, how much more will one year of development cost you now – compared to last year?

PN: Comparing each year's development costs versus other years doesn't really give substantial color on development-related inflation – because each year is different. Some years, when a big project is being completed, such as in 2020, have heavy external expenses – such as external testing or localization, while other years are more focused on our internal work. So we never compare it this way. In general, as I've just mentioned in the presentation, the salaries are rising along with the inflation, but also due to a change in the remuneration system at the company. Historically speaking, each of our games was more expensive than the preceding one, and I do not expect this trend to change dramatically – so, games are becoming bigger, more complex and more expensive. However, we are not guiding on future development budgets – so I wouldn't want to give details on whether game development costs will be larger in the future vs. our past projects.

Q1: That's clear. Maybe a quick one on the incentive program to be voted upon in April. If you secure the required shareholder votes, but not for all your suggestions – will you accept the agenda only partially, or will you need to hold another round of voting on the whole agenda in this scenario?

PN: This time we disconnected both parts of the program – A and B – so it is possible that only one of them might be approved. Of course, from our perspective – we believe the program is very helpful given our strategy, and we hope that both parts will be approved – but they are disconnected.

Q2: Three questions from me, if I could. Thanks very much for giving us the actual sales numbers for Cyberpunk on slide 6. That's very helpful. Could you talk about the impact you saw on sales after the Edgerunners release in September? What effect did that have in Q4 – and maybe some commentary on how it's going in Q1? Secondly, on Phantom Liberty – could you give us a sense of scope of the marketing that you're planning; is it going to be a short or a long campaign; how will it compare in terms of size on what you spent on the main game and previous DLCs? And finally, project Sirius – you've made a couple of comments just now about it – I guess the question here is: what happened; what does it imply for your future; the work you might do; what implications should we think about for the long-term development programs in the next years? Thank you.

PN: I'll take the first question. So, the anime and the concept of linking it with the update – the effect on our sales was really visible. We are not releasing specific daily, weekly or monthly sales figures; however, it was the beginning of a super-intense Q4 for us – actually, the second best Q4 in our history; second only to the Cyberpunk release quarter itself. What's also interesting is the effect we observed after launching the anime. It persisted for many weeks after that release; even after the promotions ended and we returned to standard sales – the volumes we saw were still better than before. The second part of the question was about Q1. So, unlike last year, in this year's Q1 we didn't have any extraordinary events or releases – unlike the CP next-gen release last year; therefore this Q1 will be more of a "standard" quarter, without special circumstances. The most important event of the year – the launch of Phantom Liberty – is still ahead of us.

Michał Nowakowski (MN): The second question was about the scope of marketing – feel free to correct me – as Piotr already mentioned, the launch of Phantom Liberty is the biggest event for us this year; it's going to be significant, but within its scale – do not expect it to be comparable to the launch to a completely new AAA game.

But still, it is a very important event for us. I can say we are – and have been for a while, as planning a campaign is not something you do over a weekend – we’ve been talking about it for a while now; I believe we mentioned just today that we would start talking more about Phantom Liberty this June. So, expect more news around that timeframe, but for now you’ll have to be a bit more patient. Thank you.

AK: We’ll be announcing more details about our planned activities fairly soon – so expect some color on what is planned for June. Regarding Sirius – as we expected questions, please let me sum up everything we want to say, at this point, about it. Sirius is a codename for a project carried out by The Molasses Flood - a Boston-based studio which joined the CD PROJEKT Group in 2021. So, this is a project which is, I would say, insourced. It’s also new to us in terms of design and format. For those reasons it is very different from the big productions we are known for. To stay competitive we have to keep looking for new ways to expand our franchises. At the same time, we need to be ready to reevaluate our original concepts – even if development work is already underway. On the 20th of March we announced that we wanted to create a new framework for Sirius. We also decided to establish an impairment allowance on Sirius development expenditures. It was a tough decision to make, but we also believe it was the right one. Our intention was to cut costs early and give ourselves time for reassessment. We don’t want to carry on with a project that we are not aligned with. So basically that’s all we would like to share about project Sirius. Thank you.

Q3: Good evening. The first question – regarding salaries. Is it a good idea to expand fixed costs in case a game doesn’t come through [inaudible] you’ve basically created a bit more operating leverage? The second question: is there going to be any substantial game release in 2024/2025/2026? And the final question – with the ramp-up in development costs – you’re not giving specific numbers on the cash-flow ramp-up in development costs, but can you say whether at any point – given this ramp-up and the number of games you’re working on – you will move from net cash to net debt? Or will the current cash overload cover the ramp-up in development costs?

PN: The first question was about salaries. In general, to attract the best people we need to offer competitive compensation packages. In 2023 the rise in remuneration will be even higher than what we observed in previous years – but we decided to do this for two reasons. Firstly, we always adjust remuneration on a yearly basis, taking into account, among other things, the inflation rate, which is particularly high this year. Secondly, as mentioned during the presentation, in January we remodeled our compensation package – to be able to offer a clear salary package to our employees, so that they can estimate how much they will earn instead of speculating about the annual profit of the company, the part to be divided among the over 1000 employees, and about what their actual annual bonus will be. We opted for more direct communication in this matter – which can only take place by offering flat salaries. We believe now was the perfect moment to adopt this change.

