Adam Kiciński (AK):

Good afternoon,

Welcome to the call on CD PROJEKT Group's financial results. Today we will briefly sum up the first quarter of 2022. My name is Adam Kicinski and I'm Joint CEO. I will run this presentation together with Piotr Nielubowicz - our CFO. The webcast of the presentation, along with the audio feed, are also streamed as I speak. You can find them on our corporate website cdprojekt.com, and on our IR Youtube channel.

OK. Let's start from Cyberpunk. On the 15th of February, we released the next-gen update together with a big Patch 1.5. The next-gen update enriches the game with native next-gen features, making Cyberpunk an amazing next-gen experience. At the same time Patch 1.5, which brings many improvements, was released across all platforms. The impact of the next-gen update and patch is definitely positive, both on the game's sales and its perception among players.

On slide 3 you can see the sales of Cyberpunk for major platforms in Q1. The quarter is divided into halves as we launched the update in the middle of the quarter. The material impact and shift of sales towards consoles is clear. Although the transition is already visible, we believe that there are still many more console players to be reached. And this is our goal with the next large update - 1.6 - (planned for this year) and then an expansion (planned for the next one). Of course those are to be released on PC as well.

Moving on to slide 4 - I would like to remind you about another important event of Q1. In March, we signed a strategic, long-term partnership with Epic Games. It enables us to use Unreal Engine technology in our future games. Strengthening our technological core and de-risking the whole process fits perfectly into our RED 2.0 transformation. Already at this early stage, we can see an improvement in terms of efficiency. I mean the development of the creative layer of the game. Right now we are working with Epic's programmers to make sure that the engine is properly tuned and scalable to our needs. This is important as our strategy is to continue creating powerful, open-world RPGs. Additionally we are also developing our own in-house pipelines and toolset like for example narrative design tools. So, our next Witcher game is being developed on Unreal 5.

Please go to slide 5. The initial research phase of this project started last year and in Q1 we began the pre-production. This means that we've started capitalizing development expenditures, as pre-production is the first phase of development. For now there are over a hundred developers involved in the project and we are really happy with the progress.

Talking about developers' involvement in ongoing projects - please move to the next slide. As you can see, Cyberpunk expansion is our most intense project at the moment, of course headcount-wise. At the same time we moved part of the team responsible for servicing Cyberpunk to new projects. And there is one new thing - a small team finishing The Witcher 3 next-gen edition. The game is scheduled to be released in the fourth quarter. This year of course.

Let's move on. Slide 8. We plan two releases in the second half of 2022. The first is the anime series - Cyberpunk: EDGERUNNERS, which we've created with the Japanese Studio Trigger. It will be aired on NETFLIX and we believe it will add even more recognition to our newest IP. The second one is the next-gen version of The Witcher 3. Of course, the upgrade will be free for everyone who has already bought the game. Also, in the second half of the year we will be launching the marketing campaign for the Cyberpunk expansion. So please stay tuned and look forward to some extra news from Night City!

Now let's sum up the financials. Piotr, the floor is yours, as always.

Piotr Nielubowicz (PN):

Thank you.

Now I will guide you through our results for the first quarter of 2022. Let's start with page 10 - Consolidated Profit and Loss account.

In total our Sales revenues reached 216 million PLN – which is 9% more than our previous best-ever first quarter in 2021. However, what is even more important, the structure of our group revenues was changed towards further increasing the share of revenues from our own products - which stand for the most profitable part of the business. It is also worth mentioning that the comparative period was the time immediately following the premiere of Cyberpunk when we still observed the high curve of post-release sales of the game. This year during Q1 - thanks to the release of the next-gen edition of Cyberpunk - our revenues from sales of products reached nearly 174 million and grew by 19% versus the first quarter of 2021.

