

Chat session with individual investors held on 9 April 2020

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Moderator: Welcome to the investors' chat with members of the Board of CD PROJEKT: Adam Kiciński and Piotr Nielubowicz. The topic of the chat is the summary of 2019 earnings and future growth plans.

Moderator: I wish to remind everyone about our chat rules: your questions should first be sent to the moderator. We will publish selected questions submitted by participants, along with replies. You can view the queue of your questions at the bottom of your screen. The moderator may reject questions which do not comply with the rules.

Moderator: A reminder for journalists covering today's chat session: all excerpts included in your coverage must be appropriately attributed. If you have any questions, contact us at biuro@stockwatch.pl.

Moderator: You may now ask your questions. Our guests will begin replying at 3 p.m. In case of any problems with viewing replies please refresh your page. We also encourage participants share the chat and comment upon it in social media using the #czatStockWatch hashtag.

Adam Kiciński i Piotr Nielubowicz: Welcome to the investors' chat devoted to our 2019 earnings. Go ahead and ask your questions.

Radek: Have you noticed an uptick in sales of your videogames since pandemic lockdowns began around the world?

Piotr Nielubowicz: In certain distribution channels and territories the present circumstances may help sales, but we do not yet have a full picture of the situation.

Radek: Is the spare time you have given yourselves to complete the game sufficient to ensure that the pandemic and remote work will not threaten the September release?

Adam Kiciński: As of right now, we believe this to be the case.

tgolik: How many developers work for CD PROJEKT? When do you expect to have two large teams working in parallel on two major releases?

Piotr Nielubowicz: At the end of 2019 the CD PROJEKT Group employed 697 developers. Any major changes are held off until the release of Cyberpunk.

tgolik: Is GWENT still an important project for you, following the iOS and Android releases? Are you sticking with it long-term?

Piotr Nielubowicz: Yes, we have a range of ideas which we will develop in future periods.

tgolik: Does the Board contemplate instituting a stable dividend policy if Cyberpunk 2077 succeeds?

Piotr Nielubowicz: Thus far we have assumed that given the specifics of our activities which strongly depend on the success of individual releases and securing adequate funding for future projects, a stable dividend policy is not the best way forward.

tgolik: What is the expected share of digital distribution in your total sales at the end of 2020? Will this be an important share for CP 2077, particularly its PS4 release?

Piotr Nielubowicz: The ultimate result will depend on our customers; however it is safe to assume that digital distribution will account for a major share of sales.

Gostek: Does CD PROJEKT expect to work on two or more major projects in parallel?

Piotr Nielubowicz: Yes, we do.

Gostek: How many people work for CD PROJEKT, and how many will work for you in 3, 5 and 10 years?

Adam Kiciński: We intend to keep growing. Our workforce currently numbers 1111 people.

Gostek: Is CD PROJEKT planning takeovers?

Piotr Nielubowicz: We are not contemplating takeovers and do not have any specific plans in this regard. So far, CD PROJEKT has grown organically, for the most part, and we believe this to be the right way to grow.

Gość: How many patent applications have you submitted, and how many patents have you been awarded?

Adam Kiciński: As a rule, computer software is not patentable, although it is subject to IPR protection.

Gość: Good morning. Is the Company aware of the risk of leaks associated with remote work, and have actions been taken to minimize such risks?

Adam Kiciński: That's a yes and a yes.

Krzysztofja: Greetings. I would like to ask about your post-Cyberpunk plans.

Adam Kiciński: We will tell you more about those after Cyberpunk launches.

Mateusz: Will Cyberpunk expansions be announced before the release of the main game (as was the case with The Witcher 3) or later?

Adam Kiciński: You can expect a scenario similar to what happened with The Witcher 3.

Mateusz: Which team is working on Cyberpunk 2077 Multiplayer? Warsaw? Wrocław? Kraków?

Piotr Nielubowicz: Wrocław.