MN: I’ll take the second one, about substantial game releases. So, first of all – we haven’t guided on which of the titles comes out when. We won’t do it during this call either. What I can say is we’re totally committed from the publishing perspective, and fully focused on delivering Phantom Liberty this calendar year – come June we’ll start talking more about this. The belief behind this is, this is going to increase sales of CP77 in the long run, and establish that franchise even more, making it a long-seller. We’ve done it in the past with TW3 and this is the effect we’re looking for with Cyberpunk. It’s our focus; it’s what we’re talking about – of course, there are also many other things we focus on, like preparing the Boston hub, and Polaris being in full development – but we honestly do not want to guide on specific releases in specific years. We’ll talk more about those things when we’re ready. Thank you.

PN: And the third question was about financing development costs and whether we’re considering moving to a negative net cash position. As you know, as of the end of 2022 our financial reserves – cash, deposits and T-bonds – amounted to almost 1.1 billion PLN. On top of that our flagship titles – Cyberpunk and The Witcher 3 – generate solid revenues. With the next-gen editions of both games and the Phantom Liberty expansion coming this year, we believe the stream of revenues will remain strong in the coming years. In recent years we were self-financed, and we would like to continue with this approach moving forward.

Q4: Good afternoon. I just want to make sure I understand the new remuneration system correctly. I understand that now the salary will include the bonus, and this means that the bonus is currently unrelated to results. So you're basically increasing the flat salary, but getting rid of the bonus for developers? And the second question concerns the incentive program – the financial target; could you elaborate more on how you arrive at the financial target? How does it account for your publishing pipeline? The target you've revealed – 2 billion PLN in 2023-2026; does it include profits from the Polaris project, which would render it not particularly ambitious? Or perhaps it doesn't cover the Polaris project – which would make it very ambitious, in my opinion at least. Thank you.

PN: I'll take both questions. Yes, you're right – we have recalculated average bonuses into flat monthly salary increases; based on that we proportionally increased monthly salaries, also taking into consideration inflation and other annual raises – this means that starting this year there will be no annual bonus for the team; 2022 is the last year for which we'll pay annual bonuses for employees, but at the same time – as I mentioned – top management will still have part of their remuneration based on the financial effectiveness of the company. Regarding the incentive program targets, I wouldn't like to go into details. As you know, we do not guide on release dates, so I wouldn't want to go into details on whether this or that product is included in the target. We believe that this goal is ambitious, and we will need to work hard to generate such net profit in the next 4 years.

Webcast questions:

Q1: How many developers did you have at the end of February? How many at the end of 2022? How many would you like to have at the end of 2023?

PN: I'm trying to find groupwide results as what I have in front of me are just the figures for CD PROJEKT S.A. – the parent company. (...) At the end of February the Group employed almost 700 developers, and at the end of 2022 we had slightly fewer than that. We'll come back to this question if we find more precise data.

Q2: What do you see on the American employment market right now? With all the layoffs in the USA it seems it should be easier to find new people. Have you noticed any changes in the past few months?

MN: We obviously monitor the situation and are fully aware of what's happening on the American market. First of all, with ours setting up the Boston hub we are not at a stage where we would be netting large numbers of people yet – which could perhaps provide a practical validation of that thesis. Secondly, it's important to remember that, say, a programmer from a tech company is not necessarily a good fit for a gamedev company – they might be, but it's not guaranteed. It's a question of passion, certain inclinations – and experience as well. That would be my answer. Thank you.

Q3: Will you be attending E3 this year? Do you want to show Phantom Liberty there?

AK: As we've mentioned, we'll be kicking off the marketing campaign for Phantom Liberty in June. We're not sharing any details right now – but we'll reveal our plans soon, so stay tuned.

Q4: Can you comment on the development process of Polaris, and Canis Majoris? Do you see a write-down risk?

AK: No, I don't see any write-down risk; of course – that's what I see now, but bear in mind that with our flagship projects, such as Polaris or Orion, the situation is different – both are at the very core of everything we do, so it's hard to imagine we could decide to not carry on with their development.

AK: There are a couple of questions about Sirius, but as I've said in my "kind-of" statement – that's all we want to share, so we won't go through all those questions.

Q5: What is your view on this year's dividend? Are you planning to recommend a rate of around 1 PLN per share?

AK: No decisions have been made yet – we've just released our results and we'll, of course, have this discussion. If there are any recommendations, we'll share them with you.

Q6: The cost of products and services sold in CD PROJEKT RED in Q4 2022 amounted to 27.2 million PLN, while in Q1 and Q2 it was just 18.5 million PLN. Where does the difference come from? Is it additional amortization of The Witcher 3 next-gen? If yes, for how long will it be recognized?

PN: So, this is additional amortization related to The Witcher 3 next-gen, but there is also additional amortization related to Cyberpunk next-gen. As far as I remember, these two products contributed to amortization after Q1 of last year. And there was also a question about how long we plan to amortize them – as far as I remember, for The Witcher 3 the plan is to amortize it over the next 3 years.

Q7: How many developers are expected to work on the next Witcher game by the end of this year? Could it be more than half of your dev workforce?

AK: We'll see. It's possible – but remember that it's a transfer year. It could be more than a half – but rather at the end of this year or the beginning of the next year.

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. Goodbye and good night.