Q1 2018

First quarter 2018

- As of the first quarter of 2018, Starbreeze presents the income statement classified by function.
- Net sales increased by 92 percent to SEK 110.1 million (57.3).
- PAYDAY generated SEK 25.1 million (24.1) and Dead by Daylight accounted for SEK 62.0 million (20.9) of net sales.
- EBITDA* amounted to SEK 48.8 million (-35.3).
- Depreciation, amortization and impairments totaled SEK 42.6 million (15.5), including an impairment of discontinued publishing projects by SEK 6.3 million.
- The loss before tax amounted to SEK -6.4 million (-56.3).
- Basic and diluted earnings per share were SEK -0.02 (-0.18).
- Cash and cash equivalents at the end of the period amounted to SEK 295.2 million (516.9).
- A directed issue of new shares to Swedish and international investors raised approximately SEK 238 million before transaction costs.
- The publishing rights to Dead by Daylight were sold for USD 16 million.
- A new publishing agreement was made for the 10 Crowns game project with an investment of USD 7.7 million.

After the end of the period

- Oversubscribed rights issue raised approximately SEK 152 million before transaction costs.
- Joint venture StarVR Corporation listed on the Taipei Exchange Emerging Market board in Taiwan.

KEY FIGURES	2018	2017	2017
SEKk	Q1	Q1	JAN - DEC
Net sales	110,066	57,270	361,447
EBITDA*	48,840	-35,341	-53,559
Profit (-loss) before tax	-6,417	-56,255	-176,185
Earnings per share, SEK	-0.02	-0.18	-0.55
Cash flow from operations	27,768	-4,785	-21,086
Net sales per employee	174	260	1,300

*See page 22 and 23 and Note 6 for the derivation of the key figure.

CEO Bo Andersson Klint remarks on the report:

Net sales rose by 92 percent compared to the first quarter of last year. At SEK 110 million, this is our best Q1 ever in terms of revenue, even though our major game releases are ahead of us. The publishing title Dead by Daylight and our own PAYDAY 2 are still selling very well and we have improved EBITDA by a full SEK 84 million, from SEK -35 million last year to SEK 49 million this year. The Dead by Daylight deal is driving much of the improvement and we can see that the positive effect will continue until we have received the full consideration of USD 16 million.

Q1
2018

About Starbreeze

Starbreeze is a global game company whose vision is to be a leading provider in the entertainment industry by creating world-class experiences. Starbreeze was founded in 1998 and has since evolved into a well-established developer and publisher of PC and console games and VR products aimed at the global market. With offices in Stockholm, Paris, Los Angeles, San Francisco, Barcelona, Brussels, Bangalore and Dehradun, Starbreeze develops high-quality entertainment products based on proprietary and third-party rights, both in-house and in partnership with external game developers. Operations are divided into three business areas: Starbreeze Games, Publishing, and VR Tech & Operations.

Headquartered in Stockholm, Sweden, the Starbreeze share is listed on Nasdaq Stockholm under the tickers STAR A and STAR B. The ISIN codes are SE0007158928 (Class A) and SE0005992831 (Class B).

More information: starbreeze.com

The CEO remarks on the report

RECORD SALES AHEAD OF THE MAJOR GAME RELEASES

Q1 2018

Growth of 92 percent

Net sales rose by 92 percent compared to the first quarter of last year. At SEK 110 million, this is our best Q1 ever in terms of revenue, even though our major game releases are ahead of us. The publishing title Dead by Daylight and our own PAYDAY 2 are still selling very well. We released PAYDAY 2 for Switch in February and the game delivered revenue of SEK 8 million during the quarter, mainly in digital sales. As usual in the industry, there is a lag before reporting of physical sales in stores, which will begin next quarter. We have been given indications that sales of the physical version are outperforming digital sales and the first edition of the game unfortunately sold out relatively quickly. We have discussed this with our distribution partner and more copies are on the way. The VR park in Dubai is contributing to our initial sales revenues from location-based VR, albeit modestly. As the park opened in March, these revenues refer only to one month during the quarter.

The Dead by Daylight deal with Behaviour had a positive net effect on sales of SEK 17 million during the quarter. On the one hand, we received the initial payment of SEK 33 million. On the other hand, according to the new agreement, we will be recognizing only 65 percent of revenues instead of the previous 100 percent, as Behaviour has assumed all obligations related to the game. The deal significantly improved earnings because we no longer incur any costs for the game as of 1 January this year, making all revenues pure profit.

Increased profitability

Revenues are increasing considerably faster than ongoing costs. Excluding revenue sharing, costs are essentially on par with last year, even though amortization is substantially higher since we have more games released, which we are thus amortizing. We also elected to discontinue two minor VR projects during the quarter, resulting in an impairment of SEK 6.3 million.

All-in-all, this means we are improving EBITDA by a full SEK 84 million, from SEK -35 million last year to SEK 49 million this year. The Dead by Daylight deal is driving much of the improvement and we can see that the positive effect will continue until we have received the full consideration of USD 16 million.

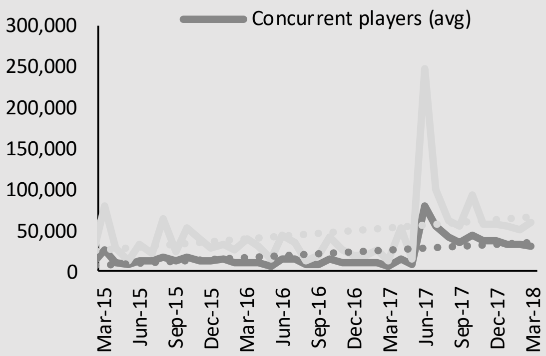
We have previously guided that we may show negative EBITDA and cash flow until OVERKILL's The Walking Dead is released and are therefore pleased with financial performance during the first quarter of the year.

Successful share issues are powering accelerated growth

We are grateful for the commitment shown to us, especially by our existing owners. Both the directed issue and the rights issue were oversubscribed, which I see as a sign of strength and as proof that our owners believe in our vision and the targets we have set.

The issues, which raised a total of SEK 390 million before transaction costs, are making it possible for us to maintain a high growth rate by

PAYDAY 2



Source: steamcharts.com

At peak

58,940

played PAYDAY 2 concurrently in Q1

Q1
2018

widening the revenue base in our core business and expanding the game portfolio.

We invested SEK 74 million in own game and technology development during the quarter and SEK 33 million in publishing projects to secure continued growth in the future.

The strategy to expand the publishing business still applies

We agreed in March 2018 to sell the publishing rights to Dead by Daylight. That might seem contradictory when the expressed strategy is to widen the game portfolio with additional publishing titles. But when the opportunity arose, we made a business decision to sell because we expect profits from the game, through this transaction, to exceed our earlier forecast of the game's remaining lifetime.

Dead by Daylight has been a huge hit and the deal makes it possible for us to invest in other publishing projects. We see many advantages in building a wider publishing portfolio with greater scalability through lower risk per game in the development phase. In addition, with more games on the market in parallel, we will be less dependent on individual titles.

We will be selective, both in the choice of new projects and evaluation of ongoing projects. If we see that a project is not meeting our expectations, we will make the decision we believe is best for Starbreeze. As an example, we chose during the quarter to discontinue the minor VR title, Project Golem.

Our major projects, Psychonauts 2 and System Shock 3, are of a completely different caliber and I like what I see. The new publishing agreement we made during the quarter with the studio Mohawk Games on the 10 Crowns game project is another example of a game whose creators have a track record of delivering major, brand-defining titles. After the end of the quarter, we also announced an indie title, Inked, developed by a Croatian studio. Inked is now available to buy on Steam.

Boost revenues by expanding the existing game portfolio

In line with our strategy to expand existing games to new platforms, we released PAYDAY 2 for both VR and the Nintendo Switch platform during the quarter, and we will soon be able to play PAYDAY on mobile phones, too. The VR version is probably the biggest VR game in the world in terms of content and is available for both HTC Vive and Oculus Rift. It is also one of the most popular experiences in the VR park in Dubai. The release for Nintendo's new platform is exciting and we have learned a great deal about the Switch in the process, knowledge that can be leveraged for future releases.

The VR park in Dubai - a window of future business opportunities

We have invested time and resources in building a platform for location-based VR and we reached an important milestone with the hotly anticipated opening of our flagship VR park in the Dubai Mall. We see tremendous opportunities in developing content for this type of entertainment for the future. In our VR park in Dubai - and soon in Stockholm as well - we can show potential partners and customers what we can do in VR.

