Adam Kiciński (AK):

Good evening.

Welcome to the teleconference dedicated to the CD PROJEKT Group results for the first quarter of 2021. My name is Adam Kiciński and I'll run this call together with Piotr Nielubowicz and Michał Nowakowski. The webcast of the presentation, along with the audio feed, is also streamed on our corporate website at cdprojekt.com, and on our IR Youtube channel.

Let's get started - please jump to slide 3.

Improving Cyberpunk 2077 remains our top priority. Since the beginning of this year we've released 5 updates, and of course there is more to come - the next update is to be released in a few weeks. As we announced before, this year you can also expect free DLCs providing small bonus content for gamers, as well as an upgraded next-gen edition of the game, which is scheduled for the second half of the year.

On slide number 4 you can see how our efforts improved Cyberpunk stability. The crash rate is getting lower and lower with each update. Please bear in mind that it's somewhat natural for each new update to cause some extra short-term boost in statistics which is strictly related to the process of downloading and installing the update itself. That's why the chart shows local peaks around the time of releases. But overall, we can definitely observe a downward trend here.

Given the recent improvement and motivation we have, we strongly believe that the game will prove successful in the long run.

Moving on to the next two slides - The Witcher franchise.

On slide 6 you can see our plans related to The Witcher universe for this year. Spokko, the youngest member of the CD PROJEKT family, is about to launch The Witcher: Monster Slayer, a free-to-play mobile location-based RPG that uses AR technology. This release is expected in the summer. As for the second half of the year, we plan to release the next-gen edition of The Witcher 3: Wild Hunt.

That's all from my side - let's now move on to slide 7. Piotr - the floor is yours.

Piotr Nielubowicz (PN):

Thank you Adam.

Let’s start with our P&L statement.

This year's first quarter results are presented together with our 2020 Q1, which by then was the best first quarter we ever had. Last year, due to the pandemic, the release of The Witcher series and that of Witcher 3 on Nintendo Switch, Q1 2020 revenue-wise was nearly two and a half times better than the first quarter of 2019. This year these growth drivers appear to be gone. In Q1 of 2021 Cyberpunk was our leading IP, which generated nearly 60% of sales of products at CD PROJEKT RED. It is worth mentioning that - due to the non-existence of Cyberpunk on the Sony digital store which is potentially the second biggest marketplace for us - and settlements of sales provisions we set in Q4 - our Cyberpunk revenues at CD PROJEKT RED have mainly been driven by PC digital channels.

The second source of revenue comes from goods and materials fueled by the GOG.com segment, where the segment itself enjoyed a 12% increase quarter to quarter.

As always, our sales were accompanied by costs of sales. The main increase here is visible in the Costs of products and services sold line, where we included 17 million depreciation of Cyberpunk 2077.

Our gross profit from sales reached 135 million PLN, 10 million PLN less than a year ago despite the 17 million PLN Cyberpunk depreciation.

Our operating costs increased, driven by 4 main factors:

First, a big part of the dev team was working on updating Cyberpunk and since this was a service to an already released game, costs were booked directly into P&L - into the Selling costs line. Total servicing costs dedicated to Cyberpunk added to the much smaller Gwent live operation service costs, and altogether amounted to 30 million PLN in Q1 this year.

Second, during Q1, we ran research and prototyping works for our subsequent projects. Such expenses need to be booked directly into P&L - into the General & Administrative costs. These expenses amounted to over 9 million PLN and represent approximately half of the increase of the G&A position.

Thirdly, the General & Administrative costs include 9.4 million PLN of non-monetary costs related to our Employee Stock Option Plan. This is 5 and a half million more than the respective costs of the previous program booked in Q12020.

And last but not least - the increase in all our operating costs also reflects the growth of the back office, marketing, communication and sales teams over the last year. Year on year to quarter headcount for this part of the team grew approximately by one sixth.

All in all, deducting financial expenses and income taxes, our net profit for the period amounted to 32.5 million PLN, which is proportionally less than usual, mainly due to the time limited research and servicing works booked directly into our costs of this quarter.

Let's now move to the next page - our consolidated balance sheet.

Our fixed assets grew by 144 million PLN reaching over 900 million. This growth comes mostly from the increase of financial assets as a result of foreign t-bonds' acquisition which was made to diversify and allocate some of our financial reserves.

The 64 million PLN growth of other fixed assets - visible in the line below - comes mostly from the recalculation of our deferred income taxes by nearly 60 million PLN.

