

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 2023. I'll be running the presentation together with Piotr Nielubowicz. Michał Nowakowski will be joining us for the Q&A session after the presentation.

The past quarter was marked by the launch of the expansion for Cyberpunk 2077 - Phantom Liberty. So, before discussing earnings, let me take a moment to make a quick reminder and update of the basic facts related to this release. We have crossed another milestone. Sales of the expansion have already exceeded 4.3 million copies. So the estimated attachment ratio is 20%, which I believe is a great result.

Briefly about the players' score. Already on launch Phantom Liberty's reception was very enthusiastic. The score on steam for the last 30 days hit 92%. It's worth mentioning that the base game has reached the same score of 92% of recent positive reviews. Indeed, thanks to the votes of gamers around the world, Phantom Liberty was awarded at the Golden Joystick Gala. It won in 2 categories: Best Game Expansion and Best Game Trailer!

What's more - Cyberpunk got 5 nominations for The Game Awards!

Phantom Liberty was nominated for Best Narrative, Best Performance for the role of Idris Elba as Solomon Reed, and yesterday also for the Players Voice, which is a 100% community-voted award. Cyberpunk 2077 in turn has been recognised and nominated in Best Community Support and Best Ongoing Game categories.

This year is packed with the releases of great games. We are proud to be among the nominees, and look forward to the announcement of winners on December 7th.

In just one week we will be releasing Cyberpunk 2077: Ultimate Edition for Xbox Series X|S, PlayStation 5, and PC containing both the base game and the expansion. It will be launched digitally on December 5th. The physical version will also be available in selected markets through local distributors.

Now, let me go through the current developers' engagement. Firstly we've decided to present, for the time being, all Cyberpunk developers as one group. They've been engaged in work on the base game, the Phantom Liberty expansion and the Ultimate Edition. Also some of those in transfers are included in this group. That's why it consisted of 220 people at the end of October. This figure will continue to decrease in further months. This is partially connected to the organizational changes, including the transfers to other projects, such as Polaris.

Speaking of Polaris, the team is steadily growing, having reached almost 330 developers at the end of last month. It's expected to grow to over 400 by mid-next year.

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

Piotr Nielubowicz (PN):

Thank you Adam. Let's go directly into our Consolidated Profit and Loss account on slide 10. No doubt the launch of Phantom Liberty was the highlight of the third quarter of this year. But, as you may remember, the comparative period in 2022 was also very rewarding, marked by the release of Cyberpunk: EDGERUNNERS anime and the Edgerunners update.

This year in Q3 our consolidated sales revenue reached 443 million zloty - which is 80% above the revenues of the strong comparative period.

Our cost of sales increased as well - primarily driven by initial amortization of Phantom Liberty, but also by accelerated amortization of the base edition of Cyberpunk - I will come back to this in a moment.

Still on this line item - having evaluated the market situation and our publishing plans, among the cost of products and services sold we also included 13 million zloty in provisions associated with distribution costs of the initial print of the Cyberpunk 2077 box edition.

Moving on to operating costs - our selling expenses increased by 21 million zloty, to 66 million. This was mainly driven by nearly 40 million zloty dedicated to the Phantom Liberty marketing and promotion campaign in Q3 2023 only.

As regards Administrative expenses - their increase cannot be attributed to a single driver. During the reported period, among others, we noted:

- a natural increase in provisions for results related bonuses,
- growth of base remunerations of our G&A teams,
- increased expenses for research on new products and technologies,
- as well as increased costs related to the introduction of our new incentive programs which replaced the previous program.

All in all - during the third quarter of 2023 our total operating costs increased by 64%.

Another supportive driver for the P&L is visible in the financial operations category. The reported surplus, at 47 million zł, came from the usual drivers such as FX gains and interest from deposits and t-bonds but also from bookings related to the merger of CD PROJEKT with Spokko.

Our merger with Spokko was registered by the court this Q3 and resulted in the following bookings on CD PROJEKT's side:

- we included Spokko's current year costs and revenues in CD PROJEKT's 2023 profit and loss statement - this decreased our results for this year by approximately 3 million zł,
- Spokko's retained earnings decreased our equity in the retained earnings position - as if Spokko had been part of CD PROJEKT in the past,
- following the merger we also included Spokko's assets and liabilities among CD PROJEKT's assets and liabilities as of the end of September 2023,
- of course, in the process of merging Spokko's financial data into CD PROJEKT books, all transactions between the two entities were eliminated,
- and therefore - as we recorded Spokko's assets and liabilities, as well as current and historic negative results in our books, we also reversed the historic write-down of Spokko shares in the amount of 27 million zloty - which is part of the discussed financial income line item.