StarVR Corporation listed on the Taipei Exchange

The first day of trading in shares in the joint venture StarVR Corporation on the Taipei Exchange Emerging Market Board was 23 April. Trading in the share indicates that the market is ascribing substantial value to the technology and the brand. Based on the closing price yesterday, the market value of StarVR Corporation was some SEK 1.6 billion, indicating a market value of Starbreeze holdings in the company by some SEK 540 million. Bare in mind that only about 3 percent is available for trading.

PAYDAY 2 on Steam

5.6

million members

Starbreeze still owns about 33 percent of the company and owns and controls the majority of the intellectual property related to StarVR, such as patents, source code and brands.

StarVR Corporation is now an independent organization that will be taking the StarVR headset to the market. The listing on the Taipei Exchange is another step towards the goal of an IPO on the Taiwan Exchange. We believe a future listing would put StarVR in prime position to be a leading player in the global VR industry, as well as proof that we have succeeded with the project we have been working with for several years.

OVERKILL's The Walking Dead

Naturally, the upcoming release of OVERKILL's The Walking Dead is our main focus. Intensive efforts to complete the game are ongoing and marketing has begun. The Maya trailer we released on 11 April garnered huge coverage in the industry media and we are now fully executing the campaign that will be successively ramped up ahead of the release this fall. The fans are desperate to see gameplay and we can't wait to show it to them during E3.

The development of Crossfire, our other major internal game project, is proceeding according to plan and moving into an increasingly intensive phase.

Our goal is to create world class experiences. To do that, we have to have the right resources and the right people in place. I believe we have that now. Every single day, I am deeply impressed by what our people are achieving at Starbreeze.

Let's keep on doing this!

Bo Andersson Klint
CEO Starbreeze

Q1
2018

SIGNIFICANT EVENTS DURING THE QUARTER

New publishing title in the strategy genre

Starbreeze made a publishing agreement with development studio Mohawk Games in February related to a strategy game with the working title of 10 Crowns. Starbreeze intends to invest USD 7.7 million to release the game for PC. The development team behind the Mohawk Games studio is headed up by some of the creators behind Civilization IV and Civilization V. The project 10 Crowns is in a prototype stage.

Sale of the publishing rights to Dead by Daylight

Starbreeze agreed in March to sell back the publishing rights to Dead by Daylight to the developer, Behaviour Interactive. Under the terms of the agreement, Starbreeze will receive an initial payment of USD 4 million, followed by an additional USD 12 million paid in stages as royalties on 65 percent of game revenues. Once Starbreeze has received the entire consideration of USD 16 million, the publishing rights to the game will be transferred to Behaviour. Behaviour assumed the obligations related to the game under the publishing agreement as of 1 January 2018, including all development and marketing costs. If Dead by Daylight is released in China before 2020, Starbreeze is also entitled to maximum compensation of USD 5 million upon release and up to 31 December 2020.

Directed issue and decision on rights issue

Supported by the authorization of the 2017 AGM, a directed issue to Swedish and international institutional investors was executed on 25 January. The issue of 20,681,797 new Class B shares was priced at SEK 11.52 per share, corresponding to the closing price on 24 January 2018. The issue, which was oversubscribed, raised approximately SEK 238 million for the company before transaction costs. In addition, the extraordinary general meeting held 22 March 2018 decided to execute a new issue of shares with preferential rights for existing shareholders.

The issues were executed, partly to secure financing of the existing business plan in the amount of approximately SEK 75 million up to the release of OVERKILL's The Walking Dead, but mainly to accelerate the growth rate, widen the revenue base in the core business and expand the game portfolio.

Significant events after the end of the period

Rights issue oversubscribed

The rights issue executed after the end of the quarter was oversubscribed and raised capital of approximately SEK 152 million before transaction costs.

StarVR listed on Taipei Exchange Emerging Market board

The Starbreeze join venture, StarVR Corporation, was approved for listing in the Taipei Exchange Emerging Market board. The first day of trading was 23 April. The closing price for the StarVR share was TWD 115 on 8 May 2018. Of the company's 48,218,000 shares, 3.11 percent were made available for trading. Starbreeze did not sell any shares in connection with the listing and the company's stake in StarVR Corporation remains at about 33 percent. Nor does the listing of StarVR Corporation affect Starbreeze's financial reports, as ownership in the joint venture will continue to be accounted for using the equity method.

Q1 2018

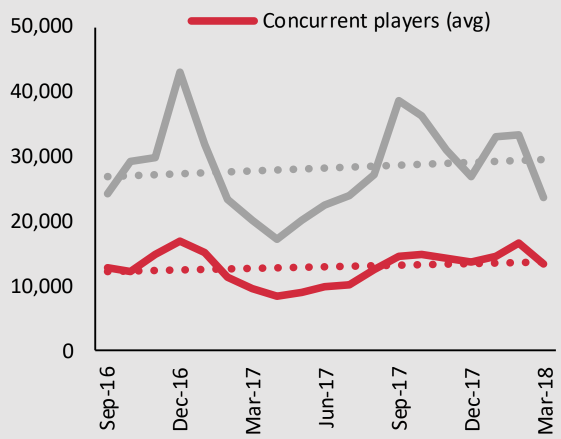
At peak,

33,397

played

Dead by Daylight

concurrently during the quarter



Source: steamcharts.com

SALES AND PROFIT

Q1
2018

The comparison period for profit and loss is the corresponding period in the preceding year. As of the first quarter of 2018, Starbreeze will present the income statement classified by function to align with industry practice and facilitate improved comparability. The comparative figures have been restated. The acquired Indian production company Dhruva is included in the comparative figures in the financial statements as of 22 December 2017.

Sales and direct costs

First quarter 2018

Net sales increased by 92 percent to SEK 110.1 million (57.3), of which PAYDAY 2 accounted for SEK 25.1 million (24.1). Dead by Daylight accounted for SEK 62.0 million (20.9) of net sales. That amount included the initial payment of SEK 33.2 million from Behaviour Interactive for the sale of the rights to Dead By Daylight. External revenue of SEK 7.0 million (0.0) for outsourcing services from Dhruva were also included.

Other operating expenses, consisting mainly of currency effects, amounted to SEK 8.5 million (0.0), due to appreciation of the dollar and euro rates against the Swedish krona.

Direct costs amounted to SEK 77.0 million (55.9) and consist of costs related to game production and game development. The item includes depreciation, amortization and impairments of SEK 40.2 million (14.5), the majority arising from amortizations of the released titles RAID: World War II (RAID) and John Wick Chronicles, as well as impairments of SEK 6.3 million relating to two minor publishing projects that were impaired to zero. Depreciation of property, plant and equipment increased from SEK 0.6 million to SEK 4.8 million, primarily due to depreciation of investments in the VR park in Dubai.

Capitalized development costs, which were formerly recognized in revenue on a separate line on the income statement classified by the nature of costs, are recognized in the income statement classified by the function of costs as a debit item against direct costs.

Costs and profit or loss

First quarter 2018

Sales and marketing costs amounted to SEK 9.9 million (17.4). These items include trade show costs and employee benefits expense. The reduction is due mainly to lower trade show costs compared to the preceding year. Administrative expenses amounted to SEK 25.5 million (31.2) and refer to items including office costs and payroll for employees who do not work in game production or marketing. The item includes amortization of SEK 2.4 million (1.0).

Other operating expenses, mainly currency effects, amounted to SEK 0.0 million (-3.6). See the remarks concerning other operating revenue above.

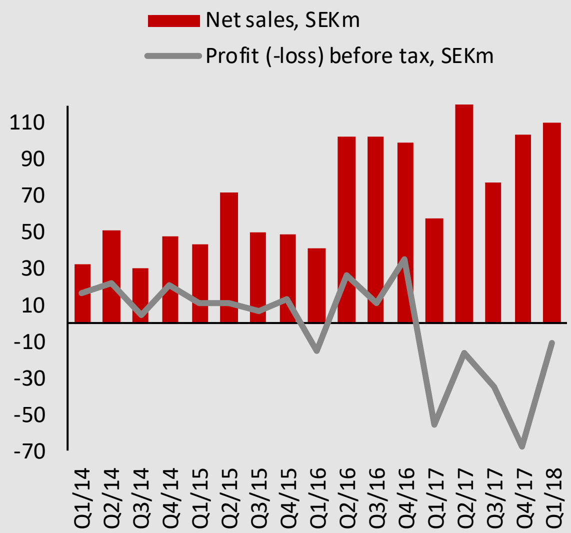
EBITDA amounted to SEK 48.8 million (-35.3). The earnings improvement was driven mainly by higher sales and the sale of the publishing rights to Dead by Daylight.

