



STARBREEZE
STUDIOS

Annual Report 2017





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About Starbreeze

WE CREATE WORLD-CLASS EXPERIENCES

- One of the first independent game developers in northern Europe, founded in 1998.
- Well-established developer and publisher of PC and console games and VR products aimed at the global market.
- Develops high-quality entertainment products based on own and third-party rights, in-house and in partnership with external game developers.
- Net sales of approximately SEK 361 million in 2017.
- Listed on Nasdaq Stockholm.

Starbreeze has three business areas

Starbreeze Games

Own game development

Publishing

Publishing business

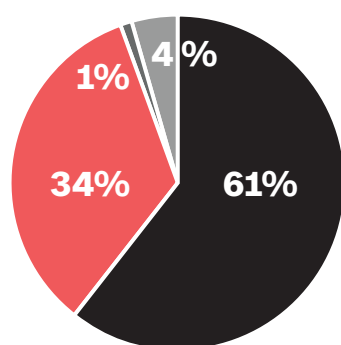
VR Tech & Operations

VR technology/software development and operation of VR parks

San Francisco
Los Angeles

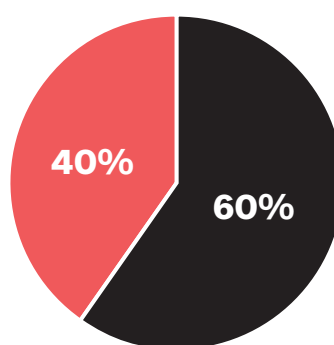
Net sales in 2017

By business area

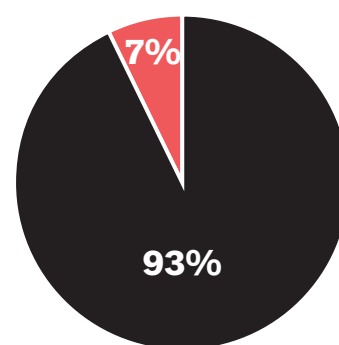


■ Publishing ■ Starbreeze Games
■ VR Tech & Operations ■ Other

By platform

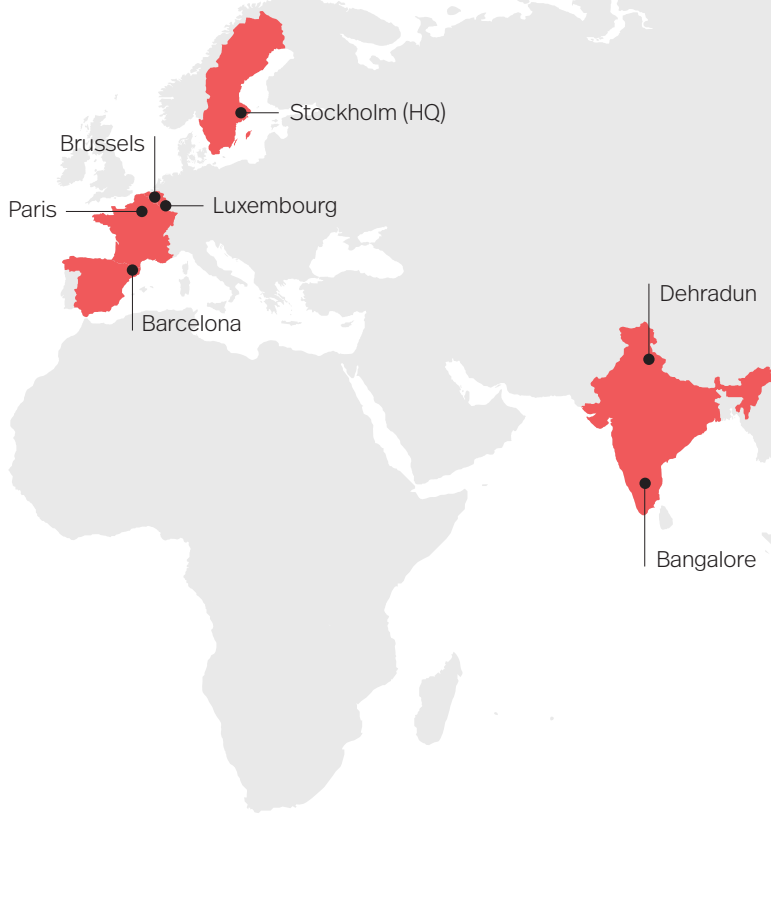


■ Console ■ PC



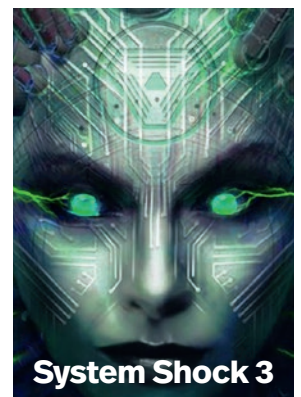
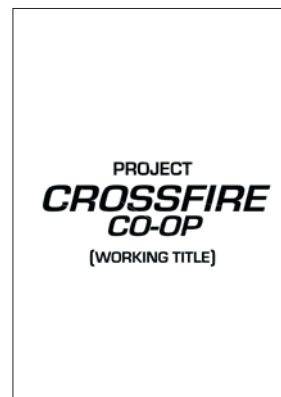
■ Digital ■ Retail

Starbreeze offices



650
employees
in seven countries

Game portfolio with strong IP rights



THE YEAR IN BRIEF

The year in figures

- Net sales up 4.6 percent to SEK 361.4 million (345.5).
- PAYDAY generated SEK 120.3 million (162.4) and Dead by Daylight SEK 201.5 million (143.7).
- EBITDA amounted to SEK -53.5 million (81.2).
- The loss before tax amounted to SEK -176.2 million (55.9).
- Basic and diluted earnings per share were SEK -0.55 (0.22).
- Cash and cash equivalents at the end of the period amounted to SEK 233.8 million (669.4).
- The board of directors is proposing that no dividend be distributed for the 2017 financial year.