But the most notable changes occurred among our Working assets: Our Receivables decreased by 1 billion and 91 million PLN leading to an increase of cash and bank deposits by 823 million PLN and 114 million PLN increase of domestic t-bonds included in the other financial assets line.

All in all - over the first 3 months of 2021, the total value of our cash, bank deposits and t-bonds increased by 1 billion and 40 million PLN reaching a total of 1 billion and 915 million PLN.

Moving to the equity and liabilities side - the sales provisions we set as long term at the end of 2020 were reclassified to short term provisions, hence the change from 145 million PLN to zero for this position as of the end of March 2021.

At the same time the total value of provisions among the short-term liabilities increased by 40 million PLN. Together with the decrease of long-term provisions this made the total balance of provisions decrease by 105 million PLN.

Over the first quarter of 2021 we also reported an increase in our Liabilities - this is mainly caused by the growth of our current income tax liabilities by 66 million PLN. This growth was offset in big part by the deferred income tax assets decrease I mentioned a minute ago.

Let's move to the next page.

Each time I comment on our results I typically present a chart with our expenditures on development projects. This time I decided to slightly modify it to visualize the allocation of our developers' efforts in recent quarters and explain how respective costs were booked and influenced our P&L and balance sheet.

The blue part represents our expenditures on development projects - it’s a book perspective - this is the quarterly increase in the capitalized value.

Why was it so high in 2020 Q4?

Mainly due to the final phase of development of Cyberpunk’ related costs including provisions for developers’ bonuses. This year the capitalized amount was smaller as many of the developers were moved to other tasks.

The yellow part represents costs of servicing already released games. Till the release of Cyberpunk, on the 10th of December 2020, these costs were mainly related to Gwent. After the release of Cyberpunk, a big part of the team was moved to updating the game - which translated into the increase for Q4 and especially Q1 2021.

And the green part represents the so-called research costs - initial costs and prototyping for new projects. As you can see, we had initiated these costs last year, but the increase clearly occurred this year.

Both the yellow and the green parts - which are servicing and research expenses - were booked directly into our profit and loss calculation.

Please note that the Spokko company - which works full force on the coming The Witcher Monster Slayer game - is not included in the presented consolidated results yet.

Let’s move to the next page - simplified cash flow presentation.

Putting aside the bookkeeping qualification of incomes, costs and expenses, this quarter we reported record high positive cash flows for the Group. Remaining revenues from the premiere of Cyberpunk were paid into the company, which resulted in the decrease of receivables. All in all our cash, bank deposits and t-bonds value increased by 1 billion 40 million PLN and reached an unprecedented total of 1 billion 915 million PLN.

And this smoothly leads us to the next page.

Based on the strong financial position and taking into consideration the 455 million PLN excess of short-term liabilities over receivables as of the end of Q1, the board of CD PROJEKT proposed to the general meeting to pay out a dividend in the total amount of nearly 504 million PLN. Which translates into 5 PLN per share.

The dividend day is set for tomorrow and the dividend is to be paid out on the 8th of June.

Thank you. That is all from my side. Now we can move to the Q&A section.

Q1: Two questions, please. First of all – I would like to get an understanding on the Cyberpunk unit sales in the quarter; secondly – wonder if you could update us on your conversations with Sony – what it would take to get you back on the PlayStation store. You've shown us some metrics that you're improving, but do Sony have a particular set of metrics in their mind, which would allow you back on the store? How are those conversations progressing?

AK: I'll start with the first question. We usually communicate unit sales when we reach certain milestones – round numbers that we can announce – and this quarter, as usual, we presented revenues divided into segments, and within CD PROJEKT RED we also guided how much of the revenue was generated by Cyberpunk – close to 60% of product sales revenues – and, as I mentioned, most of those sales came from PC digital distribution channels.

Q1: Mind if I follow up on that answer? If we take your average digital revenue per unit to be some in the 135-140 PLN range – looking at what I use for Ubisoft, etc. – that would get me to 800 thousand-ish Cyberpunk units sold. Am I in the right ballpark?

AK: I'm afraid this sort of calculation cannot be applied to CD PROJEKT, and especially for such a special quarter as the first quarter following release. Please note that the revenues we present are the revenues we obtain from our distributors. In the case of Ubisoft the situation is different; Ubisoft directly distribute many of their games and have direct access to many retail channels – which we do not have. So, our sales are based on wholesale cooperation with partners who then supply retail stores, and therefore the characteristics are different.