The loss before tax amounted to SEK -6.4 million (-56.3). The loss after tax amounted to SEK -5.2 million (-50.6).

Sales and profit

SEKk	2018 Q1	2017 Q1
Net sales	110,066	57,270
EBITDA *	48,840	-35,341
Profit (-loss) before tax	-6,417	-56,255
Profit (-loss) after tax	-5,208	-50,628
Earnings per share, SEK	-0.02	-0.18
Exchange differences	22,117	4,186
Net sales growth, %	92.2	40.4
EBITDA margin, %	44.4	-61.7

*See page 22-23 and Note 6 for the derivation of the key figur



Net financial income/expense consisted of remeasurement of earnouts of SEK +1.9 million (+0.7), of which SEK -11.8 million in currency effects; i.e., the change was SEK+13.7 million excluding currency effects. Interest on convertible bonds increased to SEK -5.6 million (-5.3). The share in the loss of the joint venture company StarVR Corporation was SEK -1.9 million (-0.2) and remeasurement of derivatives attributable to the Smilegate bond amounted to SEK -2.5 million (-2.4). Interest on the loan to StarVR Corporation amounted to SEK 2.4 million (0.0) and interest on the bank overdraft facility totaled SEK -1.7 million (0.0). Interest on short-term investments decreased to SEK +0.1 million (+1.8), as the Group had interest-bearing short-term investments in the preceding year. The majority of net financial income/expense for the quarter had no effect on cash flow. See the specification in the table at the right.

Basic and diluted earnings per share were SEK -0.02 (-0.18).

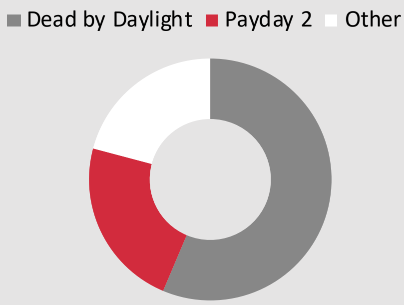
Segment reporting

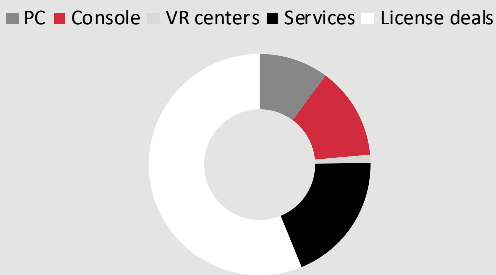
As of the second quarter of 2017, Starbreeze reports according to the following segments: Starbreeze Games, Publishing and VR Tech & Operations. See the following section. Reporting is provided down to operating profit or loss and assets and liabilities are not reported. As of the first quarter of 2018, Starbreeze presents the income statement classified by function. As a result, the distribution keys for distribution of costs among the segments have been changed. The comparative figures for 2017 have been adjusted accordingly.

Specification of net financial income/expense

	2018	2017
SEKk	**Q1**	**Q1**
Remeasurement of earnouts	1,891	782
Interest on convertible bonds	-5,574	-5,296
Remeasurement of derivatives attributable to convertible bonds	-2,512	-2,411
Interest on loan to StarVR Corporation	-2,421	-
Net profit (-loss) from StarVR Corporation	-1,938	-205
Interest on short-term investments	90	1,839
Interest on bank overdraft facility	-1,692	-
Other items	-521	-165
Total	**-12,677**	**-5,456**

Distribution of net sales for the quarter





STARBREEZE GAMES

The Starbreeze Games business area consists of Starbreeze in-house games portfolio. Revenues currently comprise sales revenue and royalties for the rights to PAYDAY. The business area also includes Starbreeze ongoing game projects, including OVERKILL's The Walking Dead and Crossfire. Revenue and costs arising from game production within the Indian production company Dhruva are included as of 22 December 2017.

	2018	2017
SEKk	**Q1**	**Q1**
Starbreeze Games		
Net sales	32,099	24,077
Direct costs	-27,682	-15,087
Gross profit	**4,417**	**8,990**
Operating costs	-2,337	-8,972
Operating profit (-loss)	**2,080**	**18**

First quarter 2018

PAYDAY 2 was released for the Nintendo Switch platform at the end of February in Europe, the US and Australia. The VR version of PAYDAY 2, adapted to HTC Vive and Oculus Rift, was also released during the quarter and is free to owners of the base game.

Net sales amounted to SEK 32.1 million (24.1), of which PAYDAY, developed by Starbreeze, accounted for SEK 25.1 million (24.1). The increase was driven mainly by the release of PAYDAY 2 for Switch, where the digital version contributed revenue of SEK 7.9 million. Revenues from physical sales in stores are not included in revenue for the quarter, however, due to a lag in reporting, and will be reported in subsequent quarters. External revenue of SEK 7.0 million (0.0) for outsourcing services within the recently acquired production company Dhruva were also included.

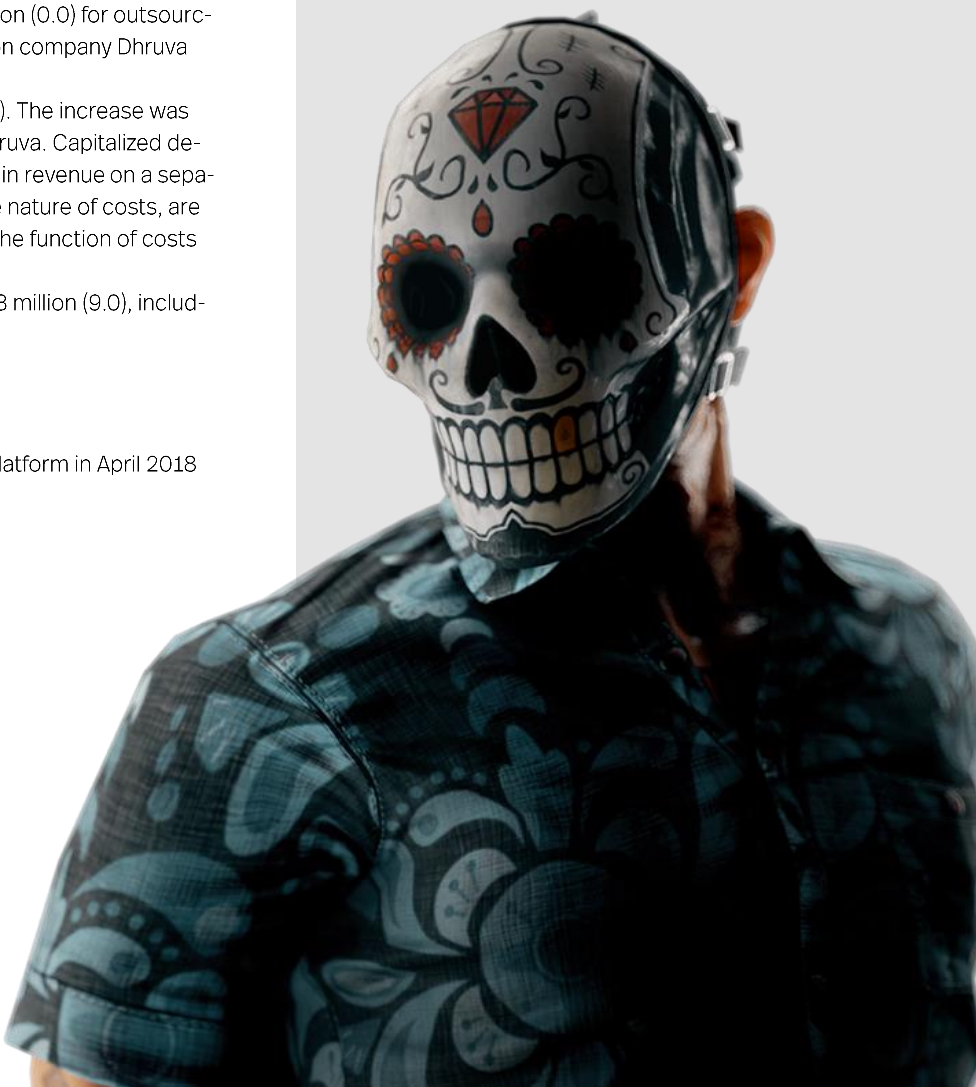
Direct costs amounted to SEK 27.7 million (15.1). The increase was driven mainly by the added production costs in Dhruva. Capitalized development costs, which were formerly recognized in revenue on a separate line on the income statement classified by the nature of costs, are recognized in the income statement classified by the function of costs as a debit item against direct costs.