Key data

SEKk	2017	2016
Net sales	361,447	345,463
EBITDA	-53,523	81,220
Profit (-loss) before tax	-176,185	55,900
Earnings per share	-0.55	0.22
Cash flow from operations	-21,086	15,291
Net sales per employee	1,300	2,288

Net sales in 2017, SEKk

361,447

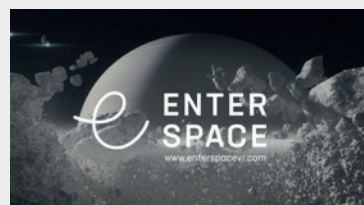
Net sales in 2016 SEK 345,463 thousand

Significant events



- New publishing agreement with Double Fine Productions for Psychonauts 2.

- Acquisition of Swedish location-based VR company Enterspace.



- License agreement with IMAX for content for IMAX centers.

2017

JAN

FEB

MAR

APR

MAY

JUN

- New publishing agreement with Otherside Entertainment for System Shock 3.



- Publishing title Dead by Daylight released for PlayStation 4 and Xbox One in Europe and the US.



Largest shareholders as of 28 February 2018

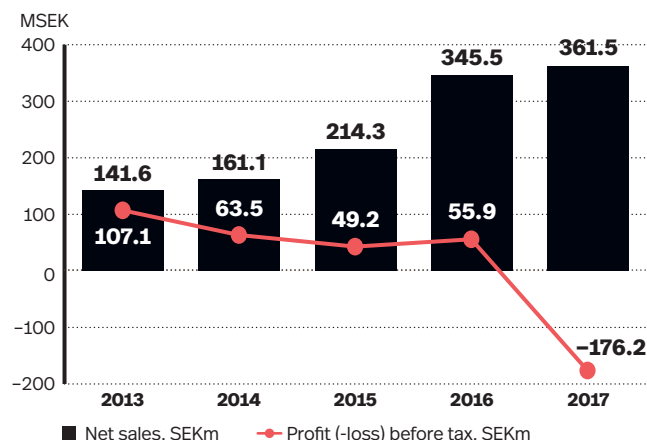
Owner	Holding, %	Voting rights, %
Bo Andersson Klint ¹⁾	7.93	24.30
Försäkringsaktiebolaget Avanza Pension	8.18	6.26
Swedbank Robur ²⁾	14.81	6.24
Smilegate Holdings Inc.	3.17	5.05
Första AP-Fonden	10.92	4.18
CBLDN-BFCM FULLTX, third party asset	1.06	1.98
Michael Hjorth ³⁾	0.75	1.96
Nordnet Pensionsförsäkring AB	1.49	1.30
CBNY-National Financial Services II	1.03	1.13
Viktor Vallin	0.30	1.10
Other	50.36	46.50
Total	100.00	100.00

¹⁾ Directly and indirectly via Varvtre AB.

²⁾ Swedbank Robur consists of three funds: Ny Teknik BTI, Småbolagsfond Sverige and Småbolagsfond Norden.

³⁾ Directly and via Indian Nation Aktiebolag.

Sales and profit 2013–2017



Antisphere, the first Indielabs title, was released on Steam.



The publishing title RAID: World War II was released for PC, PlayStation 4 and Xbox One. Response to the game was poorer than expected.

Release of the first trailer for OVERKILL's The Walking Dead, developed by Starbreeze.

JUL

AUG

SEP

OCT

NOV

DEC

2018

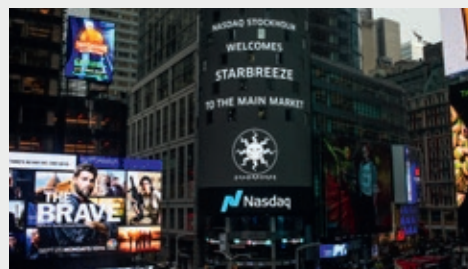
Lead partner for operation, installation and content for the new VR park in Dubai.



Acer takes over the majority of financing of the joint venture StarVR Corporation.

Listing on Nasdaq Stockholm in the Mid Cap segment.

Acquisition of Indian production company Dhruva finalized.



A STRONG FINISH TO 2017 AND HIGH EXPECTATIONS FOR 2018

Looking in the rearview mirror, 2017 was a very eventful year with many important milestones completed. We continued building up our game portfolio and our VR venture took off. We are now looking forward to 2018 and several exciting releases. We have already launched PAYDAY 2 for the Switch and VR and the mobile version is coming soon. OVERKILL's The Walking Dead will be our biggest release ever and our expectations for the game are huge.

Continued growth

In the last quarter of 2017, we ended the year with a record breaking SEK 100 million in sales, which boosted net sales for the full year by 5 percent to SEK 361 million. PAYDAY 2 continued performing well and our publishing title Dead by Daylight continued to grow. On the down side, RAID: World War II (RAID), released in September, was a disappointment in terms of revenue.

We made two acquisitions in 2017. Towards the end of the year, we closed the acquisition of Indian production company Dhruva. With its 320 employees, Dhruva will continue independently delivering services to the global games industry, and we will continue buying their services. Earlier in the year in June, we bought Stockholm-based Enterspace, who signed a contract in August with EMAAR Entertainment to be the lead partner to a brand-new VR park in the Dubai Mall, which has more than 80 million visitors a year. In another big event during the year, we switched our market listing in October from First North to Nasdaq Stockholm Main Market. This is a quality stamp not only for us as a company, but for our entire industry.

One of the most-played games in the world

PAYDAY 2 is still a highly relevant product and was one of the most frequently played games worldwide on the digital distribution platform Steam in 2017. After the end of the year, we released PAYDAY 2 for the Nintendo Switch platform and released the game for VR in mid-March. PAYDAY 2 for VR is arguably the biggest VR game in the world in terms of content. Based on the undiminished interest in PAYDAY, we have also decided to extend the development period of PAYDAY 2 into 2019 as a bridge to PAYDAY 3.