Moving further, our income tax for the period consisted of three components - current local income tax, changes in deferred tax and withholding tax paid abroad. As regards the withholding tax - in this reporting period we have decided to change our approach to when it is recognised in our P&L statement. From now on, each quarter we will be estimating and including in this line item the amount of withholding tax related to current sales that does not qualify for recovery from our local tax settlements - historically, this process was completed upon receipt of WHT tax payment confirmation from our licensing partners, which occurred in

the following financial year. The amount for the first 3 quarters of this year that we have recognized in Q3 according to the new formula reached 8,3 million zł.

All in all, our net profit for the third quarter of 2023 amounted to 203 million zł - over two times more than what we achieved in the very solid comparative period. Net profitability of the CD PROJEKT RED segment exceeded 50% while for GOG this factor reached nearly 10% - a very solid result for a distribution business.

As mentioned a minute ago - on the next slide number 11 - I'd like to present in more detail the depreciation scheme of expenditures on the Cyberpunk base game and Phantom Liberty expansion. But first - let me guide you through what exactly the amount that is going to be depreciated consists of. 178 million zloty represents the sum of the expenditures on development of Cyberpunk 2077 base game and it's next gen update that have not yet been amortized.

What I would like to emphasize here is that this amount does not include expenses related to the Update 2.0 - as those were booked historically in selling costs of each period - just like other costs of previous updates.

Other expenditures to be amortized are related to the development of Phantom Liberty expansion - in the amount of 273 million zloty. All in all this totals 451 million zloty.

We expect that In the future most of the sales should come from the announced Cyberpunk 2077 Ultimate edition and therefore we believe that the future monetisation of the base game and its expansion are inextricably linked. Thus, for the total amount of 451 million zloty we have planned joint depreciation in the following order:

- 20% of the sum both in Q3 and Q4 this year;
- then 5% in each quarter of 2024;
- 3.5% in each quarter of 2025;
- 2.5% in each quarter of 2026;
- and 2% in each quarter of 2027 and 2028.

Let's now move to the next slide - number 12

I am proud to share with you that the last quarter was our best third quarter ever - both in terms of sales revenue and net profit. This is true for the whole Group, for CD PROJEKT RED alone and for GOG.com. The chart speaks for itself.

Let's now move on to the next slide – number 13 – our consolidated balance sheet.

Over the Q3 2023 our balance of expenditures on development projects decreased by 26 million zloty. We kept investing into new projects - mainly Phantom Liberty, Polaris and Sirius - altogether 71 million zloty. At the same time an even bigger amount was amortized due to completion and premiere of Phantom Liberty and acceleration of amortization of historic expenditures on Cyberpunk 2077 base game - as we have just discussed a minute ago.

Another noticeable decrease in the non-current assets is visible in the Deferred tax assets position - which is to be attributed to the release of Phantom liberty.

At the same time, among current assets, our trade receivables nicely grew by 204 million zł - this is typical after such an increase of sales related to the expansion premiere which took place at the very end of the reporting 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 - totals 1 billion 15

million zloty as of the end of September 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 14.

Our equity increased, driven mainly by the profits of the current reporting period up to 2,2 billion zloty.

Our total liabilities increased by 51 million as well. This resulted from the growth of liabilities themselves but also growth of provisions - as discussed on the P&L slide.

Now please move on to the next slide - number 15: CD PROJEKT RED's expenditures on Research, Development, and Service of released games - presented here quarterly since 2021.

As you can see, our development work continues to be in full swing. As Phantom Liberty was launched at the very end of September some team members already transferred to research works on new projects. At the same time costs of servicing released games are in decline - which will probably change in Q4 due to the post release support granted to the Cyberpunk 2.0 edition, Phantom Liberty and preparation of the Cyberpunk Ultimate edition.

Przejdźmy do drugiej części bilansu – slajd nr 14.

And finally now – our simplified cash flow on slide 16.