Other operating expenses amounted to SEK 2.3 million (9.0), including currency effects of SEK +2.7 million (-3.3).

Operating profit totaled SEK 2.1 million (0.0).

After the end of the period

Revenues from sales of PAYDAY 2 via the Steam platform in April 2018 amounted to SEK 9.2 million (11.6).



PUBLISHING

Q1 2018

The Publishing business area consists of Starbreeze business in publishing games developed by third parties. Revenues currently comprise mainly royalties for the rights to Dead by Daylight.

	2018	2017
SEKk	**Q1**	**Q1**
Publishing		
Net sales	62,709	28,223
Direct costs	-36,391	-24,821
Gross profit	**26,318**	**3,402**
Operating costs	-9,188	-9,757
Operating profit (-loss)	**17,130**	**-6,355**

First quarter 2018

Starbreeze reached an agreement on 22 March to sell back the publishing rights to Dead by Daylight to the developer, Behaviour Interactive. Starbreeze received the initial payment of USD 4 million during the quarter, as agreed. Under the terms of the agreement, Starbreeze will be paid royalties on 65 percent of game revenues from 1 January 2018, instead of the previous 100 percent, and all development and marketing costs will be assumed by Behaviour.

Starbreeze also made a new publishing agreement with development studio Mohawk Games during the quarter, related to a strategy game with the working title of 10 Crowns.

Starbreeze decided during the quarter to discontinue two minor VR titles, including Project Golem.

Net sales amounted to SEK 62.7 million (28.2). Dead by Daylight accounted for SEK 62.0 million (20.9) of net sales, including an initial payment of SEK 33.2 million from Behaviour Interactive for the sale of the rights to Dead By Daylight.

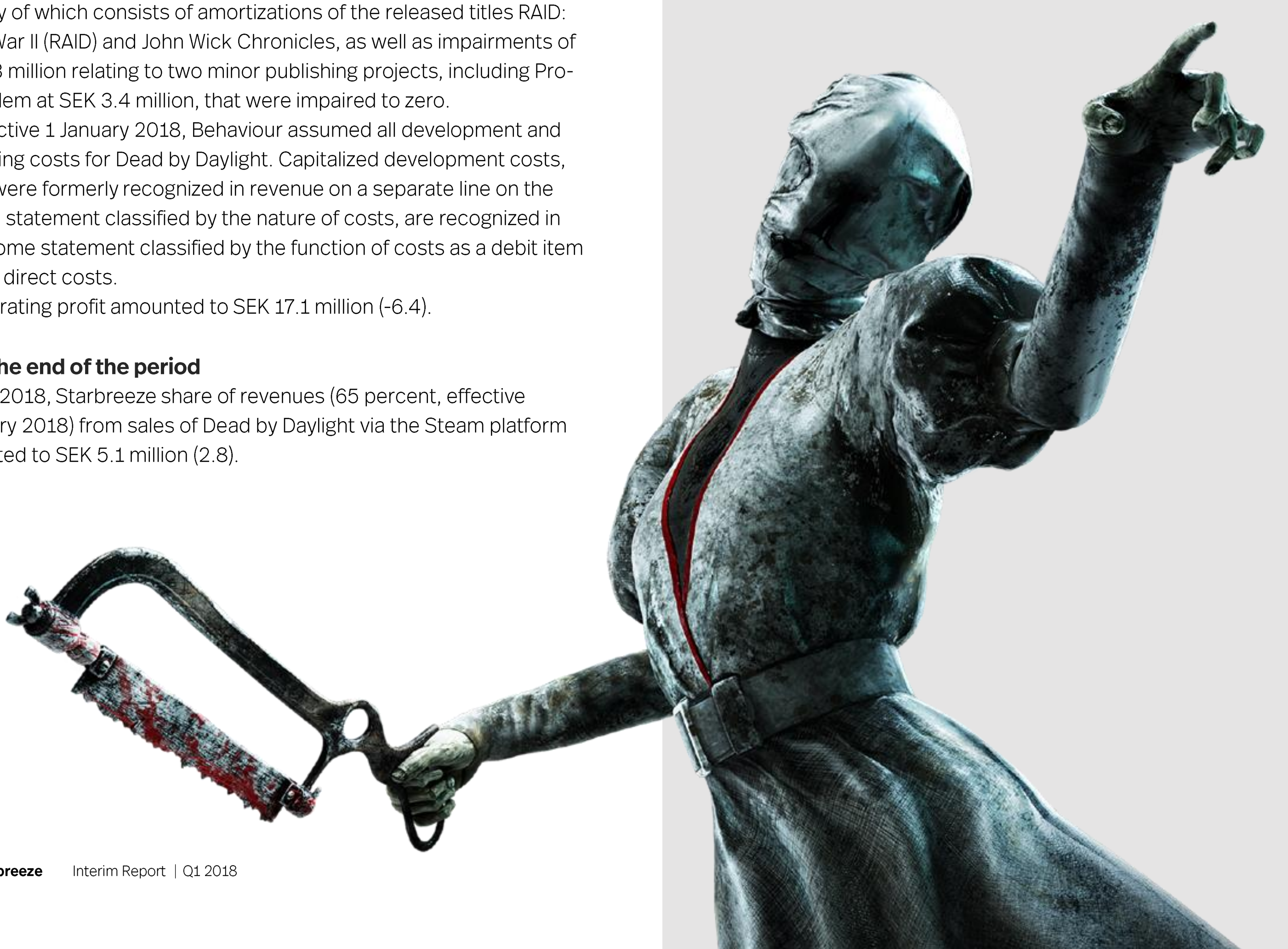
Direct costs amounted to SEK 36.4 million (24.8). The item includes depreciation, amortization and impairments of SEK 28.9 million (8.6), the majority of which consists of amortizations of the released titles RAID: World War II (RAID) and John Wick Chronicles, as well as impairments of SEK 6.3 million relating to two minor publishing projects, including Project Golem at SEK 3.4 million, that were impaired to zero.

Effective 1 January 2018, Behaviour assumed all development and marketing costs for Dead by Daylight. Capitalized development costs, which were formerly recognized in revenue on a separate line on the income statement classified by the nature of costs, are recognized in the income statement classified by the function of costs as a debit item against direct costs.

Operating profit amounted to SEK 17.1 million (-6.4).

After the end of the period

In April 2018, Starbreeze share of revenues (65 percent, effective 1 January 2018) from sales of Dead by Daylight via the Steam platform amounted to SEK 5.1 million (2.8).



VR TECH & OPERATIONS

The VR Tech & Operations business area consists of Starbreeze technology and software development in virtual reality (VR), which includes the development of the StarVR headset and the VR movie format PresenZ. Revenues and costs for VR parks are also included as of the third quarter of 2017. Profit or loss from the joint venture, StarVR Corporation, is recognized as financial income or expense and thus not included in operating profit or loss.

	2018	2017
SEKk	**Q1**	**Q1**
VR Tech & Operations		
Net sales	12,767	-
Direct costs	-2,115	-
Gross profit	**10,652**	**-**
Operating costs	-5,054	-1,522
Operating profit (-loss)	**5,598**	**-1,522**

First quarter 2018

The VR park at the Dubai Mall for which Starbreeze is the lead partner opened on 1 March 2018.

Net sales comprise license revenues from the various technologies and revenues generated by VR parks, which have not yet reached full commercialization.

Net sales for the period of SEK 12.7 million (0.0) are mainly attributable to income of SEK 11.5 million from StarVR Corporation in compensation for marketing the StarVR headset and which is part of the previously communicated financial support of USD 8.0 million in total received from StarVR Corporation for the build-up of the VR park in Dubai. The portion of the financial support not recognized in revenue has been recognized as a liability and will diminish as StarVR Corporation receives its share of ticket revenues from the park. If the forecast for the VR park changes, the liability will be adjusted and recognized in net consolidated financial income and expense.

Ticket sales at the VR park in Dubai contributed revenues of SEK 1.3 million (0.0) during the quarter.

Direct costs amounted to SEK 2.1 million (0.0). The increase consisted mainly of start-up costs for the VR park in Dubai that opened during the quarter. Capitalized development costs, which were formerly recognized in revenue on a separate line on the income statement classified by the nature of costs, are recognized in the income statement classified by the function of costs as a debit item against direct costs.