Dead by Daylight

– an outstanding publishing case

We agreed in March 2018 to sell back the publishing rights to Dead by Daylight to the developer, Behaviour. The deal accelerates our cash flows from the game and frees up capital for new projects. Dead by Daylight has been a stellar deal for Starbreeze. We initially invested USD 2 million in developing the game, which has sold more than three million copies



We ended 2017 with sales over SEK 100 million in the last quarter of the year for the first time ever.

since release, generating approximately SEK 345 million in net sales. We are now concluding the partnership with Behaviour in a favourable manner and Dead by Daylight has become an even better deal for Starbreeze. In addition to securing and accelerating our revenues from the game, we will incur no costs related to further development and marketing. We expect the profits from the game through this transaction to exceed our earlier forecast of the game's remaining lifetime.

Phase three in the VR venture

We successfully established Starbreeze and StarVR as leading brands in VR and location-based entertainment during the year. We are now into phase three of the

VR venture we embarked upon in 2014 by building the technical platform in the StarVR headset. We continued investing in location-based VR in 2017 in order to reach the ultimate goal: to produce and distribute games and experiences for location-based VR operators, such as theme parks and shopping centers. We have invested time and resources in building up the VR parks in Dubai and Stockholm as full-blown concept stores to demonstrate how our content and the StarVR headset can work together to create a superior concept. On the first of March 2018, it was at last time to open the gates to the VR park at the Dubai Mall. We are thrilled to have more than 100 VR stations in the 7,000 square meter VR park, probably the biggest high-quality indoor VR park in the world.

We are convinced that location-based VR is the optimal business model for VR for the masses in the foreseeable future. IMAX, SEGA and EMAAR are already customers of both Starbreeze and StarVR Corporation, which shows we are on the right path.

Joint venture StarVR Corporation takes the VR headset to market

As of our latest agreement, Acer has taken on the majority of the financing of StarVR Corporation and we are thus free to concentrate our resources on producing content. By the end of 2017, StarVR Corporation had begun serial production of the current version of the headset to meet demand from customers like SEGA and the VR park in Dubai. StarVR Corporation will present the next version of the headset for a professional customer base during the year. The joint venture will proceed as an increasingly independent organization headquartered in Taipei and has now been approved to apply for



Starbreeze was listed on Nasdaq Stockholm Main Market on 2 October 2017.

market listing in Taiwan – the first step towards the goal of an IPO. We and Acer agree that a future listing would give the company optimal conditions for becoming a leading player in the global VR industry.

Focus on VR content

Through our VR publishing partners, we are continuing to add to our content catalog for location-based VR to secure the product line for new and existing customers. The APEX VR experience from developer Lucky Hammers, which is part of the initial offering in Dubai, is evidence of the expertise we have built up over the years and how we, with the right partners, can take VR content to new heights.

Strengthening cash reserves

A little less than a year ago, we decided to adjust the release date of OTWD from 2017 to 2018 to assure the quality of the game. Combined with poorer than expected sales of RAID, this created a need to secure the financing of our current business plan to the tune of about

SEK 75 million until the release of OTWD. Toward that end, we successfully executed a new share issue on January 25 2018 directed at a number of Swedish and international institutions, with Robur and Första AP-fonden in the lead. We are deeply gratified by the trust that both existing and new shareholders have shown in us. We also gave our current shareholders the opportunity to participate in a rights issue of SEK 150 million in the spring of 2018. After these capital raising rounds, we have the funds we need to both execute our plan to achieve revenue of at least SEK 2 billion in 2020 and grasp several business opportunities that we believe are going to create significant value for our shareholders. Our actions will include expanding the marketing campaign for OTWD, extending the development period of PAYDAY 2 to 2019 and accelerating the production plan for PAYDAY 3. I am also delighted that we have now been able to sign the publishing project for 10 Crowns, which is being made by some of the sharpest brains behind Civilization IV and Civilization V.

2018 belongs to The Walking Dead

2017 was an extremely eventful year in which we reached many important milestones. We are now looking forward to the rest of 2018, when OTWD will be our biggest release ever, and our expectations for the game are huge. When we started the campaign at the end of the year, proof of massive interest from the worldwide gaming community was instant, which made our team even more pumped. We are looking forward to showing more of the game, step by step, and introducing several of the main characters ahead of the release this fall.

Let's do this!

Bo Andersson Klint
CEO Starbreeze



MARKET

Market

GLOBAL MARKET AND GROWTH IS DRIVEN BY NEW PLATFORMS AND CONSUMPTION PATTERNS

Starbreeze operates in the global games market and develops games mainly for PC and console, as well as other platforms like VR and mobile devices. Games developed in-house are aimed primarily at hardcore gamers, with focus on the company's core genre, co-op first person shooters.

Starbreeze sells its products via distributors/platform owners (e.g., Steam and 505 Games). Of total sales, North America accounted for about 74 percent of revenue in 2017 and 73 percent in 2016. Europe generated about 18 percent of revenue in 2017 and 27 percent in 2016. Asia brought in about 8 percent of revenue in 2017, up from 0 percent in 2016.

Starbreeze's end customers – the people who play the company's games – are found all over the world. The chart below shows the regions that are home to gamers who play on Steam, the company's biggest distribution platform.

The global games market¹⁾ is undergoing strong expansion with estimated annual growth of 6 percent for the period of 2016–2020.²⁾ Market growth drivers

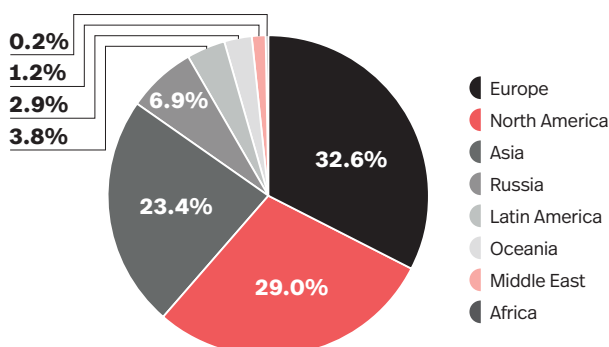
include higher penetration within certain target groups, such as women gamers and older gamers, technical development of hardware and software in areas including VR, and new consumption patterns in which social media platforms such as YouTube and Twitch are playing a key role.

