

Adam Kiciński (AK):

Good afternoon.

My name is Adam Kiciński and I'll be your host during today's conference. We are meeting to discuss the first half of 2023 at the CD PROJEKT Group. I'll run the presentation together with Piotr Nielubowicz. Michał Nowakowski will join us for the Q&A session.

Before discussing earnings, let's quickly sum up key events that took place in recent months. At the beginning of June, media outlets from all over the world had their first hands-on experience with Phantom Liberty. We gave our visitors the opportunity to play the expansion on all platforms, that is PC, Xbox Series X|S, and PS5. More than 120 media representatives have since published their first impressions. We are very happy with those early reactions.

Not long after that, at several Xbox FanFest events, we invited gamers to try out the expansion as well. Their opinions were closely aligned with the positive media impressions. Both groups appreciated the huge amount of work that had gone into the expansion, and are looking forward to its release.

The release date was announced at the Xbox Games Showcase event. Phantom Liberty will launch on 26 September 2023. At the same event Keanu Reeves announced a new trailer for the expansion. This trailer has been viewed by nearly 13 million people on our social media channels. This confirms Phantom Liberty's position as one of the most anticipated releases of 2023.

These announcements went together with the launch of the pre-order campaign. After 2 months we are happy with how it's going, but, of course, most pre-orders come in during the final pre-release days.

By the way, this is also a great opportunity to highlight that the base game reached an important milestone in July. Cyberpunk 2077 has passed the "Very Positive" score threshold on Steam. From over 550 thousand reviews posted since the release, 80% of players have rated the game positively. What's more, the recent average review score stands at almost 90%. This is a significant achievement that validates the hard work we have put into Cyberpunk 2077 over the last three years.

Let's go back to the summary of the Phantom Liberty marketing campaign.

We have also announced the Phantom Liberty Tour - a series of eight community events taking place around the world in August and September. Participants can play the expansion, attend contests, and meet the development team. On top of that, last week at the opening of Gamescom we showcased "New Ways To Play" — a video announcing new content coming in the expansion, as well as in Update 2.0 - the biggest patch for the base game yet. We have prepared a number of new and overhauled features to help experience the game in the best possible way.

Phantom Liberty has again generated great interest in our IP. We believe it's another positive signal showing anticipation for our upcoming release.

Before moving on to our developers' involvement in ongoing projects, let me quickly wrap up the recent organizational changes at the studio. As we announced in July, by the end of January 2024 we will be parting ways with about 9% of our team. This decision is closely related to the ongoing internal RED 2.0 transformation. We need to adapt the scale and structure of the team to our current operational needs and development plans.

Coming back to the current allocation of developers - at the end of July, the Phantom Liberty team, working on the pre-release phase, consisted of 300 people. That's fewer than at the end of 2022, but it remains our biggest team. On the other hand, The Polaris team has grown to almost 260 developers by the end of July.

Last but not least, I'd like to make some comments regarding two other teams. As you can see, the red part of the chart is smaller. This is a result of changes in the Sirius project that we announced in May. Concerning the green part, the GWENT team will gradually decrease in size until the end of this year. This is related to the GWENTfinity project, which entrusts the future of GWENT to the gaming community.

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

Piotr Nielubowicz (PN):

Thank you Adam.

Let's start with our Consolidated Profit and Loss account on slide 10. Unlike last year, when we launched Cyberpunk Next-Gen edition in Q1, the first half of 2023 saw no comparable sales events. This year our focus has been on preparing for the Phantom Liberty expansion launch - as mentioned by Adam a moment ago. While we have been working on this new release, our existing RED products generated 244 million zloty in revenue. Together with 85 million zloty from GOG, this resulted in 325 million zloty in consolidated sales revenues - that's 86% of last year's figure.

In contrast to the Group's sales, our cost of sales increased slightly - primarily from increased depreciation due to the completion and release of the Witcher 3 Next-Gen edition in Q4 last year.

Moving on to operating costs - our selling expenses decreased by 5 million PLN, to 85 million. This was mainly driven by a decrease in Cyberpunk servicing costs. At the same time the preparation and execution of the Phantom Liberty release campaign - resulted in the Cyberpunk-IP-related publishing expenses reaching nearly 30 million PLN, which accounted for a substantial part of our Selling expenses.

As regards Administrative expenses - their increase is related mainly to the introduction of our new incentive programs in Q2 which replaced program introduced in 2020. Some of the new entitlements directly replaced the old ones, which produced increased costs on the new grant date. All in all - during the first half of 2023, non-cash expenses related to our incentive programs exceeded 10 million PLN.