Żwirek: Has the pandemic strongly affected your CP 2077 marketing strategy?

Adam Kiciński: We have always planned to carry out a global campaign with focus on digital media.

anti: In its release year physical distribution of The Witcher 3 accounted for over 70% of all copies sold. Do you expect problems with this sales channel given the uncertainty about the spread and effects of the coronavirus pandemic?

Piotr Nielubowicz: As stores close we note an increase in mail-order sales; however the situation may evolve dynamically.

Akcjonariusz: Greetings. Let's fast-forward to September 2020. The world is picking itself up after several months of pandemic lockdowns; trade, services and other areas of the economy are working to restore themselves while people try to return to a semblance of normal life. If that happens, would you foresee the threat of lower-than-expected sales of Cyberpunk 2077? (particularly of the box edition, which is one of your major revenue sources – the 2019 Board report appears to admit such an eventuality)? Or is the opposite true, and you expect additional opportunity for growth under these conditions, with the coming months aligned to your best-case marketing scenario? And one last question – could you quantify your expectations of being able to deliver the game on September 17 in terms of a percentage value? Thank you and best regards.

Adam Kiciński: We believe we will deliver a phenomenal and highly sought-after product in September – a product which will find its place on the market regardless of the circumstances.

Karol: Would individual investors be able to tour your campus?

Adam Kiciński: Not yet.

Gość: Would it be correct to say that COVID-19 has reduced the efficiency of your team? Will the remote work period threaten your September release – as well as the Group's further plans?

Piotr Nielubowicz: Some operations are actually proceeding smoother than normal, while others require additional effort.

Adam: Greetings. Recently, the Company held over 600 million in cash, while the current figure is closer to 400 million. Can we conclude that you have begun to “burn through” your cash?

Piotr Nielubowicz: In 2019 we allocated 101 million to a dividend; 122 million was spent on investment activities – mainly purchase of properties, while 165 million represented expenditures on current development projects. Our other activities produced a surplus of 210 million PLN.

anty_teresa: Does the lockdown period effective in certain countries affect the Company’s CP marketing plans?

Adam Kiciński: Marketing activities are proceeding unimpeded.

Gość: Greetings. I would like to ask whether the tax relief obtained by CD PROJEKT RED is accounted for in 2019 earnings, or whether it will be included in quarterly results reported in 2020? By the way, I wish to thank you for your apt management of the Company – my personal investment means that I essentially get Cyberpunk free of charge. :D

Piotr Nielubowicz: Our 2019 tax settlement acknowledges both the IP Box preference and the R&D tax relief.

StockWitcher: Your earnings presentation included a slide which shows distribution of GWENT revenues by platform. Am I correct in understanding that the iOS release published in late October generated more revenues in a span of 2 months than the PC version throughout the whole year?

Adam Kiciński: The presentation shows revenues by platform obtained between 29.10.2019 and 31.12.2019.

StockWitcher: Are you planning Cyberpunk DLC on a scale at least as large as The Witcher DLC?

Adam Kiciński: Expect no less than what happened with The Witcher 3.

StockWitcher: Will introduction of the new incentive program be associated with the rollout of a new strategy, as was the case with your previous program?

Adam Kiciński: We regard those matters as separate. Our aim is to submit the draft resolution concerning the new incentive program to the upcoming General Meeting in order to maintain continuity. A rehash of our strategy can wait until the release of Cyberpunk.

skimixa: Will you be organizing meetings with foreign investors prior to the release? Can such meetings even go ahead during the coronavirus pandemic?

Adam Kiciński: Yes, definitely. We are always in touch with investors from around the world. The meetings are currently organized as phone and video calls. Working from home has not had an impact on their schedule.

GośćXYZ: We note a significant increase in receivables, which reached 130 million PLN – 90 million more than at the end of the previous quarter. Have all these receivables been collected by the end of January? Or are there arrears? Does the pandemic elevate the associated risks, and have you been asked to accede to payment delays?