In this section, the games market is divided below into three categories: console games, PC games and mobile games. The commercial market for VR is still limited, but strong growth is expected in the future. VR is already part of the console, PC and mobile markets, with VR headsets available in the market for all three segments.³⁾ The global market is broken down into geographies below and market conditions for the categories are described.

¹⁾ The global market for PC, console and mobile games (does not include games in the form of betting and casino play).

²⁾ Newzoo – 2017 Global Games Market Report: Trends, insights, and projections toward 2020 .

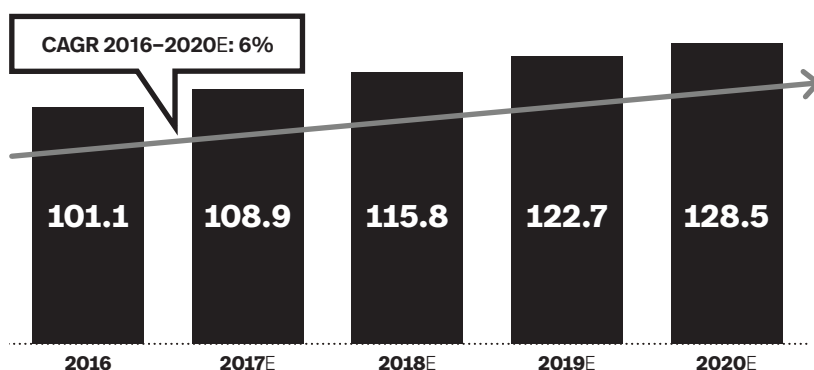
Distribution of Starbreeze's revenues from Steam by region, 2017



Size and growth of the global games market

The global games market in generated sales of USD 109 billion in 2017, with growth of 8 percent year-on-year. Growth in the games market is expected to remain strong, with estimated annual growth of 6 percent for the period of 2016–2020. By 2020, the market is expected to generate sales of USD 128 billion.

2016–2020 global games market forecast, 2015–2019, USDBn⁴⁾



Geographical distribution of the global games market

The majority of Starbreeze's sales are made digitally via the distribution platform Steam.¹⁾ Consequently, physical distribution channels have become less important and opportunities to reach a wider geographical customer base have increased. Starbreeze games are played primarily by gamers in North America and Europe. Asia-Pacific is a large, fast-growing games market, which makes it relevant to Starbreeze.

Size and growth in various geographical markets

Asia-Pacific is the largest geographical market with more than a billion gamers²⁾ and a market share of 47 percent of the global games market in 2017. This market grew by 9 percent between 2016 and 2017, and 55 percent of global growth in 2017 originated in Asia-Pacific. Generally speaking, growth is higher in markets with a low proportion of existing gamers. In spite of the size of the market in Asia-Pacific, gamers make up only 28 percent of the population.

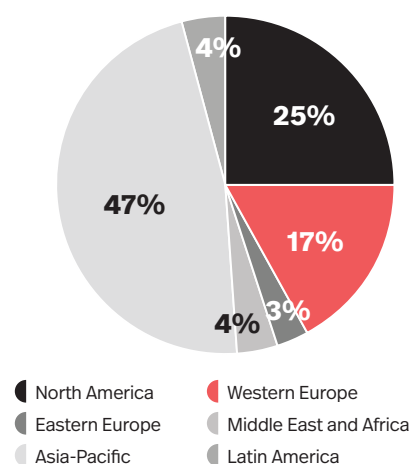
North America constitutes a total of 24 percent of the global games market. Growth between 2016 and 2017 was 8 percent, and gamers made up 50 percent of the population.

Europe constitutes a total of 20 percent of the global games market. The market grew by 5 percent between 2016 and 2017 and gamers made up 45 percent of the population.

Game revenues per capita vary widely among the geographical regions, where North America spent an average of USD 74 per person in 2017, compared to USD 46 per person in Western Europe, USD 10 in Eastern Europe and USD 13 in Asia-Pacific.

PC and console games have a stronger position in the western world, where gamers are more interested in hardcore gaming than they are in Asia-Pacific. Mobile games have a considerably stronger position in Asia-Pacific than in the western world. One of the reasons for this is that the revenue model for mobile games is often based on in-game purchases, rather than the higher one-off prices usually

Geographical distribution of game revenues in the global games market 2017⁴⁾



paid in the PC and console segments. In the company's judgment, MMO³⁾ games, which are included in the hardcore games category, have a stronger position in Asia-Pacific than in the western world because, like mobile games, this type is often based on in-game purchases.

Market data by geographical region, 2017⁴⁾

	Game revenues, USD billion	Growth 2016–2017, %	Number of gamers, millions	Population share of gamers, %	Game revenues per capita, USD ⁵⁾
Asia-Pacific	51	9	1,145	28	13
North America	27	4	180	50	74
Western Europe	19	5	188	46	46
Latin America	4	14	206	32	7
Middle East and Africa	4	25	336	20	2
Eastern Europe	3	9	155	44	10
Total	109	8	2,210	30	15

¹⁾ A digital distribution platform run by Valve Corporation.

²⁾ Newzoo defines gamers as people who indicate playing games on any of several platforms. <https://newzoo.com/solutions/consumer-insights/gamers/methodology/>

³⁾ MMO: Massive Multiplayer Online games are games played by a very large number of players concurrently, often online.

⁴⁾ Newzoo – 2017 Global Games Market Report: Trends, insights, and projections toward 2020.

⁵⁾ Game revenues per capita are calculated as total estimated game revenues in the games industry in each geographical region in 2017 divided by the total population of each geographical region in 2017. This should not be confused with game revenues per gamer, which are higher.

The global games market by segment

The games market can be roughly divided into three segments: console games, PC games and mobile games. There are distinct differences between the segments with regard to typical revenue models as well as which appeals to what type of gamer.