At the same time revenues from sales of goods and materials - mainly representing GOG and our merchandise store activity decreased. The main measurable reasons for that are:

First, revenues booked by GOG on the PC version of Cyberpunk came naturally lower this year as the next-gen update mostly influenced our console sales,

Second, GWENT related revenue attributable to GOG also decreased after the consortium agreement was terminated,

And third, this year the digital store recorded lower revenues from new releases from external partners as some of the new releases planned for Q1 were moved to future periods, and also suspension of sales to Russia and Belarus added a bit on top of the above.

Costs of products and services sold amounted to 18 million PLN. Both this and last year most of the amount comes from depreciation of past expenditures on development of Cyberpunk. However this year, unlike last year, we no longer have depreciation of initial Gwent development expenditures which had already been fully depreciated by the end of 2021.

Costs of goods and materials sold came mostly from GOG and decreased in line with sales - or even a bit more.

All in all, our gross profit from sales exceeded 168 million PLN - which is one fourth more than a year ago.

Moving to the operating costs: in 2022 our selling costs decreased to 61 million PLN. The high amount in Q1 2021 was largely influenced by Cyberpunk servicing activity which - as we indicated previously - is to decrease this year. At the same time costs associated with - broadly speaking - our Cyberpunk publishing activity increased to over 21 million as a consequence of the next-gen release related communication and promotion.

Next line - In Q1 2022 we also saved on the G&A costs. The decrease was driven by two main factors:

first, among others, we include in this line item costs related to the valuation of the incentive program based on CDR stock - which declined due to the change in our estimates regarding meeting results goals of the program - which had been done as of the end of 2021.

second, decrease of early phase research costs related to our future products - that was recorded parallel to the increase of expenditures on capitalized projects in development.

Moving further, this year the result on financial activity was more favorable to us mainly due to the recent increase in interest rates allowing us to add over 6 million PLN to the total result.

At the same time the reported income tax for the period and the effective tax rate was higher than what we had observed in previous quarters. The increase was mainly caused by withholding taxes paid abroad by our international licensees. Having received confirmations of withholding tax payments this year, based on existing treaties on double taxation, we deducted from our local corporate tax liabilities as much as was allowed. Obviously, the local R&D and IP Box tax regimes which allow for preferential local taxation give us less capacity to deduct foreign withholding taxes. An excess of withholding tax that was not possible to be deducted locally was recorded in our P&L statement. The total amount of such excess in Q1 this year reached nearly 16 million PLN. This amount is related mainly to payments of licenses we received after the premiere of Cyberpunk on which respective tax payment confirmations were delivered to us this year.

Based on the share of our business partners from whom we received the tax payment confirmations in Q1, I estimate that we might already be close to half of the total excess withholding tax amount we may see later this year - presumably mostly in Q2. This is obviously a rough estimation and the final amount will depend on actual tax payment confirmations to be received from our licensees.

All in all, our net profit for the first quarter of 2022 reached 69 million PLN and was over two times higher than the net profit for the first quarter of last year. While GOG posted neutral results, most of the profit was generated by CD PROJEKT RED.

Let’s now move to the next slide – number 11 – our consolidated Balance sheet.

In Q1 of 2022 our balance of expenditures on development projects increased by nearly 17 million PLN. This figure represents the balance of new expenditures on development projects of the quarter that reached over 35 million PLN less depreciation of past projects in the amount of 18 million PLN.

Other fixed assets were at a relatively stable level over the last quarter so there is nothing in particular I would like to comment on here.

At the same time, among working assets, our receivables decreased by nearly 57 million PLN - which is due to a natural annual cycle after Q4.

The total value of cash, deposits and t-bonds included in the three positions marked with an asterisk is summed up under the table to the amount of 1 billion and 262 million PLN as of the end of march 2022. This means that our financial reserves grew by 108 million PLN during the past quarter.

Let’s go to the other part of the balance sheet - slide 12.

As of the end Q1, our Group Equity had a value of nearly 1 billion 960 million PLN and grew by nearly 66 million PLN - mainly driven by our profits for the period.

Another change among our Liabilities section actually involved liabilities themselves which increased by nearly 34 million PLN. This was related mainly to CD PROJEKT RED, its operating business and purchases of fixed assets done at the end of the quarter as well as updated revaluation of instruments hedging the currency risk.

