

Michał Nowakowski (MN):

Good afternoon,

My name is Michał Nowakowski, and I'll be your host during today's conference dedicated to the CD PROJEKT Group's financial results for the third quarter of 2024. I will be co-presenting with Piotr Nielubowicz. After the presentation, we will invite you to participate in a Q&A session where we will be joined by Karolina Gnaś, our VP and Head of Investor Relations.

We are thrilled to kick things off with an exciting update from the Cyberpunk franchise. Cyberpunk 2077 has reached another huge milestone with over 30 million copies sold. We are extremely proud to see our title continuing to attract a growing community of players, who wish to dive deep into the rich, dystopian future world.

Night City's growing player community not only has a direct impact on our financial performance, but also bodes well for the next game in the series.

Moving to the sales performance of Cyberpunk 2077 expansion. Phantom Liberty topped 8 million copies this month! Achieving this result just over a year after the release clearly proves the quality of the expansion and enduring appeal of the Cyberpunk franchise. It also highlights the strong demand for new content from the series, motivating us to continue delivering experiences that resonate with our community.

We also want to ensure that as many players as possible can experience our titles on the platforms of their choice. Recently we announced that, early next year, Cyberpunk 2077: Ultimate Edition would be arriving natively on Macs with Apple Silicon. This includes the new iMac, Mac mini, and MacBook Pro, powered by the M4 family of chips. The game is optimized to take full advantage of Apple Silicon and Metal to bring the immersive world of Night City — and the deadly district of Dogtown — to Mac gamers for the very first time.

And that's not all from the Cyberpunk franchise. Back in September we announced our collaboration with Netflix on another Cyberpunk animation project! This will bring audiences back to the vibrant world of Night City. While we can't share more details just yet, stay tuned for updates!

Moving on to The Witcher franchise - several weeks ago Project Polaris reached a very important milestone. We have completed pre-production. During this phase, we had been developing key aspects of the game, including the storyline, main mechanics and design, among other elements, and then tested how they work together on a playable fragment. Ahead of us lies the main, most intense stage of development - the production phase. We will now scale the solutions we have developed and validated thus far across the entire game.

I would like to take this opportunity to express my congratulations to the team. I'm proud to see how you've progressed over time.

As for our current allocation of development teams, the differences in team sizes versus the end of July were very slight, with our main focus remaining Project Polaris.

The change from 410 developers at the end of July to 400 developers at the end of October reflects natural transition, as we completed the pre-production phase and adjusted the team setup to meet the current needs of the production phase. In the coming quarters you can expect some fluctuations here, driven by specific needs of each project phase.

That's all from me. Now it's time for financials. Piotr, the floor is yours.

Piotr Nielubowicz (PN):

Thank you Michał and good evening everyone.

Let's start with our Consolidated Profit and Loss account on slide 9.

A year ago, in Q3, Phantom Liberty was released. This release had a significant impact on our revenues, costs and, obviously, profits for the comparative period.

This year, with no new launches, the Group's Q3 sales revenues reached nearly 228 million zloty, which is approximately half of the revenues for the comparative period. Naturally, most of the difference came from Cyberpunk products. At the same time, our Witcher games generated 44% more revenue than during the comparative period. Regular sales were supported by income attributable to bringing the Witcher 3 to PlayStation Plus Extra and Premium.

In line with the revenues, our cost of sales decreased as well. This change is mainly due to the degressive amortization scheme we applied for the Cyberpunk games. As a result, we saw a higher amount allocated to the Costs of products sold during the Phantom Liberty release quarter in 2023, compared to the corresponding quarter this year.

Moving on to operating costs - we also recorded lower selling expenses, which decreased by 37 million zloty, down to 29 million. This was mainly due to lower publishing costs related to Cyberpunk and Phantom Liberty, as well as a decrease in the maintenance costs of our released products.

As regards Administrative expenses - the increase in this category comes directly from our expenses on early-phase work on new projects - presented as "research work costs" that reached over 22 million zloty. This was mainly driven by Orion, Canis Majoris and Hadar. The good news here is that Orion completed all that is required to begin capitalization of its expenses starting September. At the same time, the total of all other Administrative expenses decreased in comparison with the 3rd quarter of the past year.