Gamers are usually divided into two categories in the games industry: hardcore gamers and casual gamers. The main differences between them are how much, how often and the manner in which they play. The groups are also generally willing to pay different amounts for a game. Hardcore gamers are generally more technically savvy and play on the most powerful and updated PCs or consoles. They are willing to pay more for a game and play games for longer sessions, and thus demand greater depth and complexity of gameplay. Their involvement in the game often extends beyond simply playing the game. One trait of hardcore gamers is that they are often interested in news and information about the game and in discussing the game in various forums and groups, such as the Steam community.⁶⁾ These are characteristics that casual gamers often lack.

Console games

Console games are defined as games played on a stationary or handheld console. The games can be purchased in both digital and physical formats. Games developed for console normally have larger production budgets and longer production schedules

compared to other types, especially mobile games. Due to these factors, console games are often aimed at hardcore gamers. In 2017, the segment made up 31 percent of the total games market, with revenues of USD 34 billion. The segment is expected to have an annual average growth rate of about 3 percent between 2016 and 2020. Revenues in the console games segment are expected to amount to USD 36 billion in 2020. Starbreeze expects growth in the segment to originate primarily from digital sales.

PC games

PC games include all games played on a PC and which are purchased in physical or digital format. MMO games are also included in the segment. PC games are often aimed at hardcore gamers. Digital sales are growing steadily and 75 percent of all PC games sold in 2016 were sold via Steam, the digital distribution platform. In 2017, the segment made up 27 percent of the global games market, with revenues of USD 29 billion. The segment is expected to have an annual average growth rate of about -2 percent between 2016 and 2020. Revenues from PC games/MMO are forecast to amount to USD 28 billion in 2020. Starbreeze estimates the downturn in the segment is due primarily to lower physical sales.

Mobile games

Mobile games are defined as games played on mobile devices, such as smart phones

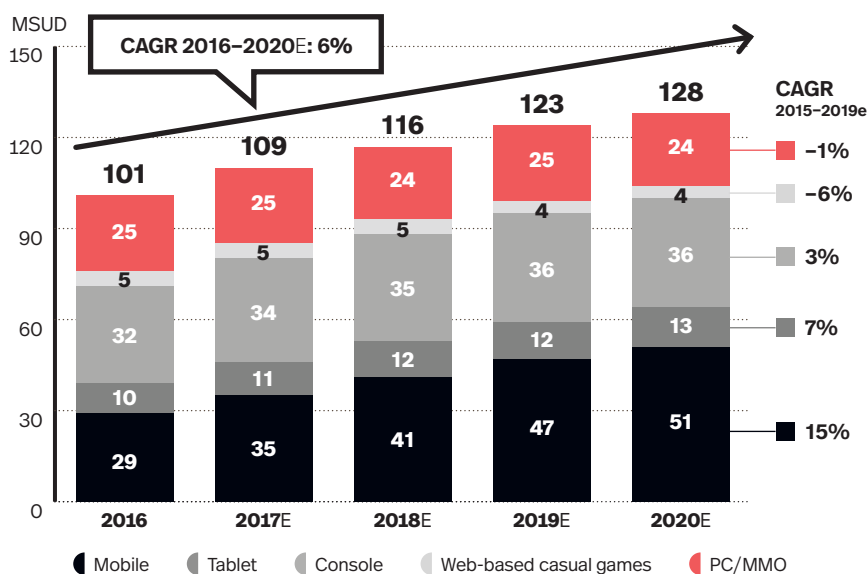
or tablets. The types of games played on smart phones and tablets are often similar to each other, with shorter playing sessions and narrower action than PC and console games. As a general rule, development budgets are lower and production time shorter for mobile games than for games developed for PC and console. Due to the nature of the games, casual gamers are the primary target group for mobile games. The mobile games market is based exclusively on digital distribution via platforms like AppStore and Google Play.

In 2016, games for smart phones and tablets generated USD 21 billion in revenues in Asia-Pacific, corresponding to 45 percent of total game revenues from the region. In the North American and European markets, mobile games accounted for less than 30 percent of total game revenues. In 2017, the segment made up 42 percent of the global games market, with revenues of USD 46 billion. Total revenues are expected to amount to USD 64 billion in 2020, based on an average annual growth rate of 14 percent.

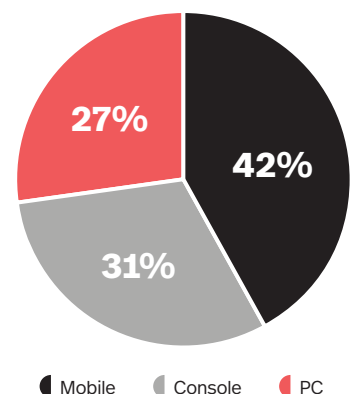
Other

Web-based casual games are games of a more basic type, with narrow action and low complexity, played in the browser. Revenues in the segment amounted to USD 5 billion in 2017. Web-based casual games are expected to have a negative annual growth rate of -6 percent between 2016 and 2020. The segment is expected to generate sales of about USD 4 billion in 2020.

The global games market by segment⁷⁾



Revenue distribution in the global games market by segment 2017⁸⁾



⁶⁾ A community is a type of online social meeting place.

⁷⁾ Newzoo - 2017 Global Games Market Report: Trends, insights, and projections toward 2020.

⁸⁾ Newzoo - 2017 Global Games Market Report: Trends, insights, and projections toward 2020. The chart shows the tablet category under "Mobile" and web-based casual games and PC/MMO under "PC."

Revenue models

The revenue model for PC and console games often differs from that for mobile games, but revenue models can still vary widely in the PC/console segment. A selection of the main revenue models in the games market is described below.

Full-price games

Most PC and console games aimed at hardcore gamers are the full-price type. Full-price games means that the games are sold at a relatively high one-off price. A majority of revenues are earned soon after the game is released, generally within one year. Many full-price games are further developed post-release to generate digital DLC purchases.

DLC purchases

The increased sales of games via digital distribution channels creates opportunities for merchandising and DLC sales

linked to full-price games. DLC bundles are often purchased in order to download new content or upgrades of previously released games, known as remasters. Starbreeze has successfully extended game lifetime by continuously offering updates and DLC bundles, which are developed based on analysis of user data and communication with the player community.