Q1: I'm sorry to come back again, but you did say it was mostly PC and digital – so I thought that this wholesale partner relationship would be less relevant to the average revenue per unit in this particular case.

AK: To give you some more light on that: when a retail store sells a copy, it probably purchased this copy last year – so this number of copies was reported to us by distributors last year, and we reported those revenues last year. At the same time, last year we set certain provisions for potential returns and refunds we would be processing for our distributors. But all this time – during Q1 – retail stores keep selling the game, so there are two totally different layers: our cooperation with distributors, and retail stores which keep selling the game. Therefore, a direct comparison between the two cannot be made, and especially in such a quarter – the first quarter following release – where retail stores still hold the stock they had purchased on release.

Michał Nowakowski (MN): The second question was about Sony and about PlayStation-relevant metrics; how the conversation progresses – so: I cannot go deep into the set of metrics; and details of the conversation this has to remain at the discretion of PlayStation and, of course, ourselves. But yes, there is a set of metrics – let's call it that, at a high level – but, again, we cannot go into details on where we are with that. There is a process; we're in the midst of that process, and the conversation is ongoing. The decision will be announced when it's ready to be announced; that's as much as we can say.

Q2: Good evening. Just a few questions, please. Could you give us the actual digital percentage of sales in the quarter? Secondly – can you tell us what discounting happened in the quarter and what you're doing regarding discounts, if anything, in Q2? And longer-term – as you engage in simultaneous game development, could you tell us whether you have started work on two new games – or when such work is likely to start?

AK: I'll take the first one. Are you talking about the digital percentage of Cyberpunk sales, or our overall sales? [**Q2:** Overall] They were mostly digital. I do not have exact figures on hand that I could reliably give you, but as I mentioned, retail stores would have purchased their stock on release, and they keep selling. This means our distributors do not ship additional stock to them, and our revenues do not include any additional influences from that. What does influence our revenues are digital sales, as in their case reporting is instant – without involving distributors as middlemen – and most sales occurred on PC, given that the available platforms include PC and Xbox. As Cyberpunk is not present on the Sony storefront, we did not report any sales there – however, obviously, The Witcher 3 was still selling. Regarding the overall picture, digital sales were definitely behind most of our revenues.

MN: Hi, Michał Nowakowski again. I can take the second one. When it comes to discounting, there are basically two kinds of discounts. One is what we call a permanent markdown, and the other one is promotional. In Q1 I am not aware of a permanent markdown; there have been some promotional markdowns happening both in physical and in digital. We have to remember that we're not in direct control of retail discounts – that's at the retailer's discretion. There is, of course, a special support fund, a marketing support fund, for retail to be able to do this – which is normal for any game, to be honest, in the post-launch quarter; there is nothing unusual here. So – that's been happening for CP. I've seen discounts between 20 and 40%, depending on the occasion, on the country, on the territory – there are as many stories as there are retailers. In terms of digital, I've seen discounts of 10 and 20% on PC storefronts. When it comes to planned discounting for Q2, we of course have certain assumptions and plans, but we are definitely not in the position to reveal that. I haven't actually seen anybody reveal those kinds of plans ahead of time.

AK: I'll take the third one. As we announced during our strategy update, we plan to begin parallel AAA development in 2022. This year is the year of transformation; there's much more work on Cyberpunk which still involves a big part of the team, but there are also teams working on future unannounced projects. I would say that's about 1/3 of our AAA team – but we're not yet in parallel AAA development. We're talking about preparation for future work; not about development *per se*.

Q3: Good evening everybody. So – three questions if I may. Could you enlarge a little bit on staff? Your original plan had been for the Cyberpunk team to – kind of – divide into three, with 1/3 moving on to a new project, 1/3 working on DLCs and perhaps 1/3 working on a mobile game. Tell me, please, how things divide up at the moment. Secondly, regarding Xbox – it's on sale, but when you click through there's a warning that there may be issues, pending patches and so on. Is there a similar kind of discussion going on with Xbox? And finally – in terms of next-gen versions of the game, and hopefully a relaunch of the whole game, is there any indication when in H2 you might plan to do that? I would imagine – at least after July/August as that's the holiday period? Please guide me if that's wrong. Thank you.

AK: I'll start with the first one. So – nearly half of the Cyberpunk team continues working on Cyberpunk and the game's next-gen edition. We also have teams preparing work on two unannounced AAA lines, so to speak. I can't be very precise because we don't want to preannounce anything that hasn't been announced yet, so I cannot refer directly to your question, but there are smaller teams involved in the transformation process preparing work on future content. To repeat what I have already said: next year is when we want to split work on future AAA content.