Moving further to other operating income and expenses - the positive balance of 25 million zloty comes mostly from the balance of impairment adjustments related to the Sirius project, in the amount of nearly 19 million PLN - as discussed during our meeting dedicated to Q1 results.

The second positive driver for the operating income - which did not exist before - was the nearly 8 million PLN effect of applying the “innovative employee” tax relief. This regulation allows us to use the R&D tax relief budget - originally intended to lower our corporate income tax - to offset a portion of the personal income tax which we are obliged to remit to tax authorities. Introduction of this mechanism makes it easier for us to benefit from the R&D relief, and our status as an R&D center.

Another supportive driver is visible in the financial operations category. The reported surplus, at nearly 22 million PLN, came mostly from interest on bank deposits and t-bonds.

Our income tax for the period consisted of three parts - current income tax paid locally, withholding tax paid abroad, and changes in deferred tax. As regards the calculation of deferred taxation - it was increased by nearly 8 million PLN as a result of utilizing the R&D tax relief budget on Innovative employee relief - as mentioned a moment ago.

All in all, our net profit for the first half of 2023 reached 91 million PLN.

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

Over the first half of 2023 our balance of expenditures on development projects, driven by Cyberpunk Phantom Liberty, Polaris and Sirius projects, increased by 123 million PLN. This figure represents the balance of new expenditures on development projects for the period - 148 million PLN - plus the previously mentioned nearly 19 million PLN impairment adjustment related to project Sirius, and less the amount we have recognized as costs for the period - 43 million PLN.

At the same time, among current assets, our trade receivables decreased by nearly 82 million PLN - which is typical after the preceding juicy Q4 period.

And last but not least - the total value of cash, deposits and treasury bonds included in the three asset items marked with an asterisk is summed up under the table and totals 931 million zloty as of the end of June 2023. 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 12.

Our equity stayed flat as the 2022 dividend paid in June this year was offset mainly by the profits of the current reporting period.

Our liabilities - mostly trade liabilities - decreased since the end of 2022. The mechanism here is similar to what we experienced with trade receivables.

During the first half of 2023 we also observed a significant decrease in provisions. This was mainly driven by the payout of 2022 bonuses in 2023, and change in our remuneration strategy. This change, implemented in 2023, shifted most of the profit-dependent team bonuses to base salaries and new incentive programs instituted this year. As a result, we set aside significantly lower provisions for 2023 result-related bonuses.

Now please move on to the next slide - number 13: CD PROJEKT RED's expenditures on Research, Development, and Service of released games - presented here quarterly since 2021. As you can see, development work has been in full swing during the past three quarters. Although our main focus right now is on the upcoming release of Phantom Liberty, other projects we have in development are also progressing with each passing quarter.

And now – our simplified cash flow on slide 14.

Cashwise, the 91 million PLN in net book profit for the period was supported by nearly 50 million PLN in depreciation and amortization for the period. At the same time, when talking about cash expenses, the non-cash Sirius impairment allowance adjustment, in the amount of 19 million PLN, needs to be deducted. The already mentioned decrease in our receivables was similar in size to the combined decrease in liabilities and provisions - all of which are represented by the next 2 bars.

During H1 we also financed nearly 163 million PLN in expenditures on development projects - the core of our business. To top it off, we shared one hundred million PLN with our shareholders in the form of a dividend.

Altogether our financial reserves kept in cash, bank deposits and T-bonds decreased by 160 million PLN over the first half of 2023.

That's all as far as H1 2023 results are concerned. I'm looking forward to our Q3 earnings call when I'll walk you through the results of the Phantom Liberty launch quarter.

Over to you, Adam,

AK:

Thanks Piotr.

We're now 27 days away from the launch of Phantom Liberty. As I've already mentioned, we're entering the most intensive phase of the marketing and PR campaign. On top of that, in the next two weeks we will be sending review copies to journalists around the world, enabling them to publish their impressions and reviews before the release. We're very excited and we eagerly await the moment gamers can finally experience the game.

That's all from us. We will now proceed with the Q&A session.

Q1: Good evening, I've got two questions. The first one – when looking at slide 13, the development expenditures on the new product line in Q2 look almost identical to Q1, but when looking at slide 14 – expenditures on development projects – I have 163 vs. 72 in Q1, so that's over 90 million in Q2. Could you explain the gap between these two slides – that would be helpful for me to run the model for the full year. And second question – when attempting to model Phantom Liberty unit sales by thinking about attachment rate vs. Cyberpunk unit sales – what is the effect of Phantom Liberty not being available on PS4 and Xbox One? Could you give an indication of the unit sales – you've achieved almost 20 million – roughly what proportion might have been purchased for Xbox One? Thank you.