And this time there is finally not much to elaborate on our provisions. We no longer have any post-release sales provisions. Costs provisions slightly decreased by nearly 10 million PLN. At the same time provisions for bonuses - mostly based on our results - increased in line with Q1 profits. The total amount still includes 2021 team bonuses that had not been paid by the end of March.

Now please go to the next page number 13.

CD PROJEKT RED's expenditures on Research, Development, and Service of released games - presented quarterly to better show the changes recently happening at the studio.

The purple part represents our total costs of servicing our released games – mainly Cyberpunk and Gwent. The amount related to Gwent is relatively stable while the Cyberpunk allocation declined leading us finally to the release of patch 1.5 along with the next-gen version of Cyberpunk. At the same time the proportion of the team and therefore the total expenditures related to future projects keeps constantly growing. It is represented by both the green slice – early phase research costs - and the blue part – development phase of new projects.

And now – our simplified cash flow on slide 14.

Cash wise 69 million PLN of net book profit for the period was supported by:

- the nearly 22 million PLN of P&L included depreciation for the period,

- 44 million reduction of receivables that we collected in Q1,

- and 11 million PLN change of non-financial, operational liabilities and provisions.

Two main outgoing cash drivers not included directly in the P&L statement and the adjustments I just mentioned were expenditures on development projects - in cash terms, nearly 28 million PLN, and purchases of intangible and tangible fixed assets.

Altogether our financial reserves increased by 108 million PLN up to 1 billion and 262 million PLN in cash, bank deposits and T-bonds as of the end of March 2022.

This leads us directly to the recent announcement on the board's recommendation on allocation of results reported for 2021. Keeping in mind our current cash position, planned developments and investments, yesterday the board of CD PROJEKT recommended to allocate 135 million PLN to the reserve capital and to pay out a dividend of nearly 101 million PLN.

We continue to believe that dividend is the most straightforward, instant and democratic way of sharing profits with all the shareholders on the same terms.

That's all from me for now – thank you for your attention.

Let's now move on to the Q&A.

Q1: Firstly, I was going to ask – although it's not a large number – there's a relatively large team at Spokko; bigger, for instance, than the team at Molasses Flood. I'm a bit surprised that that's as noticeable a part of the total development team. Secondly, you mentioned that you had begun capitalizing work on new projects, such as a future Witcher game. Did that begin at the beginning of January or during the quarter? And finally, on working capital – last year was kind of unusual, because we had Cyberpunk at the end of the year. I was thinking you might have a bigger capital position because the next-gen version came out halfway through the quarter, and therefore there'd be receivables coming in. Can you explain a bit more why you have a big inflow? Is it purely because Q4 sees large numbers? I forget quite how it looks, but I was expecting the opposite – that there'd be money still to come in from next-gen sales in the second half of the quarter. Thank you.

AK: Thank you for questions; Adam here. I'll take the first one and Piotr will take the second and the third. So, when it comes to Spokko – first and foremost, they keep working on The Witcher: Monster Slayer, which just had a major update – literally hours ago. At the same time Spokko is working on a new project. It's at an early research phase, but they're working on something else as well. That's why the size of the team is as it is.

PN: So, when did we begin capitalizing the next Witcher project? It was at the end of the first quarter; as far as I remember that was in March, and this influenced March numbers – so, at the end of the quarter rather than at the beginning. And regarding inflows from the next-gen edition on consoles – honestly speaking, I do not precisely remember what the payment terms are regarding console platform owners – whether the revenues for February were already paid by the end of March, or whether they skipped to the beginning of April, so I cannot precisely answer the question. At the same time, it's a bit difficult to distinguish whether the decrease in receivables which we recorded and presented was only related to the annual cycle – I believe that was the main reason, and most Q1 revenues were still presented in the receivables line.