Cashwise, the 203 million zloty in net book profit for the period was supported by 97 million zloty in depreciation and amortization for the period. At the same time, cash wise we invested nearly 65 million zloty in the development of new projects - which decreased our cash reserves. Short term liabilities and reserves increased by a similar amount of 60 million zloty. And finally, the already mentioned increase in our short term receivables amounted to 198 million zloty - an amount similar in size to the actual net profit for the 3rd quarter.

Altogether our financial reserves kept in cash, bank deposits and T-bonds increased by 84 million zloty over the reported period. It is a very solid result taking into consideration that the expansion was launched only 5 days before the end of the quarter and at the end of which an amount similar to our net profits for the same time was frozen in the increased liabilities - which are to be collected during the upcoming 4th quarter.

That's all as far as Q3 2023 results are concerned. I'm looking forward to our annual earnings call when we will be able to discuss the full results of Phantom Liberty and the Ultimate Edition launch.

Q1: Thank you very much for the presentation. Congratulations on your good results. My first question would be on the pricing of games in the fourth quarter. Can you talk about how you want to price Cyberpunk Ultimate Edition – is it reasonable to assume that your average revenue per unit – or average price – for CP would be significantly lower in the fourth quarter relative to the third quarter? And the second question is on other projects in the pipeline. You're extensively working on Polaris, but can you talk about what the status of other projects you're working on is right now? There's a "casual Witcher" you're working on; the remake of the original Witcher you're also working on. What's the status of those projects as well?

PN: So – as you know we do not guide on future revenues and neither do we guide on future price changes – but as you may expect Q4 will be kind of special, as on the one hand we'll

have Q4-specific promotions such as the recent Black Friday, Black Weekend, Black Week, Cyber Monday etc. We'll also have holiday promos closer to the end of the year – but at the same time we're launching the Ultimate Edition, whose retail price, as you may imagine, will be higher than what we historically had for the base edition of CP – and also, at the very end of Q3 the expansion was added, which will also change the mix. So the situation is kind of new, and there was no guidance from us so far on what average price for the CP family should be expected and how the market will set it taken into considerations all the actions, promos involving the new editions that are supposed to come.

Michał Nowakowski (MN): When it comes to the second question about other projects and the status they're at – we don't comment on specific stages of the projects; we never have – but obviously the most advanced project is Polaris; the next big Witcher game. Every project is following its specific plan, so that's true for TW1 remake, Canis Majoris, Project Orion – which is the codename for the next Cyberpunk, and Project Sirius – which is the codename for the next project from TMF – but we're not providing specific guidance on the status of these projects – in terms of alphas, betas – we're not really talking about them. Polaris is the most advanced one right now, by far.

Q2: Hello. Thank you for the presentation. I have three questions. We understand that people working on Cyberpunk and Phantom Liberty – they're mostly CAPEXed in the third quarter. Should we expect that they become OPEXed from the fourth quarter, and the OPEX goes higher as a result? This is the first question. Second question: could you comment on the new team building in the US and how it's going? Is it going according to plan or not? And third question – given that CP got boosted in terms of sales following PL – are you expecting it to sell at a higher level than in the first half of 2023 in the next year, or not? And finally – given recent management changes, can we expect any changes at all in terms of strategy? Thanks a lot.

PN: I'll start with the first question. Whether the people who used to work on PL and their remuneration costs will become CAPEXed or OPEXed. Most of them are being moved to projects that are ongoing – Polaris and some to Canis Majoris (CDR comment: Canis Majoris is in research phase and is not capitalized as of 28 November 2023) or support for Sirius – so in their case these costs will be capitalized. However, part of the team will continue preparing the Ultimate Edition or patching and updating Phantom Liberty – or the Ultimate Edition itself – and their remuneration and costs related to operations will go directly to our P&L – and these servicing costs in Q4 should increase vs. the costs recorded in Q3. Moreover, as presented on the slides with our servicing, development and research work expenditures – research work on new products is also on the rise; it was the smallest slice, but the one most dynamically growing – and you can expect it to continue growing, and these research costs will go directly to our P&L.