PN: Piotr Nielubowicz here; I'll take the first question. The difference between the slides results from the fact that slide 14 presents our cash flows – the money actually outgoing on development of our games – while the preceding slide, no. 13, presents booked expenses for the period. The major difference between the two, looking at the first half of the year, is that within this period we've paid out bonuses for 2022, which was a one-time cash operation visible on the cash flow slide. At the same, costwise, it was applied under previous quarters of 2022, which is why it's not visible in the first half of 2023. At the same time, as you may have heard, starting this year we've changed our remuneration policy by shifting some – or most – of the bonuses to base salaries or incentive programs implemented this year; therefore, this year, bookwise, we have much lower provisions for profit-related bonuses than we used to have in previous years.

Q1: Just to understand – if I'm trying to continue that going forward, is the 75 million or the 90 million a more sensible number? Does the 90 million include some one-offs related to bonuses that I shouldn't be rolling forward?

PN: Yes and no. Bonuses are one-off, paid the following year from the results of the preceding year; however, as I've said, we've shifted the bonuses to base salaries and month-to-month costs will be proportionally higher, and they will not be booked one time, or quarterly – but on a monthly basis – speaking in averages, of course, because each year is different.

Q2: Good afternoon. Firstly – when you talk about preorders, you said most preorders would come in the final period before the launch. I'm trying to think about what you're expecting for the split in units between Q3 and Q4 given that you're launching quite late in the third quarter. And then – if you remember back when you launched the original CP – there were some issues around consoles; obviously now you're not doing this on old consoles, but are you happy that you've got the balance right between the coding working really well on both PC and next-gen consoles? And then – what impact do you think the PL launch is going to have on the impact of the base game – as you're obviously going to have some bundles with the base game. Thanks.

MN: I'll probably going to take most of these questions, but I first want to go back – I think Nick asked one more question which we haven't addressed – please allow me, because there was a question about preorders we would have expected had we launched for Xbox One and the previous generation of consoles. We never, obviously, modeled anything for past consoles, because, as you know, from the moment we had announced the expansion we were targeting next-gen, so we don't really have any answer to that – and we're not guiding on attachment rates or sales, so we won't do it here either – but one thing should be mentioned: there's no

single standard for all platforms or generations or PC vs console attachment rates, so we can't say we've lost XYZ customers because we're not targeting a given platform; it doesn't work like that. Jumping to the second batch of questions: the preorders in Q3 and Q4 given that we're launching quite late in the quarter – well, the expansion launch is quite similar to the launch of the game; typically, the last two weeks leading up to the launch are the most significant when it comes to numbers. Obviously, Q4 has Christmas, and people purchase gifts and so on – but I would say that Q3 is going to be significant in terms of the number of units, since it is the launch period, but I would not want to suggest the exact breakdown – still, Q3 is going to be significant for sure. The last question referred to issues on old consoles – are we happy, have we got the balance right for consoles vs PC – I'm not sure I understand this well enough, but if you're talking about performance on next-gen, we have been showing the game publicly on next-gen consoles during the Phantom Liberty Tour, and we've just returned from gamescom in Germany where the game was shown both on PC and Xbox consoles, and we had very positive feedback from both gamers and media – let's launch and talk then, but we're satisfied with what we've seen so far. About the impact of the PL launch on the base game – I'm not going to be making statements on bundles etc.; our full focus is on launch of PL which is just around the corner; typically, the launch of a big expansion drives sales of the base game as well, so there will be an impact for sure; we've seen that with TW3, and we're already seeing that here as well, tracking sales spots[?] on Steam – which are publicly available and just a click away, you can see it yourself. Of course these aren't specific numbers, but we're not providing these either.

Q3: Good evening. My first question concerns resources allocated to The Witcher IP in the quarter – is it mostly Project Polaris, as it seems, and you're scaling down Project Sirius? Shall we assume that Project Sirius is not in the table – that would be my first question – and another question concerning the transition to the new engine. What's the update, what's the strategy regarding developers who are working on the old engine; that's your biggest team – for Phantom Liberty; and one final question – could you comment on the fact that the principal place of business is being relocated to Boston according to your management comments.