All in all, our net profit for the 3rd quarter of this year amounted to 78 million zloty. To put this in a more current perspective - contrary to typical seasonality - this is 8 million zloty and 12% more than what we achieved in the 2nd quarter of this year.

Given that the 3rd quarter of last year alone, which is when we launched Phantom Liberty, is naturally a challenging point of reference I would also like to draw your attention to our results for the first 9 months of each of the discussed years - presented on the next slide (number 10).

With no new releases, our cumulative revenues up until the end of September of the current year were 115 million zloty lower compared to the first 9 months of 2023 - which, thanks to an overall strong sales performance this year, is actually only 15% less than a year ago.

Moreover, this year we spent 68.5 million zloty on early-phase research work costs dedicated to new products and technologies that are in no way related to our current sales. This year, research activities burdened our income statement by 61 million zloty more than in the comparative period.

Regardless of the:

- lower sales in the absence of any fresh release, and
- 68.5 million zloty dedicated to research work on new products and technologies,

our net profit for the first three quarters of this year was only 42 million less than during the comparative period. Altogether, after nine consecutive months of 2024 we have already obtained nearly a quarter billion zloty in net profit.

It is worth mentioning that the efficiency of our business measured by net profitability was maintained - it reached 38%, which is even slightly higher than a year ago.

Now we can move on to the next slide – number 11 – our consolidated balance sheet.

On the Assets side - first, the usual expenditures on development projects. The balance here increased by 45 million zł during the 3rd quarter of 2024. Our new developments - mainly Polaris, Sirius, the new animation and Orion's September expenditures - were responsible for a 71 million zloty increase here. This was partly offset by a 27 million zloty decrease from amortization, driven mainly by the already released Cyberpunk and Phantom Liberty.

The second biggest change in assets concerns our financial reserves: the total value of cash, deposits and bonds, which are included in the three asset items marked with an asterisk. The total is summed up under the table and amounts to 1 billion 401 million zloty as of the end of September 2024. I will have a separate slide to give some more insight on our main cash flow drivers during that quarter.

Moving forward to the second part of the balance sheet - slide 12.

The most noticeable change here is the increase in our equity, driven mainly by profits for the period.

There was no major change in other sections of Liabilities - apart from the provisions line which grew mainly due to the increase in provisions for result-related bonuses.

Now please move on to the next slide - number 13: CD PROJEKT RED's expenditures on Research, Development, and product maintenance - quarterly for this year.

The trend is clear. We scaled back service work on already released games (in yellow) and maintained our involvement in early-phase research work (in green). At the same time we also increased our engagement in the more advanced development work (in blue). As per our strategy, we are currently involved in and finance work on several games, animation and some pure technology research, including AI tech and its applications.

And finally – our simplified cash flow on slide 14.

The 78 million zloty book net profit, which included 22.5 million in costs attributed to research work, that I have taken the liberty of extracting as the next bar, was supported by 37 million zloty in non-monetary costs: depreciation, amortization and incentive program costs recognized for the period.

The Change in other assets and liabilities allowed us to improve our cash flow by nearly 10 million zloty - mainly thanks to utilization of minimal guarantees and royalty prepayments by GOG.com - which is always good news.

At the same time, 27 million zloty was expended on acquisition of tangible and intangible assets. Apart from the usual investments into machinery and licenses, that outflow was mostly driven by a construction project we are currently running at our Warsaw campus.

Summing up all the above - out of 228 sales revenues for Q3 this year we came up with an estimation of 123 million zloty generated by our ongoing business, excluding R&D expenses.

During the same time we continued work on new projects and technologies, either in the already-mentioned research or development phase - expending 23 and 64 million zloty respectively.

All in all, our financial reserves in cash, bank deposits and bonds increased by 36 million zloty over the reporting period, reaching 1.4 billion zloty as of the end of September this year.

And this brings me to the end of our financial part.

But I also have one more announcement to share with you.

At the end of October, we announced an extraordinary general meeting which will take place in 2 days. Among others, we proposed resolutions which concern changes in the composition of our Supervisory Board, and the Earnings Condition for the years 2025-2028 in the framework of our Incentive Program. The first four-year goal of the program, from 2023 till 2026, amounted to 2 billion zloty in cumulative net profit. The second goal amounted to 3 billion zloty for the four-year window starting in 2024. And the third one - which we now propose - stands at 4 billion zloty in consolidated net profit (as defined in the program regulations) for the four-year period starting in 2025 and ending in 2028.