Q1: If you permit me one follow-up of a more general nature – regarding the first expansion to Cyberpunk – you said in the past that in hindsight – you delivered a lot of playtime with the expansions to The Witcher, and that perhaps you could have charged more for them, and indeed do more expansions. Can you say anything about your ambitions regarding the scope of the expansions for CP, and pricing? We're seeing expansions for premium games costing $40 now – which would be a lot more than for The Witcher. Thank you.

AK: Actually, it's too early. We want to announce the title later this year. Then we'll talk more about the pricing, about the content; the whole concept. It's too early to share this information. Of course, we have everything planned, but we do not to reveal just one fact – then gamers will run with it and discuss it. We prefer to provide gamers and investors with a nice initial package at the start of the campaign.

Q2: Good evening guys; I've got a few. First of all, on slide 3 you showed the boost to console units from the launch of the next-gen version of Cyberpunk. Was that driven by a spike in the second half of February/beginning of March which had already subsided before the end of Q1? In which case – is the run rate of sales in the two months since the end of March more like the long-term run rate we saw at the beginning of the year, into February? Could you give us some kind of color on how that is shaping up? Second question – can you give us an indication on what proportion of revenues from sales of products came from Cyberpunk – a rough percentage there? And then – should we expect the expenditures on development projects in the cash flow to step up notably in the coming quarters as you capitalize the work on new Witcher projects? Or is that not large enough to make that much of a difference? I'm trying to understand how we should think about modeling that in the coming quarters.

PN: Yes, the first question regarding revenues from the next-gen version of Cyberpunk – I would repeat what we already said during our annual conference; yes – the initial revenues in February seem like a natural "new release" spike; later on, the revenues from the next-gen version stabilized. However, what we see after a couple of weeks following the release – on the Sony digital storefront, for example, as digital revenues are easiest for us to monitor – is that revenues attributable to the next-gen version are significantly higher than what we're still observing for the old-gens. From this perspective it seems we've been offering the product to a new group of customers who are interested in the next-gen experience. The second question concerned stepping up expenditures on development projects. We do not give precise guidance on what the future would bring, but I believe the charts I presented, showing the trends over the past five quarters, reveal the direction. The more people work on new projects the higher the capitalized expenditures on development, and at the same time servicing costs which feed directly into the P&L, decrease over time. That's the guidance we're ready to provide for now.

Q2: And I also had a question about the proportion of revenues from sales of products that came from Cyberpunk – might you address that?

PN: So we have not revealed this data, but as you may expect, Cyberpunk is our leading revenue generator, and is responsible for a big part of our revenues.

Q3: Hi everyone. I've also got three. Starting with the expansion – could you give us a bit of sense on how well the development process is going so far? How far through the process do you think you currently are? How happy are you with the way it's going? Do you have a sense of the timing of the release – is it the first or the second half of the next year? Any color there would be very helpful. Secondly, you mentioned that you plan to release pre-release marketing content for the Cyberpunk expansion in the second half of this year. Could you talk a little bit about what you're anticipating there – is it Q4? How big might it be? What would be the scope? And then finally about the game engine – given your positive comments about your initial experience with UE – how might it fit into your technology plan for the next few years? Do you still think you could run two game engines; or does it make sense at some point in the future to rationalize? Thanks very much.

AK: So, the first two questions about the expansion and about the production – I can say that development is run mostly in the agile model. We see progress in a different way – well, we're happy with how the production is going. Of course, there's still some time to go; I'm going by what we have now. In terms of the campaign – I can't reveal anything. We are preparing to start it and once the time comes, we'll start – so, I can't really provide you with more color on this. And the game engine – this is a question I can answer precisely. The Cyberpunk expansion is the last product based on REDengine, and further products will be based on UE – including the next Witcher. As I said during my part of the speech – it's an initial stage, but we can already see some improvement in our processes. Of course, a very important part is to ensure – together with Epic programmers – that UE5 is able to support our ambitions and our designs. That's a goal we share with Epic; that's why we refer to this partnership as "strategic". At the same time, we are preparing our own tools to support features specific to our games – for example, a narrative toolset.