AK: Hi; I'll take all three. So – we're allocating more and more developers to Polaris; as you can see on the slides it's around 250 now; this will continue – we will move more and more people to Polaris. Sirius is smaller – as mentioned in our Q1 presentation, we've changed our approach to this project, so that's it concerning resources allocated to The Witcher IP. Transition to the new engine – we are going ahead with it, and are happy we've made this decision. Of course, there is still development – we're finishing the last big project on REDEngine – that's PL. Most developers are already familiar with Unreal – and as I've said; we're happy to be transitioning. Of course, there's still work to be done, but as of now we believe it was a good decision to shift to Epic's technology. The third question – oh, Piotr has a comment; Piotr, the floor is yours.

PN: So, it's true, the principal place of business has been relocated to Boston but only for our Los Angeles company. They're responsible for our NA market activities. We've decided to use the same legal entity to initiate development work that's taking place in Boston. So the principal seat of CD PROJEKT remains in Warsaw, but one of our companies has relocated from Los Angeles to Boston.

Q4: Hi; if I could refer to slide 8 – the light blue portion; that’s your development team working on the CP expansion – when the game is released, are they going to move to Polaris, or is there another option to look at your development team and see if it’s appropriate for the projects you have going on? And then – could you remind us what your policy is on updating us with regard to copies sold – is it every iteration of 5, or 10 million? When might we expect an update on how Cyberpunk is selling? And the last question – given the release of PL and Update 2.0 which will hopefully address a lot of issues that came out the original release – how far does this go in terms of restoring the lifetime value of the Cyberpunk franchise?

AK: Thanks for the questions, I’ll take the first one. So – after releasing PL a part of the team will obviously transfer to Polaris. Some of the remaining members will focus on supporting other ongoing projects like Orion or Hadar, but bear in mind we’ll also be supporting Phantom Liberty after launch. And – as I’ve said in our presentation – we’re also parting ways with some team members; it’s a gradual process that will conclude in Q1 2024.

MN: I can take the second and the third one as well. So, the policy of announcing the number of copies sold – we don’t have an official policy on that, but we try to announce milestones; the last one we did announce was 20 million copies sold – that came, I believe, in the fall of 2022; again, I don’t want to create a new policy during this call that we’d have to religiously follow – but if a notable milestone is passed; we’re definitely going to update you. As for the third question, about retaining value of the Cyberpunk franchise – the whole idea of 2.0 comes from ours listening and analyzing what the players want; we’re big believers in this – a proper conversation with your fanbase can only lead to good things for the franchise, also in the commercial aspect – so that’s my way of saying that we do believe it help us restore LTV to the Cyberpunk franchise, but I wouldn’t want to quantify it in any way; it’s deeply intangible – but it will definitely benefit the lifecycle of the franchise.

Q6: What part of deferred income is connected to CP77 Phantom Liberty preorders?

PN: The current part of CD PROJEKT RED’s deferred income is reported at approximately 18.5 million PLN as of June 30, and this consists of about 2 million PLN in subsidies and 16.5 million PLN in future period sales. Around 3/4 of the latter amount is attributable to preorders of Phantom Liberty for the last 19 days of June – between the launch of the preorder campaign and the end of the reporting period. What also needs to be taken into account is that this amount reflects only advances on royalties for PC preorders since none of the console platforms are advancing royalties to us. So – the amount we can receive and book concerns only PC PL preorders.

Q7: Can you comment on the QA process for Phantom Liberty? Have you completed it already? Can you comment on whether QA is carried out internally or externally?

AK: It’s almost completed, but not quite yet; we’re still in the final phase – we are releasing PL only digitally, so no physical discs are manufactures; the final touches are still added and the process is both internal and external.

Q8: How far are you with Hadar right now? Have you already created a framework for the universe?

MN: As much as we'd love to, it's not the right time for us to go deeper into Hadar. So – work is progressing; there's a small team that's creating a framework of the universe – but we can't comment on how far in we are, or how much more time is needed.

Q9: What number of Phantom Liberty sales might convince you to work on another paid expansion? What low number may mean you would drop this idea as not worthy of pursuing?

MN: The decision has already been made – as we've announced, we're not going to make a 2nd or 3rd expansion; this is the only expansion for the game; it has nothing to do with how satisfied we are with sales; rather, it's a technical decision. This is the last time we're working with REDEngine – in the foreseeable future we'll be working with Unreal from Epic, and this was one of the reasons behind our decision.

Q10: Have you recently made any changes to work-from-home rules following layoffs? Do you see that the market is still driven by employees, not employers?

AK: It's not connected with layoffs. The layoffs are related to our future product plans, and not anything else – so, not to work-from-home rules either. Regarding the market – in our case, we're fighting for top talent. It's always going to be a competitive environment, but we offer great projects and great working conditions – attractive enough to get top talent. Still, I wouldn't say that in our case the market is driven either by employees or by employers. Thank you.

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 goodbye.