Operating profit amounted to SEK 5.6 million (-1.5). Currency effects of SEK +3.8 million (0.0) had positive impact on operating costs.

OTHER

Q1
2018

Group-wide costs and projects that are not attributable to the above segments are reported under Other.

First quarter 2018

Net sales amounted to SEK 2.5 million (5.0) and consist primarily of the Group's Belgian VFX business, Nozon.

Direct costs decreased to SEK 10.8 million (16.0). The decrease is due to that maintenance costs for the Valhalla engine amounted to SEK 7.5 million in the preceding year, compared to a total cost of SEK 2.1 million during the quarter for amortization of the Valhalla engine and the licensing rights to the Unreal engine.

Operating costs amounted to SEK 10.3 million (31.9). The decrease is due mainly to sales and marketing costs of SEK 0.0 million, compared to SEK 14.6 million in the preceding year.

	2018	2017
SEKk	**Q1**	**Q1**
Other		
Net sales	2,491	4,970
Direct costs	-10,762	-15,969
Gross profit	**-8,271**	**-10,999**
Operating costs	-10,277	-31,941
Operating profit (-loss)	**-18,548**	**-42,940**

OTHER FINANCIAL INFORMATION

The comparison period for cash flow is the corresponding period in the preceding year. The comparison period for balance sheet items is the balance on 31 December 2017.

Financial position

Goodwill at the end of the period amounted to SEK 560.4 million (545.0). Goodwill is recognized using the exchange rate on the reporting date. The increase was driven by currency effects. Other non-current assets amounted to SEK 601.3 million (597.5).

Capitalized game and technology development costs increased by SEK 79.3 million to SEK 722.1 million (642.8) and refer, firstly, to own game development projects such as OVERKILL's The Walking Dead and technology development within the VR Tech & Operations business area and, second, investments in publishing projects of SEK 197.4 million (187.5).

Intangible assets were amortized during the period by SEK 37.2 million (13.2), including an impairment of SEK 6.3 million on two minor publishing projects. Trade and other receivables amounted to SEK 51.7 million (27.8).

Prepaid expenses and accrued income at the end of the quarter amounted to SEK 89.1 million (125.3), of which SEK 31.6 million (10.0) related to receivables for digital sales, primarily via Steam, PlayStation-Store and Xbox Live.

Deferred tax assets relating to outstanding loss carryforwards in the parent company Starbreeze AB amounted to SEK 25.5 million (23.1) at the end of the quarter. Deferred tax assets relating to outstanding loss carryforwards in foreign subsidiaries totaled SEK 46.8 million (37.8). In the Swedish subsidiaries, deferred tax assets relating to loss carryforwards amounted to SEK 52.5 million (47.3). The increase is due to the Group having reported a loss. The total deferred tax asset was SEK 124.8 million (108.2).

Short-term investments increased to SEK 75.0 million (0.0). The increase was driven by the deposit of SEK 75.0 million of consolidated cash and cash equivalents into an account for which withdrawals are limited in time by more than three months and the company therefore has judged that the funds must be classified as a financial asset and not as cash and cash equivalents, i.e., liquid funds.

Consolidated equity on the reporting date amounted to SEK 1,531.9 million (1,282.4) and the equity to assets ratio was 55.5 percent (52.1).

Non-current liabilities for earnouts decreased to SEK 346.0 million (347.9). The balance sheet item relates to earnouts for completed company acquisitions, primarily Nozon and Parallaxter. The item is measured at fair value and the change is recognized in net financial income and expense on the income statement (see page 8).

Other non-current liabilities increased to SEK 530.7 million (466.6). The majority of the balance sheet item consists of a bank overdraft facility of SEK 183.7 million (141.0) and the convertible bonds issued to Acer of SEK 73.3 million (71.5) and to Smilegate of SEK 219.8 million (213.2). SEK 34.1 million (0.0) refers to the portion of the marketing contribution from StarVR Corporation classified as a loan.

Trade and other payables at the end of the quarter amounted to SEK 92.4 million (122.4), of which SEK 41.6 million relates to development

Q1 2018

Cash and cash equivalents at

31 March 2018

SEKm 295

advances for OVERKILL's The Walking Dead. Development advances of this type are recognized as a liability when the advance is received and recognized in revenue when the game is released. Accrued expenses and deferred income at the end of the quarter amounted to SEK 71.7 million (70.6).

Cash flow

First quarter 2018

Cash and cash equivalents at the beginning of the quarter amounted to SEK 233.8 million (669.4).

Cash flow from (-used in) operating activities amounted to SEK 27.8 million (-4.8). Cash flow from (-used in) from investing activities was SEK -252.1 million (-146.6). See also the "Investments" section below. Cash flow from financing activities was SEK 285.4 million (0.0). The change is due primarily to the directed issue of new shares executed during the quarter, but also to increased borrowing of SEK 53.2 million. The borrowing refers primarily to an increase in the bank overdraft facility of SEK 42.3 million.

Total cash flow for the quarter was SEK 61.2 million (-151.3). Cash and cash equivalents at the end of the period amounted to SEK 295.2 million (516.9) The SEK 75.0 million that the company has classified as short-term investments is not included in cash and cash equivalents. Read more under "Investments" below.

Investments

Consolidated investments in property, plant and equipment during the quarter amounted to SEK 70.7 million (14.1), of which SEK 68.4 million arose from the build-up of the VR park in Dubai. Further, investments in own games amounted to SEK 74.0 million (49.6) and investments in publishing projects amounted to SEK 33.0 million (34.6). Short-term investments amounted to SEK 75.0 million (0.0) and refers to cash and cash equivalents deposited into an account for which withdrawals are limited in time by more than three months and the company therefore has judged that the funds must be classified as a short-term investment and not as cash and cash equivalents, i.e., liquid funds.

Parent company

The Group's operations are conducted in the parent company Starbreeze AB (publ), the subsidiaries Dhruva Infotech Ltd, Starbreeze Production AB, Starbreeze Studios AB, Starbreeze Publishing AB, Starbreeze VR AB, Starbreeze Ventures AB, Starbreeze USA Inc, Starbreeze LA Inc, Starbreeze IP LUX, Starbreeze IP LUX II Sarl, Starbreeze Barcelona SL and Starbreeze Paris SAS, Nozon, Parallaxter and Enterspace AB.

The parent company's net sales during the quarter amounted to SEK 10.5 million (11.1). Sales refer primarily to allocation of management fees. The loss before tax for the same period was SEK -13.6 million (-30.7) and the loss after tax was SEK -11.1 million (26.6).

Cash and cash equivalents at the end of the period amounted to SEK 215.7 million (75.4) and parent company equity was SEK 1,434.0 million (1,212.5).

Non-current liabilities consisting of convertible loans and earnouts increased to SEK 639.0 million (632.8).

Employees

The number of employees at the end of the period amounted to 622 (339), of whom 548 men and 74 women. The increase is mainly due to the acquisition of the Indian production company Dhruva, but is also a consequence of staff additions in game development in Stockholm. The average number of full-time employees for the quarter amounted to 633 (220). The average age was 31 (34).

Q1
2018

The rights issue raised approximately

SEKm
152

after the end of the period

The share

The Starbreeze share has been listed in the Mid Cap segment of Nasdaq Stockholm since 2 October 2017. The shares are traded under the tickers STAR A, ISIN code SE 007158928, and STAR B, SE0005992831. The closing price on 29 March 2018 was SEK 9.36 for the Class A share, compared to SEK 15.02 on 30 March 2017, and SEK 9.55 for the Class B share, compared to SEK 15.02. At the end of the quarter, total market capitalization was approximately SEK 2,890 million, compared to approximately SEK 4,159 million in the preceding year.

Share capital

Comparative figures refer to 31 March 2017. Share capital at the end of the period amounted to SEK 6,074 thousand (5,538) distributed among 303,719,737 shares (276,929,712), of which 54,170,260 Class A shares (55,971,982) and 249,549,477 Class B shares (220,957,730).

The number of Class B shares increased during the quarter to 20,681,797 consequent upon the directed issue executed in January. The number of Class B shares also increased by 976,355 and the number of Class A shares decreased by 976,355 due to the company's conversion program.

Shareholders

Starbreeze had 27,152 shareholders (28,214) at the end of the period. A list of the company's ten largest shareholders is updated monthly on the company's website at starbreeze.com under Investors.

Accounting and measurement policies

This interim report has been prepared in accordance IAS 34, Interim Financial Reporting. The accounting policies and calculation methods are the same as those applied in the Annual Report 2017, other than that the Group began applying IFRS 15 and IFRS 9 as of 1 January 2018. The transition has had no effect on the financial statements with respect to either opening balances or going forward. As of the first quarter of 2018, Starbreeze applies an income statement classified by function.