Q3: That's clear; thank you for that. I would have a follow-up on the expansion. Could you tell us when you plan to announce the launch date? You said you were perhaps going to do it this year, but are you going to give us a long lead time or a short lead time given that obviously the main game has already been launched? Thank you.

AK: I'm not sure I can answer. The content of the first "beat" of the campaign is not to be revealed today, so I cannot share any information about whether we would announce the title together with the price or what the precise dates would be. Sorry.

Q4: Hello guys; most of my questions have already been covered, so I'll just drop two. At the last set of results there was a question about your plans for headcount expansion – you said your headcount was relatively stable. Could you give us an update on that? I'm assuming from the increased R&D costs that you've started hiring – so how is this going and what is the plan for the rest of this year? And then concerning GOG.COM – obviously they've been a bit weaker in Q1; what are you seeing going into Q2 and do you expect "acceleration" from GOG for the rest of the year? Thank you.

AK: I'll take the first one. Of course, these days – in the "post-COVID" era, and all the changes related to home office, etc. – attracting and retaining employees is challenging, but at the same time – there are new opportunities. We've begun hiring remotely, and our goal is to return to the path of growth. Given our current stages of production – we're good, but we have to grow. Our goal is to develop two AAA titles in parallel, so we need more developers, and we have a very solid strategy for this – but it's internal and I can't share it. We think we have a precise idea of how to accomplish this.

PN: As regards GOG expectations for the next quarter and the rest of the year – we do not directly provide any guidance on future revenues. Obviously, GOG is working hard on improving its results, and the store's popularity. A piece of good news I can share with you is that GOG contracted a new supplier of games and if you dig a bit more into the GOG balance sheet, you can see an increase in deferrals – this is due to conclusion of this contract and new products being prepared for release to GOG customers. I hope this will influence future revenues and expand the GOG catalogue.

Q5: Thanks for taking my questions. The first one is – if you're going to start marketing for CP expansion in Q4, does that imply that you are going to launch it in the first half of 2023 – or is it a really small campaign, and it will build up in the first half of the year, into the second half? That's the first question. Secondly – can you give us an idea on the tax rate for the full year in 2022 and 2023? And regarding use of Unreal Engine – do you think that speeds up the next Witcher game, or will it slow it down, or will it not make any difference?

AK: I'll take the first one. We haven't said we would start in Q4 – we said we'd start in the second half of the year. I know I'm repeating myself, but we can't share any further details today in this regard. We are eager to start talking about our next titles, because we've been silent for quite a while, but we

PN: The second question concern tax rates for 2022 and 2023. Again, it's a question about the future. The Polish tax regulations are really complex and we're not guiding on what tax relief we would be able to use, and to what extent. On top of that there's the withholding tax issue. In broad terms I would say that the standard tax rate in Poland is 19%, while the preferential IP Box tax regime allows us to tax our corporate income at 5%, so the effective tax rate should be somewhere within this bracket.

AK: The third question is easy to answer. I wouldn't expect any major changes in the length of production, but I truly believe that with UE we can run production much more smoothly, with massive technical support from Epic, and that we can be more focused on our non-technological creative layers – so I expect that the process will become much more secure, predictable and smooth – within the same timeframe, but with a more secure effect.

Q6: Good evening; just one last question on GWENT. Could you give us an update on the overall trajectory of the game since the successful Android launch in 2020? Should we see the overall pattern of engagement as a slow, managed decline from that high base back then, or is there a different pattern – smoothing out the short-term effects from new season launches and so on? Thanks.

AK: We continue to develop GWENT. As for the current year, we're planning to release a single-player mode which we refer to as Project Golden Nekker. This is what the GWENT team is focused on, and we'll share more information about this soon. That's all I can say about GWENT.

Q6: I was going to add "ignoring the impact of Project Golden Nekker" but I appreciate the information you're able to share. Thank you.