I would like to invite all registered shareholders to participate in this general meeting and support us in adopting the proposed resolutions.

That is all from me for now. We can move on to the Q&A session. Thank you!

Q1: Good evening guys. I think you pointed at the first half [?] to 4-5 years as the typical period for completion of one of your AAA games. I wonder if you could qualify – did you mean from the beginning of the full production phase? Or did you mean – from the beginning of when you start investigating ideas for the game? Second question: in terms of Q4 vs. Q3 – obviously normally in terms of video games you would expect to get a bit of a boost in Q4 from seasonal phase buying. Could it be now that in Q3 you didn't have that much competition from AAA games but you'll have some more competition in Q4 – and that therefore that may balance out the normal seasonal buying pattern when comparing Q3 to Q4?

MN: I'll definitely take the first one. So – I'm glad you asked the first question because there were some misconceptions after the last call. So – we're talking about from the "investigating ideas" stage, when the first couple of people walk into a room and say: "hey, how about we make the next Witcher game?" – that's how long it takes – from the moment they start working on the paper; not actually going into what we call the production phase in our vocabulary when talking about games – so I'm glad we can clarify it here in the open. So – from the very, very beginning, when we start discussing early ideas for the game – is the time that we are providing for the development of the game. But it's not 3 to 5; it's actually more – 5-6 – I'll clarify the point as well. In terms of Q4 vs. Q3, I would not really say it works like that to be honest, it hasn't in the past – it's not that there are things coming out that are "sucking out" the year out of the whole industry – so we would rather expect to enjoy the regular boost of seasonal sales as we do in every Q4 – nothing unusual in that regard.

Q2: Thank you; I've just got one follow-up. When would you say the Company first started conceptualizing Polaris? When did you first have the idea to make that game?

MN: I'm not gonna answer that question, obviously, because that would be leading to pointing out a date – which we're not doing. But thank you, that was a very clever question. Thank you.

Q2: I thought I'd try. Thanks.

[Chat questions]

Q3: Regarding mobile game - is anything happening at the moment? Or is it just a possibility in a galaxy far, far away?

MN: So, mobile game licensing, which we talked about before, is in talks – it's one of our strategic goals; at the same time we don't really have anything that we can announce. When the time for an announcement comes, we will make it for sure – and share it with you.

Q4: Could you tell us what part of the team working on Orion is from the USA?

Karolina Gnaś (KG): Currently just over 1/3 of the team works from our Boston hub, while the remaining 2/3 are based in Canada and Poland.

Q5: Thinking about 2025 and 2026, what will be the main driver of your results? Cyberpunk 2077 will probably fade away as there will be no more major updates. Polaris, Sirius and Canis Majoris are nowhere near release, and the live-action project will probably have a small impact on P&L. Are there any catalysts for 2025/2026?

PN: What I can say today is that the success of our business is based on longevity of our products, active franchise flywheel management and releases of new content. We expect the new 2 years to be active in all of the aforementioned areas. Some may be surprising, and I believe this is something we are good at when running our marketing campaigns.

Q6: Please give us an update on your class action lawsuit regarding the technical solutions used by GOG.

KG: Unfortunately I don't have any updates on this topic; I can only reiterate that we are working with a law firm experienced in these kinds of lawsuits and we are eager to find a solution. Any new developments on this will definitely be communicated through a stock report.

Q7: Why are you having so much trouble scaling up Orion? Lack of candidates; mismatch of wages, expectations and budget...?

KG: Here I can state that we do not have any issues here – apart from regular scouting for talent, as normal, in Poland and in the US. The current team size is aligned with our needs and we plan to further expand the team next year. We are actually going to double the size of the team by the end of the next year.

Q8: Orion started capitalizing expenses. Does it mean it moves to pre-production phase? How much less in costs per quarter will be booked in P&L from now on?

PN: No, it does not mean it automatically moved to pre-production; rather, it means it had completed all that is required under IFRS to start capitalizing the project. There's a number of criteria the project must meet in order to be capitalized – and Orion delivered all the milestones, all the documentation, all the plans and designs that are required for that. As usual, we're not sharing detailed information on how much we spend per project or how much – per project – will be moved from research phase to development phase [expenses].