Piotr Nielubowicz: We did not observe any problems with collection of receivables in the recent period.

Marek Czuma: First of all – congratulations on your excellent results. I would like to inquire about your financial cushion. It seems to have shrunk a bit in 2019 for the reasons which you outlined before. My question concerns the future – will CD PROJEKT progressively amass ever greater resources, or is that not certain?

Adam Kiciński: Our intent is to maintain adequate cash buffers given the scope of our activities.

GośćXYZ: Depreciation of past development expenses increased by 10 million PLN in Q4. In previous periods this figure was 6-7 million per quarter. Is the reported increase due to initiation of depreciation of The Witcher 3 for Nintendo Switch?

Piotr Nielubowicz: Yes, it is.

Gość: What is the status of the mobile release developed by Spokko?

Adam Kiciński: I would say it's pretty far along.

GośćXYZ: Administrative expenses in the CD PROJEKT RED segment reached 13 million PLN. Do you expect to maintain this level in further quarters, or will the expenses increase further, as was the case in 2019? Note that I'm not referring to incentive program costs, but to all other costs aggregated in this line item.

Piotr Nielubowicz: Administrative expenses are expected to increase in line with the growth of the Company.

Gość: Congratulations on your new incentive program – and fingers crossed! Is the Board comfortable with the highest projected threshold, i.e. 6 billion in profit over 3 years? Out of the 1.1 thousand people working for you, how many can expect enrollment in such a program?

Piotr Nielubowicz: We regard the goals as ambitious. We've always tried to go beyond our comfort zone at CD PROJEKT.

Space Cowboy: Don't you think a stock market where a videogame developer occupies the #1 spot looks a bit ridiculous? More seriously – is this an important achievement for you, and do your investors indicate that it is for them?

Adam Kiciński: Is that a serious question?

Greg: When do you expect to enter the multiplayer market? The huge success of Call of Duty: Warzone, released free of charge by Activision, seems to hint at the immense potential of such releases.

Piotr Nielubowicz: We have already entered this market – with GWENT in 2016.

Gość: How many people would show up at the Warsaw office with dogs – before the pandemic, of course?

Adam Kiciński: Whole packs of them. :D

księgowy: We understand your financial aims for future years. What about your operating goals? How many games do you expect to publish during the period covered by the incentive program? Is there anything other than CP2077 and Witcher-themed games?

Adam Kiciński: We will update our strategy following the launch of Cyberpunk 2077.

księgowy: Will the minimum guarantees aggregated with your deferred revenues keep increasing until the release of CP2077?

Piotr Nielubowicz: Yes, given the ongoing preoder campaign.

Gość: Is a remake of the first part of The Witcher in the cards?

Adam Kiciński: We prefer to tell fresh stories.

nikka: You have posted a new “dream scenario” which foresees approximately 2 billion in net profit starting in 2020. What exactly do you intend to do to increase profits tenfold? Roughly speaking, your aggregate profit for the past five-year period was approximately 1 billion PLN.

Piotr Nielubowicz: We intend to keep growing apace.

Patryk: Why Keanu Reeves? Why not – say – Jason Statham?

Adam Kiciński: Keanu Reeves just takes our breath away.

V: Your „future period sales” item increased by 12 million PLN in Q4 – far less than in previous periods. Can you explain why?

Piotr Nielubowicz: The balance is now exclusive of W3 Switch preorders since this game has been released.

Gość: This year CD PROJEKT has become the biggest polish company in terms of net worth. How does that make you feel, and when will you become the biggest company in Europe?

Adam Kiciński: I'll keep a straight face on that one! Bye!

Adam Kiciński i Piotr Nielubowicz: Thank you all for attending the chat in such high numbers. Talk to you in the future!

Moderator: On behalf of the StockWatch.pl editorial board I also wish to thank you for the interesting discussions and invite you to future chat sessions.