MN: Regarding the second question – about Xbox and the warning language on the product page on their storefront – yes, there is a similar conversation happening with the Xbox team as well.

AK: And the third question – sorry, we cannot comment on it. Following our promise to start communication closer to actual releases, we don't want to say anything more about the next-gen edition other than that it is planned for the second half of the year. Of course, we have a specific date in mind internally, but it's too early to say anything about this.

Q3: Okay, I thought I'd ask. Thank you very much.

Q4: Hello and thank you for taking my questions. The first question concerns the trend in the second quarter. The first quarter was very special, the major patch was released only by the end of the quarter. Do you see any improvement in the sales trend – at least on the PC – for Cyberpunk in the second quarter? And on the costs side again - with major fixing taking place in the first quarter, do you see any improvement in terms of profitability – lower costs to be incurred in the second quarter? What can we expect in this perspective? And I also have a question on your capital allocation. Apart from dividends, how are you going to spend your cash pile? Clearly, you received a lot of cash in the first quarter. And perhaps an update on the M&A pipeline would be helpful. Thank you.

PN: I'll take the first and the second question. We're not guiding future results, so I cannot be too precise in this context – but definitely each year the most important part of the second quarter are the summer promos in June. That's still in front of us. Looking at the broader picture, as I mentioned during our annual call regarding Q1 results – as long as we're not back on the Sony store, the general situation is not changing. One of our leading outlets is not available and we generated most of our sales in PC digital channels. Until this changes, we'll be in a more difficult situation than we would like to be in. So that's the general comment regarding what may happen in the second quarter. As far as profitability is concerned, the size of the team involved in updating Cyberpunk is slowly decreasing, and also the research costs I mentioned in my part of the presentation should also be lower in the second quarter. This is a natural process and that's what we expect. The total profitability of the company will depend on the proportion of sales less the fixed depreciation of Cyberpunk and all of our operating expenses, and that's something we will discuss following our H1 results. Regarding capital allocation, a significant part of the capital we earned last year will be paid out via a dividend. As I mentioned, we still have some liabilities on our balance sheet; there is a significant excess of liabilities over receivables and this will affect our cash flow plans. Actually, part of that was already paid as team bonuses in May – in Q2 – and the rest is supposed to finance our future growth and future projects, marketing plans and – potentially – some M&A transactions.

AK: Which brings us to the fourth question. In terms of M&A, once there's anything to announce – we'll announce it. We are currently finalizing the deal with the Vancouver team; if we have any further plans of this kind, we'll inform the market.

Q5: Good afternoon. The first question – thank you for giving us the breakdown into research, development and service costs. Based on this and on your earlier comments – just to clarify – there haven't been any material development costs capitalized – for any new project, anything resembling Cyberpunk scale – before Q1 this year? The second question concerns Spokko. Do you have any color to give on what the soft launch process has looked like? Which countries have you involved – I've heard Russia, Australia for monetization – and is there any color to give on what the result has been?

PN: I'll take the first one – yes, the direct development expenditures in Q1 were lower as part of the team worked on updating Cyberpunk, while another part of the team was involved in research and preliminary work on subsequent projects that we have in the pipeline. Once we finish the research phase, which should come shortly, these will be qualified as development expenditures and will be capitalized.

AK: I'll take the second one. What we're doing is we're soft-launching not only the game itself, but also some retention and monetization mechanisms along with testing the game. We're getting closer and closer to the final result – and we're happy with what we're seeing, but of course before the full-scale launch we don't want to reveal any internal data regarding how the soft launches were progressing. Still, the extensive soft-launch phase enabled us to tweak many things; we learned a lot. This project is definitely driven by design – as the first priority – but also by statistics and data.

Q6: Hello, I'm back again. Firstly, on the R&D that's being expensed with early-stage work. Is that a new thing? I don't think I noticed it back in the day when you were working on Cyberpunk as The Witcher 3 came out. So – is this a new approach or perhaps something that wasn't significant enough to remember from the past? Secondly – can I ask about how you expense and capitalize work on expansions – since you had said that expansions were being planned for Cyberpunk? And finally – on the discussions with Sony and Xbox – firstly, do they potentially involve the next-gen version, or are they simply discussions about the "last-gen" – PS4 – version? So, do they involve satisfying them with next-gen? That, I guess you can answer; the next one I'm not so optimistic about: is this simply a technical discussion or does it involve financial and pricing issues related to the game? Thank you.