Q9: What about the live-action project? Who is funding it? Is it still in the concept stage?

MN: Live-action is still in the conceptual stage, but I'm not sure what is implied in the question – the conceptual stage has various stages of advancement, so we're – for sure – further in than we were a year ago, but we're also not yet at the stage where we would be showing around the concept to potential streamers or studios – I'd say it's probably a similar window between here and that as there was between when we announce it (about a year ago) and today – so within that window I would expect we'd get to shopping around. As for who is funding it – the very early production package is traditionally financed by the one who is preparing it, so in this case it is us, but we would not be funding the whole shooting of the live-action project; that is not in the plan – and obviously the cost of the early production package is not comparable to the cost of the full-blown production of the actual live-action project.

Q10: As the game entered the full production phase, can you say that your internal production schedule is more predictable than it was in the pre-production phase?

MN: We have high belief in our current pipelines, production setup and analysis – so I wouldn't say one is more predictable than the other – there is always some degree of certainty and some degree of uncertainty – but what I think has changed is that now we're set on target; we know what we want to achieve within the game, and now it's a question of filling in the blanks – that is, of course, a huge oversimplification, but this is really what entering the production phase means. We have a big chunk of the game made that proves certain concepts, and now we need to populate the whole game as per plan. I'm not sure if it addresses the question, but that's my answer.

Q11: Which projects are included in the CAPEX in Q3 2024?

PN: The main projects included in CAPEX in the last quarter are, obviously, Polaris, Sirius, the new animation and Orion – which was moved from research works to expenses on development projects and started being capitalized in September 2024. There are some other, smaller projects – not all of them announced so far – but these are the main ones.

Q12: When do you plan to increase the headcount on project Sirius? What headcount do you expect at the peak of production?

KG: I can say the increase is happening as we speak – because just recently we greenlit some new roles to be added to Sirius – and we plan to double the headcount we currently have by the end of the next year.

Q13: Do you perceive the 2023-2026 incentive target as still achievable considering that more than 60% of the target remains to be achieved?

PN: What I can say is that after 44% of the vesting period we have already achieved 36%, referring to the percentages you mentioned – which is slightly below the time remaining; however, the difference

is not that huge. No doubt the program is based on an ambitious and challenging goal. As you know – we like ambitious challenges.

Q14: The payment you received from Sony after The Witcher 3 became available through PlayStation Plus Extra subscription – could you confirm that was a one-time payment, and what was the size of it?

PN: I'm not referring to payments directly, but yes, the income that is related to our cooperation with Sony and the PS subscription was recognized one time in our Q3 revenues, but at the same time I'm really sorry, but I'm not in a position to reveal the business details of our contract with Sony.

Q15: My other question would be on Mac gamers – where you see the percent of Mac gamers among your potential clients?

MN: We have some experience from the past – we've had ports of The Witcher 1 and 2 available on Macs – and obviously, you know, this is a bit of new waters we're gonna be testing here, because we're talking about new chipsets, new hardware that Apple is gonna be introducing – so I don't think referring back to the numbers we had with The Witcher 1 and 2... there was a certain percentage of sales that we were able to "deduce" as corresponding to Mac gamers – whether that was gonna be valid – but we are quite optimistic and what I can say is that we would not be entering into this if we didn't see it as a profitable and promising new hardware to be on. I think I'll put a full stop here.

Q16: Will there be a step-up in Polaris headcount now that it has entered full production. I understand it may be volatile, but any sense you're able to give at this stage?

KG: Currently, as you saw, we have 400+ developers involved in Polaris who are supported on a daily basis by our shared services teams – and of course this number may fluctuate here and there depending on the needs of the project in various phases, but we believe that this number – 400+ – is the target number for this project.

Q17: Can you please the development status of The Witcher 1 remake?

MN: We don't have any official statements to be made – work is progressing, The Fool's Theory is continuing their work on the remake, and obviously once we have anything to share in that regard, we will.

Since we have no further questions, I would like to thank you for participating today – and should you have any additional questions, please do not hesitate to reach out to our IR team. Have a nice evening and good bye.