AK: Just to introduce some order – we have a team in Vancouver; 40-something staff, mostly technical; it's growing, we've been with them for the past 5 years – and this team will be supporting CP, working directly with Boston. Boston is where TMF are based, working on their own game – Sirius – and you're probably asking about the new Boston part of CD PROJEKT RED. This part is at the beginning of establishment. A team of 10 leaders from the CP franchise is moving to Boston. Some have already moved; some are moving in December – and this core team will become the foundation for the CP team in Boston. There are already some ongoing hires – the game director for the CP franchise is already there – so we're starting, and we'll see how fast we're able to build this team. We believe that in the first year we don't need hundreds of people – we're already in the conceptual phase of Orion, but we believe that for the next year we need 40-ish, 50-ish people in Boston. We'll see. It depends on the experience on those we hire – but that's generally the case for the next year.

MN: I'll take the question about the boost of sales with Phantom Liberty – yes, it is true, we have experienced a boost in sales of the base game following the launch of PL. In general, whenever something significant happens for Cyberpunk – in the past that was the case as well – PL is of course quite a big factor; in terms of what it means for future sales – we're looking at it from a long-term perspective, not just the next year. We're very happy we've managed to boost the sales of the base CP because it means a longer tail of sales of the game that are to come. In general, I should mention that typically, sales of the game outside of promotional activities are slightly declining. So that's as far as I'll take it – obviously we won't be guiding on specific revenue goals attached to that.

AK: And I'll take the fourth one. The short answer is – no. To add some color to this, we as the board are really well integrated. All of us were behind the current strategy, so those transitions that are planned are really well planned, and we all support the future strategy. I'll remain on the Board in the next year, and then I hope to join the Supervisory Board – still actively supporting, as a non-executive member, the future strategy of CD PROJEKT.

Q3: Thank you very much for this opportunity. I want to ask about the seasonality for the last two months in terms of sales of Phantom Liberty – you reported sales of 4.3 million for the expansion – is it fair to assume that the majority of those sales happened in early October, in the run-up to the release of the game – or did you have a spike during these promotional events like Black Friday, Cyber Monday, etc.? In which period – if you can share – did the spike in sales occur?

PN: As you may imagine – and as you pointed out – initiation of sales right after the launch of the game allows us to achieve higher sales for some time after the launch – but you were also right in expecting the promotional periods like Black Friday to boost sales in terms of units as well as revenues. Phantom Liberty itself is not being discounted; however, it's offered in a combo package together with the base edition of the game, and the more customers buy the package, the higher the number of expansion copies sold. Therefore, both effects which you pointed out, actually occurred during the reporting period.

Q3: Thank you very much – and just to double-check: what is the exact difference between the Ultimate Edition and the bundles you're currently selling? Could you explain again?

AK: All details about the Ultimate Edition will be revealed soon, but from the technical perspective – it's a new build; we prefer a build that can smoothly run both – the content is mostly the same – but all details regarding the Ultimate Edition will be revealed soon.

Q4: And with the Ultimate Edition – the details will be revealed – but do you expect some room for incremental spending on this Ultimate Edition by existing players? Or is this targeted at new players?

AK: It's definitely targeted at new players – for those who have already bought the base game the reasonable path is to buy the expansion alone. Of course we're not removing the expansion from shelves, but for new players the Ultimate Edition contains everything and more – and that's the scheme for the years to come.

Q5: While calculating the 20% attachment rate, have you counted only the PCs, PS5 and Xbox X player base?

PN: Yes, that's correct – when calculating the attachment rate we take into consideration only next-gen consoles and PCs.

Q6: Could you comment on priorities for 2024?

AK: Definitely – Polaris is one of our top priorities, but we have to bear in mind that we are in parallel development, and it's our strategic goal to be able to develop AAA games in a parallel manner. Polaris is our priority, but building a team in North America for Cyberpunk is also a priority. We are also working on other projects besides video games – within our franchise flywheels. We have nothing to announce at the moment, but we've been working on this for quite a while and the time will come to share some insights. And of course – The Molasses Flood will continue to develop Project Sirius with iterations – and there's Canis Majoris, which is a special project. We know the game very well – it's The Witcher 1 – but we want to remake it with all the new technologies and designs we're preparing for Polaris.

Q7: Could you discuss how recent changes in FX exchange rates – strengthening of PLN vs USD – may impact your earnings?