Subscription and streaming games

Like DLC purchases, opportunities to sell subscription and streaming games have grown in pace with increasing digital distribution. The revenue model is still relatively new, but Sony, for example, has entered the market with PlayStation Now. PlayStation Now gives gamers the option to either pay per game, as in traditional game sales, or choose a subscription system to gain access to several titles on the platform.

Free-to-play

Free-to-play is a general term for games where all or part of the game is available without requiring payment from the player. The source of revenue is often that the player has to pay a token amount to unlock additional features, for example, or to buy digital currency that can be used in the game. It is also common for free-to-play games to generate revenues through ads. Mobile games are usually of the free-to-play type, or have a low purchase price compared to PC and console games. To generate revenues, free-to-play games require a returning customer base who make payments or are reached by the ads in the game. Consequently, ongoing investments and campaigns are often required to maintain the customer base.

The games industry value chain

Developers

Game developers are responsible for the game creation process. The composition of game developer teams varies widely depending upon the type of game to be developed, and the teams may range from a few people up to several hundred developers with various specialist skills. Game developers are usually divided into two categories, depending upon whether or not they are owned by a publisher. Developers owned by publishers are designated internal developers, while others are designated independent developers.

The industry has changed in recent years with the arrival and powerful growth of several new game distribution platforms (such as Steam, Xbox Live and PlayStation Store). They have increased opportunities for game developers to release their games independently, with no need for a publisher.

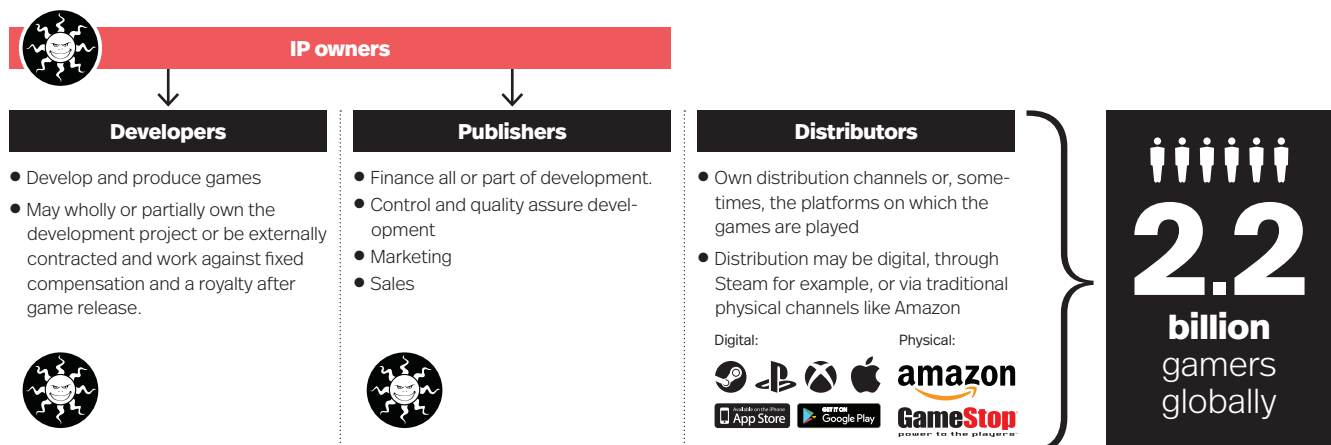
Publisher

The publisher's role includes commercializing game ideas and taking overall responsibility for the product. This may be accomplished by partially or entirely financing the

game development project, monitoring production, quality assurance, adapting the product and, often, distributing and marketing the finished game to resellers.

The publisher often owns the rights to the game, while development and production are carried out by independent game developers or the publisher's internal game development studios. In some cases, the publisher may act only as the distributor. Where this occurs, the publisher is responsible for releasing, marketing and distributing the game, while the game developer may still own the rights.

The games industry value chain



Distributors

Distributors, or resellers, of the game are the last link in the value chain before the game reaches the end consumer. The distributors own the channels that the games are sold through and/or the platforms the games are played on. Distributors may be physical and/or digital. A significant portion of games are still sold via traditional resellers, such as Walmart, Amazon or Gamestop, but a growing share is sold via digital channels, such as Sony and Microsoft's platforms for console games.

Consultants/Outsourcing

Due to a significant need for flexibility and control over staff composition among developers in the games industry, it is common to outsource parts of a game's development. The game developer maintains a small team of employees in production and creative skills internally and outsources parts of the development process to consultants or firms that

specialize in specific aspects of game development and whose business model is to act as subcontractors. The use of temporary contracted personnel in the development process has become less important to Starbreeze.

Owners of intellectual property (IP owners)

IP owners are the entities that own the brands upon which games are based. IP owners may be, for example, game developers who own the rights to proprietary games, publishers that have acquired a portfolio of brands, or the authors of film or book titles upon which games are based. Starbreeze is both an IP owner and cooperating with other IP owners in several game development projects.

Starbreeze's role in the value chain

Starbreeze is a game developer and publisher of both internally and externally developed games. Starbreeze works with

development, publishing and marketing of its internally developed games. The games are sold primarily via digital channels, where the largest platform is Steam. Through its own game PAYDAY 2, the company has one of the world's biggest player communities on Steam, in which players interact with each other and with the company. This platform and the company's expertise and experience laid the foundation for Starbreeze Publishing, where the company collaborates with other developers to help them with game publication through financing, marketing and distribution. Starbreeze is also pursuing several initiatives to create an entertainment platform in the fast-growing VR market, where the goal is to become a leading provider of premium VR content.

Trends in the games market

Games with a context

In recent years, streaming of games has grown in pace with increased digital distribution and because the games market has grown and it is easier to stream games via e. g. Twitch and YouTube. Traditional media companies have also begun exploring esports in particular, where it is easier to reach out to younger target groups.¹⁾ The global esports audience is expected to reach 386 million in 2017, with growth between 2016 and 2017 of 20 percent.