The interim report for the parent company has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. No new or revised IFRSs have entered into force that are expected to have any material impact on the Group. The carrying amount of all financial assets and liabilities is a good approximation of fair value.

Impact of forthcoming standards

IFRS 16 Leases

The IASB published a new accounting standard for leases in January 2016 that will replace IAS 17 Leases and the associated interpretations IFRIC 4, SIC 15 and SIC 27. The standard requires all assets and liabilities attributable to leases, with a few exceptions, to be reported on the balance sheet. This accounting is based on the view that the lessee has a right to use and asset during a period of time and a simultaneous obligation to pay for this right. Lessor accounting remains largely unchanged. The standard is applicable to reporting periods beginning on or after 1 January 2019. Early application is permitted. The Group is currently evaluating the effects of IFRS 16.

Risks and uncertainties

The preparation of interim reports and annual reports in accordance with generally accepted accounting practices requires management to make estimates, judgments and assumptions that affect recognition of assets, liabilities and revenue in the financial statements. Actual outcomes may differ from these estimates and judgments.

Employee key data

	2018	2017
	Q1	Q1
Employees	622	239
Men	*548*	*198*
Women	*74*	*41*
Net profit (-loss) per employee	-8 TSEK	-212 TSEK

622

employees at Starbreeze

The short-term effect on profit and loss from fluctuations in exchange rates can be positive or negative, depending on the current currency exposure from trade receivables, bank balances and other assets and liabilities in foreign currency. However, a falling dollar rate in the longer term always has a negative impact on profit margins. Due to the acquisition of several foreign subsidiaries, the Group also has translation exposure.

The largest risks and uncertainties are low revenues in connection with game releases and project delays. These and other risks, such as copyright infringements, loss of key people and exchange rate fluctuations, are described in Starbreeze Annual Report 2017 in the Board of Directors' Report on page 64 and in Note 3. Furthermore, the value of certain assets and liabilities is based on expected outcomes. Consequently, these items must be regularly remeasured and thus may affect future profit and loss.

Based on the sales trend for PAYDAY 2 and Dead by Daylight, the release of new games and the capital raised by the new issues announced in January 2018, the company estimates that current financing is sufficient to operate the business at its current scope for at least the next 12 months. The board and management continually evaluate the Group's long-term capital requirements and financing options.

Related party transactions

Ahead of the company's listing switch to Nasdaq Stockholm, a greater need arose for work related to systems, processes and policies for internal control and corporate governance. In this connection, the company engaged Eva Redhe, who is also a director and chair of the audit committee, to assist with this work, for which Eva Redhe, through her company, billed the company SEK 200,000 in consultancy fees during the quarter. There were no non-customary related party transactions during the period other than the transactions disclosed in the report above.

Auditor's review

This report has not been reviewed by the company's statutory auditor.

Investor relations

Up-to-date information about Starbreeze is available on the company's website at starbreeze.com. You may contact the company via email: ir@starbreeze.com, phone: +46 8 209 208 or postal letter addressed to: Box 7731, 103 95 Stockholm, Sweden

For further information

Bo Andersson Klint, CEO
+46 (0) 8-209 208
bo.anderssonklint@starbreeze.com

Sebastian Ahlskog, CFO
+46 (0) 8 209 208
sebastian.ahlskog@starbreeze.com

The reports are published on the company's website, starbreeze.com.

Stockholm, 9 May 2018

Michael Hjorth
Chairman

Directors

Ulrika Hagdahl **Hyung Nam Kim (Harold Kim)**

Matias Myllyrinne **Eva Redhe**

Bo Andersson Klint
CEO

Q1 2018

Financial calendar

Interim report Q2 2018..................**21 August 2018**

Interim report Q3 2018..................**6 November 2018**

Year-end report 2018....................**5 February 2019**

Starbreeze AB is required to disclose this information under the EU Market Abuse Regulation and the Securities Market Act. The information was provided by the above contact persons for publication on 9 May 2018 at 08:00 CET.

Consolidated statement of comprehensive income

		2018	2017	2017
SEKk	**NOT**	**Q1**	**Q1**	**JAN - DEC**
Net sales	5	110,066	57,270	361,447
Direct costs		-76,950	-55,877	-298,187
Gross profit		**33,116**	**1,393**	**63,260**
Selling and marketing costs		-9,856	-17,359	-59,480
Administrative expenses		-25,492	-31,209	-154,089
Other revenue		8,492	-	-
Other expenses		-	-3,624	-1,150
Operating profit (-loss)	6	**6,260**	**-50,799**	**-151,459**
Financial income		1,981	74	10,105
Financial expenses		-12,720	-5,325	-30,631
Share in profit or loss of holdings accounted for using the equity method		-1,938	-205	-4,200
Profit (-loss) before tax		**-6,417**	**-56,255**	**-176,185**
Income tax		1,209	5,627	20,855
Net profit (-loss) for the period		**-5,208**	**-50,628**	**-155,330**
Other comprehensive income that may subsequently be reclassified to profit and loss				
Exchange differences		22,117	4,186	1,402
Total comprehensive income for the period		**16,909**	**-46,442**	**-153,928**
Total comprehensive income for the period attributable to:				
Owners of the parent		17,053	-46,442	-154,022
Non-controlling interests		-144	-	94
Earnings per share attributable to owners of the parent during the period (SEK):				
- Basic		-0.02	-0.18	-0.55
- Diluted		-0.02	-0.18	-0.55

Consolidated balance sheet

SEKk	NOTE	2018/03/31	2017/03/31	2017/12/31
ASSETS				
Intangible assets				
Goodwill		560,404	402,774	544,971
Other non-current assets		601,285	588,183	597,467
Capitalized expenditure for games and technology development		722,086	382,450	642,767
Financial assets				
Financial assets		37,655	80,184	38,156
Investments in joint ventures	7	39,952	8,433	41,890
Deferred tax assets		124,789	63,231	108,153
Property, plant and equipment				
VR facilities, IT equipment and other equipment		163,352	35,123	98,901
Total non-current assets		**2,249,523**	**1,560,378**	**2,072,305**
Current assets				
Inventories		36	2	22
Trades and other receivables		51,742	25,840	27,821
Prepaid expenses and accrued income		89,108	38,128	125,259
Current investments		75,000	-	-
Cash and cash equivalents		295,237	516,900	233,757
Total current assets		**511,123**	**580,870**	**386,859**
TOTAL ASSETS		**2,760,646**	**2,141,248**	**2,459,164**
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		6,074	5,538	5,661
Other contributed capital		1,480,809	1,175,873	1,243,573
Reserves		27,190	-514	5,073
Retained earnings including net profit or loss for the period		17,035	133,905	27,748
Non-controlling interests		801	-	344
Total equity		**1,531,909**	**1,314,802**	**1,282,399**
Non-current liabilities				
Non-current liabilities, earnouts		345,970	306,237	347,862
Deferred tax liability		187,909	144,941	169,346
Other non-current liabilities		530,749	270,105	466,557
Total non-current liabilities		**1,064,628**	**721,283**	**983,765**
Current liabilities				
Trade and other payables		92,449	65,785	122,396
Accrued expenses and deferred income		71,660	39,378	70,604
Total current liabilities		**164,109**	**105,163**	**193,000**
TOTAL EQUITY AND LIABILITIES		**2,760,646**	**2,141,248**	**2,459,164**

Consolidated statement of changes in equity

SEKk	Share capital	Other contributed capital	Reserves	Retained earnings	Total	Non controlling interest	Total equity
Balance at 1 January 2018	5,661	1,243,573	5,073	27,748	1,282,055	344	1,282,399
Net profit (-loss) for the period	-	-		-5,064	-5,064	-144	-5,208
Other comprehensive income for the period							
Exchange differences	-	-	22,117	-	22,117	-26	22,091
Total comprehensive income	**5,661**	**1,243,573**	**27,190**	**22,684**	**1,299,108**	**174**	**1,299,282**
Transactions with shareholders:							
Minority share of shareholder contributions to subsidiaries	-	-627	-	-	-627	627	-
Vested employee stock options	-	22	-	-	22	-	22
New issue	413	237,841	-	-	238,254	-	238,254
Issue cost recognized in equity	-	-	-	-5,892	-5,892	-	-5,892
Deferred tax effect of issue cost recognized in equity	-	-	-	243	243	-	243
Total contribution from and value transfers to shareholders, recognized directly in equity	**413**	**237,236**		**-5,649**	**232,000**	**627**	**232,627**
Balance at 31 March 2018	**6,074**	**1,480,809**	**27,190**	**17,035**	**1,531,108**	**801**	**1,531,909**