Q7: Hi, good afternoon. First of all, I've got one follow-up question concerning this single-player GWENT project. Your slide which presented the projects you expect to release this year did not include it; I wonder if it means it's not coming out this year? I believe you did say it was supposed to launch this year – correct me if I'm wrong. The second question is a general one about the market. Could you give us some insight on the current state of the gaming market from your point of view? Do you see a slowdown in sales? What are your thoughts on the market in this post-COVID, high-inflation, possibly even recessionary period? Thank you.

AK: Adam here; I guess I'll take both. Yeah, Golden Nekker wasn't on the slide – it's a relatively small-scale event given our business; that's why. Yep, it's planned for this year, but in general, GWENT results are not very important, as everyone knows. We continue to support GWENT, but as a business line it's fairly minor; that's why sometimes we just don't talk about it. As for our thoughts about the gaming market – you know, it's not easy to judge from our perspective. For example, considering GOG – it looks okay, but with regard to our main games – given the history of Cyberpunk – we have no reference. We see that the next-gen update is successful, but without a reference it's hard to judge. The first quarter was very competitive; that's for sure, but that's not due to COVID; there were simply many releases – and that's all I can say.

AK: Thank you very much; now we'll read and answer the questions asked in the chat.

Q1: Can you please give the number of CP77 sales in the first half and second half of the quarter?

PN: As you know, we do not share individual sales results for specific quarters. When we reach a milestone we announce the most up-to-date results, which we did recently, but for now there are no individual sales figures included in our Q1 report.

Q2: What do you expect from the gaming sector in general for the rest of the year? Recently Microsoft was guiding for a decrease, yesterday Nvidia shared similar thoughts. Sony is struggling with the production of consoles, and so on.

AK: Definitely, for hardware manufacturers – not only in our industry – it's a tough time. For pure gaming companies, like ours – we don't see it like this. In our case – especially with Cyberpunk – everything depends on how the next patch launches, how the expansion campaign begins; whether the sentiment related to the game will change – this is much more important than the general market condition. Same with The Witcher 3 – it's about how the game's next-gen version will be received. So, more is in our hands and more depends on what we deliver.

Q3: Does the company plan to set a new management incentive plan after admitting that the targets for the 2020-2025 program are not achievable? Second, how do you perceive consolidation driving the global gaming industry after sentiments to computer gaming studios weakened? Would CDR be interested in a larger deal given its last cash reserves, or will you stick to your previous approach to be very selective only? What is the situation with wage pressure in the industry in Poland and elsewhere amid inflation? How difficult is it to get employees? What trends can you see? How difficult is it to keep developers at work?

AK: So the first question was about the management incentive program – I wouldn't say it's for management, but a general incentive program based on our stock. Yes, we analyze different options and we evaluate what the next incentive program for the CD PROJEKT Group could be. As for now, this is still a work in progress and no strategic decisions have been made. So – we continue to look for the best solution for the Group.

PN: I'll take the second and the third. In terms of consolidation – we see what's happening, but we remain focused on our internal plans, and that's the key. We want to deliver on our strategy, to make it even more ambitious. In terms of deals – I think we'll continue to be very selective, which is not to say we want to only focus on small things – but we're interested in supporting our own strategy. If there is a chance to make a deal that would speed up or strengthen our strategy to build great, enduring franchises with AAA games and everything around – yes, definitely, let's talk – but it has to directly, visibly support our strategy. And the third question concerned wage pressure – yes, there is wage pressure, especially with the very recent phenomenon of working from home – this makes things a bit different; some people can work from Poland but pull western salaries. It's already happening; we don't know if it's a new trend or just a temporary phenomenon after COVID. We're also introducing a new model that will allow people to work from home if it fits their tasks. It's also an opportunity – we can hire people from more regions because we don't have to bring them to Warsaw or to our other hubs. Generally – we do see wage inflation, but I have to add one thing: our business, the AAA business, is less about costs – of course we have to keep them under control and so on – but our goal is to deliver great games. When we are successful, the return on investment is so huge that wages, which contribute to production costs, become less relevant in the final P&L account.

AK: There are no more questions, so thank you very much – and see you at our H1 results at the end of August. Bye bye!