In the company's judgment, a large share of today's gamers are passionate and loyal, with a great many ideas and suggestions for how the games can be developed and designed. Accordingly, it is important for game developers to be where the gamers are. Starbreeze is therefore investing in maintaining close communication with fans, especially in the company's player community on Steam.

As the company understands it, gamers are generally making higher demands for a context in which they can discuss, have an influence and watch while others are playing. The game has become part of a greater context.

Microtransactions

Many popular games now offer an additional dimension of gameplay by making it possible for players to collect weapons or

clothing, for example, for their characters. Players want to be able to show off and trade in these artifacts. Starbreeze has previously tested microtransactions in PAYDAY 2 and learned lessons about how the microeconomy can work for future titles.

Technical progress

The development of console games is strongly linked to the technical performance of the consoles for which the games are developed. A new console is normally released every seven years. The latest generation consoles on the market are Xbox One from Microsoft and PlayStation 4 from Sony, which were both released in 2013. Sony and Microsoft both recently released more advanced versions of their respective consoles. During their life cycles, the latest generation consoles from Sony and Microsoft define the technical frames of reference that game developers must remain within. As new consoles arrive and technology develops, the opportunities and demands for game developers to deliver high-quality games increase.

The life cycles that developers must consider are not as clearly defined for PC games, as there are many more PC manufacturers than console manufacturers and people have more opportunity to upgrade their own PCs. As a result, the technical

development of PC games is more continuous and is enabling increasingly sophisticated games.

VR

Continuous effort is ongoing in the games market to further enhance gameplay for the end customer. The advance of VR into the games market has expanded opportunities to create experiences. Game revenues from VR games are still limited, but with VR devices for game consoles, PCs and mobile devices available on the market, revenues from VR games are expected to grow in all game segments. A further trend related to VR that the company has observed is that location-based VR is on the rise and that, going forward, a growing number of VR centers are going to be demanding content adapted to large-scale VR experiences.

Consolidation

The games industry is undergoing consolidation, in which the largest providers are taking an increasing share of revenues in the global games market. In 2016, the revenues of the 10 largest game companies amounted to USD 54 billion, corresponding to 54 percent of the global market. The 10 largest companies demonstrated organic and acquired growth of 24 percent between 2015 and 2016.¹⁾

¹⁾Newzoo – 2017 Global Esports Market Report.

Competitive position

Starbreeze has a constantly growing games portfolio and the company is widening its titles across different game segments. Starbreeze also has games on multiple platforms with wide geographical distribution. As Starbreeze's market expands, the number of companies that can be considered competitors is growing. The company's strongest position is in the PC games market.

Entry barriers are generally higher in the PC and console games market than for mobile games, as projects are often more comprehensive and require greater resources. A few market actors have taken large market shares due to a consolidation of publishers in the market. At the same time, new digital platforms have created greater opportunity than previously for small companies to publish game titles without involving the major

publishers. The games market is global and the company's competitors include both small and large companies in several different regions.

Starbreeze is also active in the mobile games market and the title PAYDAY: Crime War is in development. The market is characterized in general by lower entry barriers because mobile games are simpler and do not require development projects of the same magnitude. There are a large number of major market players in the mobile segment with several successful titles, such as Tencent and King Digital Entertainment PLC. There are also many smaller developers that have one or a few successful titles.

Peer companies

Starbreeze, which operates in the global games market, competes with other game

developers and publishers, but also with other companies in the entertainment industry. The capacity to create exciting and unique experiences to attract end users is critical to Starbreeze.

Starbreeze's operational breadth makes it difficult to find directly comparable companies. However, to a certain extent, the company can be compared to successful smaller game studios, such as Paradox, IO Games and Remedy, and publishers that distribute a few major game titles, such as Telltale and City Project, as well as large global game publishers like Nintendo and Konami from Asia and Activision-Blizzard, Electronics Arts, Take-Two and Ubisoft from Europe and the United States.

Virtual Reality

VR and Augmented Reality ("AR") are two different principles that have different Head-Mounted Displays ("HMDs")³⁾ that display a virtual or modified world. When a VR headset is used, the user cannot see through the display, but can only experience the surroundings shown on the display. The display on an AR headset, however, is transparent and the user sees the real world with various modifications. As VR technology progresses, there are potential market areas beyond the games market. VR might, for example, change how people attend a property viewing or how they see their doctors.

The technical development of PCs, consoles and mobile phones is critical to achieving sufficiently high quality in VR, as higher quality VR experiences presently require high computer capacity and high-resolution screens. The VR market in 2016 was considerably smaller than the games market, but large investments are being made in the rapidly developing

field. JP Morgan⁴⁾ estimates that the HMD market will grow by 52 percent per year during the period of 2016–2020. In 2016, the estimated sales for HMD amounted to USD 2,543 million and the market is expected to grow to USD 13,511 million in 2020.

Technical progress in VR and AR is enabling more segments. In addition to games, VR and AR are expected to constitute a part of the market for, among else, live events, video entertainment, property showings, retail and healthcare.

Goldman Sachs estimates that the software market for HMD will generate sales of USD 13.1 billion in 2020, of which USD 6.9 billion from the games market.⁵⁾ Goldman Sachs is forecasting sustained strong growth and estimates that hardware and software connected to VR and AR will generate massive sales of USD 80 billion in 2025, of which USD 11.6 billion from the games market.⁵⁾

Location-based VR

Location-based VR is a segment within Virtual Reality where the user visits a VR park outside their home to take part in VR experiences for either one or more users. The type of experience within location-based VR can vary on different parameters such as number of users, time and price. Starbreeze has observed that location-based VR is on the rise and that, going forward, a growing number of VR parks are going to be demanding content adapted to large-scale VR experiences. Greenlight Insights⁶⁾ estimates that the market for location-based VR including hardware, software, content, and related services will grow by 50 percent per year during the period 2017–2021. In 2017, the estimated revenue for location-based VR amounted to USD 240 million and the market is expected to grow to USD 1,200 million in 2021.