Balance at 1 January 2017	5,538	1,175,563	3,671	185,451	1,370,223	-	1,370,223
Net profit (-loss) for the period	-	-	-	-50,628	-50,628	-	-50,628
Other comprehensive income for the period							
Exchange differences	-	-	-4,185	-	-4,185	-	-4,185
Total comprehensive income	**5,538**	**1,175,563**	**-514**	**134,823**	**1,315,410**	**-**	**1,315,410**
Transactions with shareholders:							
Vested employee stock options	-	310	-	-	310	-	310
Total contribution from and value transfers to shareholders, recognized directly in equity	**-**	**310**	**-**	**-918**	**-608**	**-**	**-608**
Balance at 31 march 2018	**5,538**	**1,175,873**	**-514**	**133,905**	**1,314,802**	**-**	**1,314,802**

	2018	2017	2017
CHANGE IN NUMBER OF OUTSTANDING SHARES	**JAN–MAR**	**JAN–MAR**	**JAN - DEC**
Number of shares at the beginning of the period	**283,037,940**	**276,879,720**	**276,879,720**
Non-cash issue	-	-	2,078,781
Subscription of shares through exercise of options	-	49,992	4,079,439
New issue	20,681,797	-	-
Total shares outstanding at the end of the period	**303,719,737**	**276,929,712**	**283,037,940**

Consolidated statement of cash flows

SEKk	NOT	2018 Q1	2017 Q1	2017 JAN - DEC
Operating activities				
Cash flow from operations	3	32,932	-3,246	-11,167
Interest paid		-1,829	-2,153	-5,325
Interest received		90	1,975	9
Income taxes paid		-3,425	-1,361	-4,603
Cash flow from (-used in) operating activities		**27,768**	**-4,785**	**-21,086**
Investing activities				
Purchase of property, plant and equipment		-70,667	-14,133	-87,338
Investments in subsidiaries, less acquired cash and cash equivalents		-	-	-59,076
Purchase of intangible assets		-	-	-
Investments in other financial assets		628	-48,213	-61,590
Investments in own games and technology		-74,010	-49,632	-231,934
Investments in publishing projects		-33,008	-34,577	-180,169
Increase (-) / decrease (+) in short-term investments		-75,000	-	-
Cash flow from (-used in) investing activities		**-252,057**	**-146,555**	**-620,107**
Financing activities				
New issue		237,841	-	237,841
Costs related to new issues		-5,649	-	-5,649
Payments for stock options		414	-	414
Increase in non-current liabilities		53,185	-	53,185
Repayment of loans		-345	-	-345
Cash flow from financing activities		**285,446**	**-**	**285,446**
Cash flow for (-used in) the period		**61,157**	**-151,340**	**-432,280**
Cash and cash equivalents at the beginning of the period		233,757	669,380	669,380
Exchange difference in cash and cash equivalents		323	-1,140	-3,343
Cash and cash equivalents at the end of the period		**295,237**	**516,900**	**233,757**

Key data, Group

	2018 Q1	2017 Q1	2017 JAN - DEC
Net sales, SEKk	110,066	57,270	361,447
EBITDA, SEKk	48,840	-35,341	-53,559
EBIT, SEKk	6,260	-50,799	-151,459
Profit (-loss) before tax, SEKk	-6,417	-56,255	-176,185
Profit (-loss) after tax, SEKk	-5,208	-50,628	-155,330
EBITDA margin, %	44.4	-61.7	-14.8
EBIT margin, %	5.7	-88.7	-41.9
Profit margin, %	-5.8	-98.2	-48.7
Equity to assets ratio, %	55.5	61.4	52.1
Closing price of A share for the period, SEK	9.36	15.30	8.15
Closing price of B share for the period, SEK	9.55	15.30	8.40
Basic earnings per share, SEK	-0.02	-0.18	-0.55
Diluted earnings per share, SEK	-0.02	-0.18	-0.55
Number of shares at end of period before dilution	303,719,737	276,929,712	283,037,940
Number of shares at end of period after dilution	327,125,520	304,402,443	306,443,723
Average number of shares before dilution	296,825,805	276,929,712	280,309,967
Average number of shares after dilution	296,825,805	278,796,145	280,309,967
Average number of employees	633	220	278
Number of employees at the end of the period	622	339	650

Key data, Group

EBITDA

Operating profit or loss before depreciation, amortization and impairments (Earnings Before Interest, Taxes, Depreciation and Amortization).

EBIT

Operating profit or loss after depreciation and amortization (Earnings Before Interest and Taxes).

EBITDA margin

Operating profit or loss before depreciation, amortization and impairments (Earnings Before Interest, Taxes, Depreciation and Amortization) as a percentage of net sales.

EBIT margin

Operating profit or loss as a percentage of net sales.

Profit margin

Profit or loss after net financial income/expense as a percentage of the sum of net sales.

Equity to assets ratio

Equity as a percentage of total assets.

Earnings per share

Profit or loss after tax divided by the average number of shares during the period.

Equity

Recognized equity including 78 percent of untaxed reserves.

Reconciliation of Alternative Performance Measures

	2018 Q1	2017 Q1	2017 JAN - DEC
EBITDA			
Operating profit (-loss), SEKk	6,260	-50,799	-151,459
Less: Amortization of intangible assets, SEKk	35,328	13,160	82,294
Less: Depreciation of property, plant and equipment, SEKk	7,252	2,298	15,606
EBITDA	**48,840**	**-35,341**	**-53,559**
EBITDA margin, %			
EBITDA, SEKk	48,840	-35,341	-53,559
Net sales, SEKk	110,066	57,270	361,447
EBITDA margin, %	**44.4**	**-61.7**	**-14.8**
EBIT margin, %			
Operating profit (-loss), SEKk	6,260	-50,799	-151,459
Net sales, SEKk	110,066	57,270	361,447
EBIT margin, %	**5.7**	**-88.7**	**-41.9**
Profit margin, %			
Profit (-loss) before tax, SEKk	-6,417	-56,255	-176,185
Net sales, SEKk	110,066	57,270	361,447
Profit margin, %	**-5.8**	**-98.2**	**-48.7**
Equity to assets ratio, %			
Total equity	1,531,909	1,314,802	1,282,399
Total equity and liabilities, SEKk	2,760,646	2,141,248	2,459,164
Equity to assets ratio, %	**55.5**	**61.4**	**52.1**

Alternative Performance Measures (APMs) are financial indicators of performance, financial position and cash flow not defined in the applicable reporting framework (IFRS). These are considered to be important additional key figures for the Group's performance. Since not all entities calculate financial measurements in the same way, they are not always comparable to those used by other entities.

Parent company income statement

SEKk	2018 Q1	2017 Q1	2017 JAN - DEC
Net sales	10,517	11,144	63,217
Other operating revenue	5,752	-	1,752
Total sales	**16,269**	**11,144**	**64,969**
Other external expenses	-10,317	-18,778	-68,230
Employee benefit expense	-11,842	-12,451	-45,534
Depreciation of property, plant and equipment	-164	-181	-757
Other operating expenses	-	-228	-
Operating profit (-loss)	**-6,054**	**-20,494**	**-49,552**
Other financial income	663	327	4,130
Financial expenses	-8,161	-5,303	-29,202
Profit (-loss) after net financial income/expense	**-13,552**	**-25,470**	**-74,624**
Appropriations	-		-
Profit (-loss) before tax	**-13,552**	**-25,470**	**-74,624**
Income tax	2,417	5,145	17,875
Net profit (-loss) for the period	**-11,135**	**-20,325**	**-56,749**

For the parent company, net profit or loss for the period corresponds to comprehensive income.