PN: Most of our revenues are obtained abroad and most of them are settled in USD. The weaker the foreign currency vs PLN the lower revenues we report. On the positive side – more and more costs we carry are also denominated in USD – this includes the expected launch of the Boston office, but also the operations of The Molasses Flood. As you may imagine, however, our revenues are much higher than our costs – although we can, to some degree, offset the negative effect on revenues with costs, which become “cheaper” when converted from USD to PLN.

Q8: What was the number of developers at the end of October 2023?

AK: We had almost 700 developers at our dev studios – which include CD PROJEKT RED, our main studio, and The Molasses Flood. This number does not include any developers working at GOG; this is purely RED and TMF.

Q9: Could you hint how Phantom Liberty and CP77 have been selling in recent weeks? Can the revenue boost reported in Q3 be – to some extent – repeated in Q4?

MN: So, last week was obviously strong – we had the Black Friday promotional activity – and we're happy with the result. Of course, we're also happy with the preceding weeks, where there were no promotional events. In terms of Q4 we're not really providing guidance. Q4 is typically quite strong in our industry, but that's as far as I'll go – we're not giving anything more here.

Q10: Given that Phantom Liberty is an expansion and its attachment rate is already quite high at 20%, should we expect a steep decline in demand for this revenue line from the first quarter of 2024 onwards? Also, may you please discuss some ways in which you plan to nurture this IP going forward?

MN: So, there are two aspects: sales of Phantom Liberty as a standalone title, and sales of the bundled version – or the Ultimate Edition which we're about to release. In the second case, people who buy the “complete thing” will automatically buy the Phantom Liberty expansion as well, so – we definitely expect some slowdown, but that's natural. We don't expect sales to “drop off a cliff” or anything like that. And in terms of promotional activities – the Ultimate Edition is launching soon, but in terms of the Cyberpunk IP we're going to be nurturing and developing it through activities going beyond the game as well – in the scope of the franchise flywheel that we have running. We're not really discussing specifics here, but one of the directions we'll be moving in next year is the project announced with Anonymous Content – but that's not going to be the only thing. Again – more to come as we progress through 2024. It's definitely not going to be quiet.

Q11: Cyberpunk 2077 Ultimate Edition – what is the price of the bundle? Can you comment on how The Witcher 3 sold after the GOTY edition was released?

MN: When it comes to the price of the bundle – please wait just a little bit longer; we’re going to be announcing details, including the suggested retail price – of course the actual retail price is not for us to decide. When it comes to The Witcher 3, sales after the GOTY edition – first of all, that edition took the place of whatever had been on the market before, so when it comes to The Witcher 3, it pretty much became the dominant unit sold – and we expect the same thing to happen with the Ultimate Edition: if there is a new customer who is interested in buying CP77, we expect them to reach for the Ultimate Edition rather than just the base edition of the game, then adding Phantom Liberty – obviously such cases will happen as well, but we expect the vast majority of sales to come from that combined set.

Q12: Could you say something about the next season of the EDGERUNNERS anime? Could we expect it in 2024?

MN: It’s a question with a thesis – which we cannot confirm. We have not announced the second season of the anime, therefore we cannot comment on whether it would be released in 2024 or any other year. We obviously have the ambition to do more in the animation field, but that’s something we’ve been repeating quite a few times.

Q13: Can you comment on how you’ll approach potential cash distributions after the Phantom Liberty launch year? Investments in new games or some form of distribution to shareholders?

PN: What I can confirm at this stage for certain is that we definitely want to continue developing games, and we’re investing in them. We want to do it on a scale unprecedented in the history of our company – we’re working on several projects at the same time; something that had not previously happened. As far as shareholder distributions are concerned – first, let’s close the financial year, let’s see the full result for 2023, and then we – the Board – will come back with recommendations that can be approved by shareholders. But that’s still months away.

Q14: Can you comment on the sentiment among employees after the announced key personal changes in management?

AK: To be honest – I wouldn’t expect big changes. As I’ve said – we, the Board, are a very integrated group of people running the company together. Those changes have been in preparation for years; it’s a smooth, natural transition and I believe everyone understands it. Those who work for us on a daily basis were well prepared, and I expect no changes in sentiment – in the long run, I hope sentiment will grow as our strategy is very ambitious and we intend to achieve it, which will bring a lot of satisfaction.

AK: As we have no more question I would like to thank you again for joining us today. If you have any follow-up questions, feel free to contact our IR team. Have a nice evening. Goodbye.