PN: I'll take the first two questions. As far as I remember, we had the same approach – however, back in the day these costs were not significant. Regarding expansions, I can say that currently the related expenditures are capitalized.

MN: Regarding the question about Sony and Xbox – whether it involves the next-gens or the current-gens; whether it is just technical or touches upon financial issues and pricing – these are very good questions, but all this is between the parties. If I end up writing memoirs 20 years from now, I promise to answer that, but for now it really has to remain between PlayStation and us. We'll make announcements when we're ready – and of course the same goes for Xbox.

Q7: Good evening. The first question: your expectations regarding Cyberpunk once it's back to PlayStation Store – are they diminished compared to previous expectations; do you expect to have to invest in marketing to get back in line with your post-launch situation? Second question – a bit of reminder: have you paid anything regarding Cyberpunk development [?] or do you plan to revisit this once either you launch back on PS Store or is that going to be delayed? And finally, in terms of the timing of downloadable content, what are your expectations in terms of how much content this involves, and what the pricing will be? Will it be free or paid for? Thank you.

MN: Hi, this is Michał Nowakowski – could you perhaps repeat the question about Sony and marketing? [**Q7:** When Cyberpunk relaunches on PS Store, what are your expectations regarding sales – are they in line with what you had previously, or will you have to invest in marketing to get back to that level?] We're not really looking at it this way. Of course, getting back to PS Store will improve sales – which are currently nil. I'm assuming that once we're back, there will be some sales. However, in terms of bringing it back to the previous level – that is a tough question because the game left the store on 18 December, and it's almost June right now – so, honestly speaking, it would be unheard of to go back to the level of sales from the launch window 6 months down the line. I guess that's as much as I can go into details here; I think it would be unrealistic to expect to go back to the December level of sales with any kind of marketing. When it comes to marketing support after getting back to PS Store – once that happens, if that happens – I guess we would run some sort of information campaign saying that the game is available – but nothing bombastic, so to speak.

MN: There was also a question concerning the pricing of downloadable content for CP – I'm assuming this is about expansions – the big ones. When we talk about expansions we mean something along the lines of Blood and Wine or Hearts of Stone – two large expansion for The Witcher 3. So, these bigger expansions for Cyberpunk would definitely be paid; they would not be free.

Moderator: There appear to be no further questions at this time.

AK: So now we'll turn to questions asked in chat. The first: how big is the percentage of employees and programmers still working on improvement of Cyberpunk, and what are you seeing recently in terms of employee churn. So – as I've said, there are still over 300 people working on Cyberpunk, and in terms of churn – the year after release usually sees higher churn, so we're not seeing anything unexpected or surprising – that's all I can say.

AK: Are you observing increased employee turnover after paying out annual bonuses? Well, we've just answered this question.

AK: How many large patches are you planning to release in the next 2-3 months? This one's tricky, because some of our patches are larger and some are smaller. We used to call smaller ones "hotfixes"; this wasn't very fortunate as the nature of hotfixes is different – so from now on any update will be called a patch, and if any hotfixes are actually needed – I mean fixes required after a patch is deployed – we'll call them that. In terms of numbers, I don't want to preannounce things; we are prepared to say that the next patch – not a big one – is coming in the next couple of weeks. It's almost ready. Of course, we're working on further patches as well, and to add some color on it – the initial patches focused mostly on low-level technical aspects – though not just that, of course; we were also fixing glitches and bugs – but our focus was on stability, performance and so on. Those were the most important aspects, in our opinion. We subsequently shifted more and more towards improving things. I don't want to promise anything, of course, but in the future the course of action will be more in the direction of improving things; enhancing the quality further.

AK: The next question – what is the percentage of sales of CP77 on GOG.COM? Sorry; we can't share it. We've never shared this kind of internal information, so we can't add any color on it.

AK: Hello. Could you comment on the number of workers at CD PROJEKT and your employment targets for the end of 2021 and 2022? We have targets, but we don't reveal them. Of course, we have intensive recruitment processes, but we don't share any specific target numbers. I can just highlight that one of the areas where we definitely want to grow is Vancouver as we have access to a large talent pool there – but of course we'll keep hiring in Poland and bringing people to Poland as well.

AK: And that's all from our chat. Thank you very much and see you at our H1 earnings in roughly three months. Bye bye!