Parent company balance sheet

SEKk	2018/03/31	2017/03/31	2017/12/31
ASSETS			
Non-current assets			
Tangible assets			
Computers and other equipment	944	1,087	1,109
Financial assets			
Investments in group companies	1,285,797	768,995	1,281,195
Deferred tax assets	25,543	10,397	23,126
Investments in associates	45,958	46,500	45,958
Other financial assets	562	-	562
Total non-current assets	**1,358,804**	**826,979**	**1,351,950**
Current assets			
Trade and other receivables	-	-	23
Receivables from group companies	807,144	730,093	724,234
Other receivables	-	539	1,771
Prepaid expenses and accrued income	3,256	1,829	7,087
Cash and cash equivalents	215,716	418,121	75,353
Total current assets	**1,026,116**	**1,150,582**	**808,468**
TOTAL ASSETS	**2,384,920**	**1,977,561**	**2,160,418**
EQUITY AND LIABILITIES			
Equity			
Share capital	6,074	5,538	5,661
Fair value reserve	328	329	328
Share premium reserve	1,418,560	1,129,776	1,180,697
Retained earnings	20,163	83,757	82,562
Net profit (-loss) for the period	-11,135	-20,325	-56,749
Total equity	**1,433,990**	**1,199,075**	**1,212,499**
Untaxed reserves			
Accumulated excess depreciation	16	16	16
Total untaxed reserves	**16**	**16**	**16**
Non-current liabilities			
Other non-current liabilities	639,027	570,014	632,832
Total non-current liabilities	**639,027**	**570,014**	**632,832**
Current liabilities			
Trade payables	3,238	975	6,829
Liabilities to group companies	294,449	187,985	294,581
Other liabilities	946	2,830	4,439
Accrued expenses and deferred income	13,254	16,666	9,222
Total current liabilities	**311,887**	**208,456**	**315,071**
TOTAL EQUITY AND LIABILITIES	**2,384,920**	**1,977,561**	**2,160,418**

NOTES

Note 1: Pledged assets

Consolidated pledged assets and contingent liabilities, Group

Consolidated pledged assets refer to rent guarantees and pledged shares in subsidiaries related to loans from Nordea.

SEKk	3/31/2018	3/31/2017	12/31/2017
Pledged assets	229,229	5,348	507,879
Contingent liabilities	-	-	-

Note 2: Financial instruments

Financial instruments measured at fair value

SEKk	3/31/2018	12/31/2017	Level
Assets measured at fair value through comprehensive income			
Financial assets, shares in Cmune	11,502	11,502	2
Financial assets at fair value through profit or loss			
Investments in convertible loans	15,883	15,641	2
Financial liabilities at fair value through profit or loss			
Earnouts	345,970	347,862	3
Convertible loans	27,749	25,537	2

There has been no material change in liabilities measured at level 3 of the fair value hierarchy (conditional earnouts) during the period. The increase in conditional earnouts refers mainly to the acquisition of Enterspace. These are measured as described in the 2017 Annual Report. Information concerning fair value estimates and how they are calculated based on the respective level in the fair value hierarchy and disclosure of how the fair value of financial liabilities (earnouts) was calculated at level 3 of the fair value hierarchy is provided in the 2017 Annual Report.

Note 3: Cash flow from operations

	2018	2017	2017
SEKk	Q1	Q1	JAN-DEC
Operating profit (-loss)	6,260	-50,799	-151,459
Adjustments for non-cash items			
-Amortization of intangible assets	35,328	13,160	82,294
-Depreciation of property, plant and equipment	7,252	2,307	15,642
-Net financial income (-expense)	0	0	0
-Other unrealized exchange losses	-3,175	1,360	-2,508
Adjustments for:			
Increase (-) / decrease (+) of current receivables	12,637	6,931	-45,458
Increase (+) / decrease (-) of current liabilities	-25,370	23,795	90,322
Cash flow from operations	32,932	-3,246	-11,167

Note 4: Segment reporting, Group

SEKk	2018 Q1	2017 Q1	2017 JAN - DEC
Starbreeze Games			
Net sales	32,099	24,077	122,074
Direct costs	-27,682	-15,087	-37,259
Gross profit	**4,417**	**8,990**	**84,815**
Operating costs	-2,337	-8,972	-85,365
Operating profit (-loss)	**2,080**	**18**	**-550**
Publishing			
Net sales	62,709	28,223	219,925
Direct costs	-36,391	-24,821	-194,906
Gross profit	**26,318**	**3,402**	**25,019**
Operating costs	-9,188	-9,757	-67,484
Operating profit (-loss)	**17,130**	**-6,355**	**-42,465**
VR Tech & Operations			
Net sales	12,767	-	3,883
Direct costs	-2,115	-	-64
Gross profit	**10,652**	**-**	**3,819**
Operating costs	-5,054	-1,522	-4,230
Operating profit (-loss)	**5,598**	**-1,522**	**-411**
Other			
Net sales	2,491	4,970	15,565
Direct costs	-10,762	-15,969	-65,958
Gross profit	**-8,271**	**-10,999**	**-50,393**
Operating costs	-10,277	-31,941	-57,640
Operating profit (-loss)	**-18,548**	**-42,940**	**-108,033**
Total			
Net sales	110,066	57,270	361,447
Direct costs	-76,950	-55,877	-298,187
Gross profit	**33,116**	**1,393**	**63,260**
Operating costs	-26,856	-52,192	-214,719
Operating profit (-loss)	**6,260**	**-50,799**	**-151,459**

There are no revenues from internal transactions between the segments. All stated net sales are derived from external customers.

Profit or loss is allocated among the segments down to operating profit or loss.

Operating profit or loss is reconciled with profit or loss before tax as follows:

Starbreeze Games	2,080	18	-550
Publishing	17,130	-6,355	-42,465
VR Tech & Operations	5,598	-1,522	-411
Other	-18,548	-42,940	-108,033
Total	**6,260**	**-50,799**	**-151,459**
Net financial income (-expense)	-12,677	-5,456	-24,726
Profit (-loss) before tax	**-6,417**	**-56,255**	**-176,185**

Note 5: Net sales by category

SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Övrigt	Totalt
PC	10,642	17,682	-	-	28,324
Console, Digital	13,553	11,841	-	-	25,394
Console, Retail	869	-	-	-	869
VR centers	2	19	1,281	-	1,302
Services	7,033	-	11,486	2,491	21,010
License deals	-	33,167	-	-	33,167
Total net sales	**32,099**	**62,709**	**12,767**	**2,491**	**110,066**

Note 6: Consolidated depreciation and amortization by function

	2018	2017	2017
SEKk	Q1	Q1	JAN-DEC
Depreciation of property, plant and equipment			
Direct costs	4,823	1,331	5,622
Selling and marketing costs	-	-	-
Administrative expenses	2,429	967	9,984
Total depreciation of property, plant and equipment	**7,252**	**2,298**	**15,606**
Amortization of intangible assets			
Direct costs	35,328	13,160	82,294
Selling and marketing costs	-	-	-
Administrative expenses	-	-	-
Total amortization of intangible assets	**35,328**	**13,160**	**82,294**
Total depreciation and amortization	**42,580**	**15,458**	**97,900**

Note 7: Joint venture

StarVR Corporation

The company's joint venture with Acer, StarVR Corporation, is a sales and marketing company for the StarVR headset. The company manages sales and marketing, primarily to the B2B market, as well as support and aftermarket support for its customers. Under the terms of the joint venture, Starbreeze owns and controls IP rights related to StarVR, such as patents, source code and brands, while Acer manufactures the product. R&D and reference design work for the StarVR headset will be carried out jointly by Starbreeze and Acer. StarVR Corporation absorbs all costs of marketing and selling the StarVR headset and as long as Starbreeze retains the IP rights, Starbreeze will bear R&D related costs. Production costs will be paid by Acer, which is also an exclusive supplier to StarVR Corporation. StarVR Corporation has been listed on the Taipei Exchange Emerging Markets board since 23 March 2018. Based on the closing price on 8 May 2018, the market value of StarVR Corporation was SEK 1,641 million.

The following reconciliation reflects adjustments made by the Group upon application of the equity method, including adjustments to fair value at acquisition date and adjustments for differences in accounting policies.

SEKk	3/31/2018
Reconciliation of net carrying amount:	
Balance of net assets at 1 January	126,938
Net profit (-loss) for the period	-10,111
Exchange differences	4,239
Capital injection	-
Closing balance net assets	**121,066**
Group's share	33%
Group's share in SEKk	39,952
Net carrying amount	**39,952**

The table below provides condensed financial information for the holding in the joint venture (StarVR Corporation) that the Group has deemed material. The information shows the amounts recognized in the financial reports for the joint venture and not Starbreeze share of these amounts. The reconciliation of Starbreeze share is shown above.

SEKk	3/31/2018
Balance sheet in summary:	
Current assets	56,039
Non-current assets	89,830
Current liabilities	24,803
Net assets	**121,066**
Income statement in summary:	
Sales	537
Net profit (-loss) for the period	-10,111
Total comprehensive income for the period	**-10,111**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