¹⁾ Van Deelen, Vincant (23 March 2017). "Game revenues of top 25 public companies up 17% in 2016, top 10 take more than half global market." Newzoo. <https://newzoo.com/insights/articles/game-revenues-of-top-25-public-companies-up-17-in-2016>.

²⁾ Augmented reality is a live direct or indirect view of a physical, real-world environment whose elements are augmented by computer-generated sensory input.

³⁾ Head-Mounted Displays (HMD) are displays worn on the head or are part of a helmet that has one or more displays in front of the eyes.

⁴⁾ JP Morgan – Virtual Reality: From virtual to reality, 2016.

⁵⁾ Goldman Sachs – Virtual & Augmented Reality: Understanding the race for the next computing platform, 2016.

⁶⁾ Location-Based VR entertainment Market Report, 2017-07-12, Greenlight Insights.

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



History

FROM CONTRACT DEVELOPER TO OWN DEVELOPMENT AND PUBLISHING

Starbreeze was formed in 1998 and was one of the first game development studios in Europe. Since then, Starbreeze has built a strong reputation through a number of successful game titles and has since 2013 undergone major organizational changes to adapt operations to its new business model. The main elements of the change process related to the present business model include the formation of a publishing business, investments in VR and partnerships with external market actors. The most important milestones in Starbreeze's history follow.

1998

Formation of Starbreeze Studios

The game development studio was formed, making Starbreeze one of the first game developers in Europe.

2003–2004

Reductions in force due to the bankruptcy of a major customer

Swing Entertainment, one of Starbreeze's biggest customers at the time, was declared bankrupt in 2003 and the company did not receive any new major development contracts to replace the lost revenues. The company ended up in a crisis that led to a restart of the business and the replacement of some members of senior management.

2008–2010

Canceled projects in the wake of the financial crisis

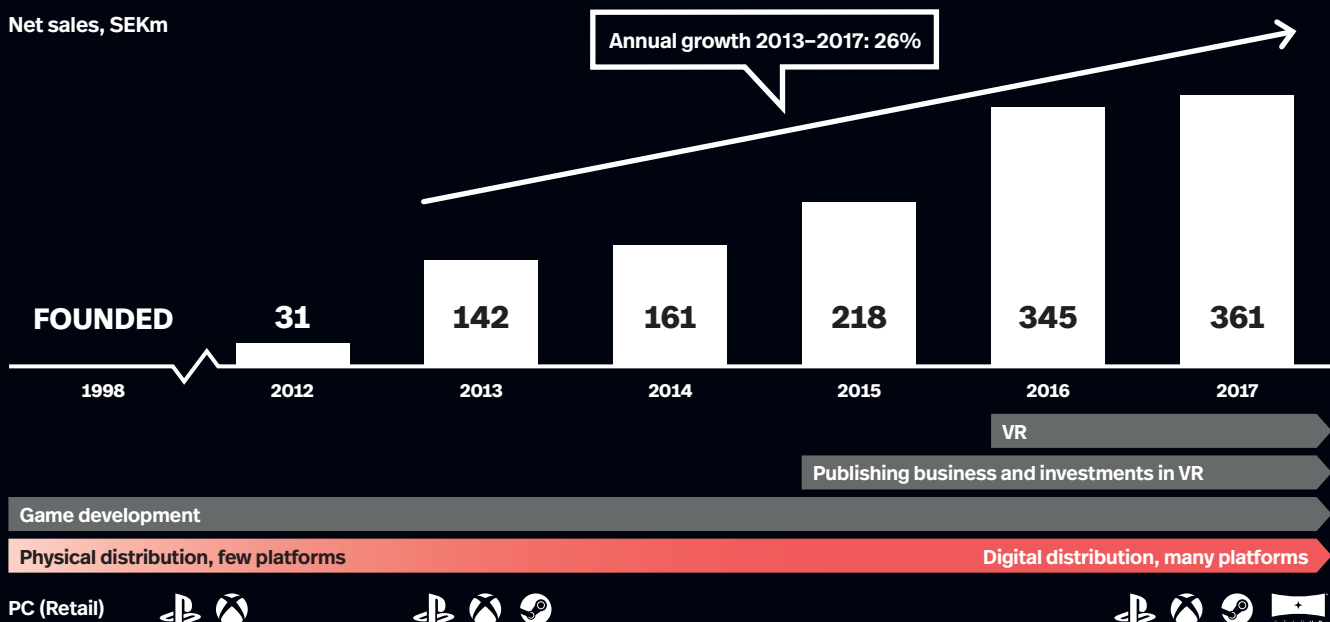
The games industry underwent a major structural transformation due to the financial crisis, in which the previous overcapacity in games development in the market was dramatically scaled back. Compared to other market actors, Starbreeze weathered the storm relatively well, but suffered setbacks including a canceled game project in partnership with EA.

2013–2014

Key game releases and acquisitions and listing on First North

During the period of 2013–2014, the company released the game titles PAYDAY 2 and Brothers: A Tale of Two Sons. PAYDAY 2 has been an important source of revenue ever since its release. During the period, Starbreeze also acquired Geminose Inc, and began game development of OVERKILL's The Walking Dead. Starbreeze was listed on First North in May 2014.

Net sales, SEKm



1998

1999

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017

2018

2000

Merger with O3 Games and listing on AktieTorget

Starbreeze Studios and O3 Games merged in 2000. With the merger, Starbreeze is listed on the AktieTorget marketplace.

2007

The Darkness is released

The own game, The Darkness, was released and moved into the number one spot in the rankings in the United States. The game garnered favorable reviews, which brought attention to Starbreeze and made it easier to recruit employees as the company focused on growth.

2012

OVERKILL Software is acquired

Starbreeze acquired the game development studio OVERKILL. In conjunction with the acquisition, the business was moved from Uppsala to Stockholm and OVERKILL's CEO Bo Andersson Klint became the new CEO of Starbreeze. Through the acquisition, the company gained access to OVERKILL's PAYDAY brand.

2015

Project StarVR initiated and publishing business begins

Starbreeze acquired the Paris-based company InfinitEye in 2015 and announced that the company had initiated the StarVR project with development of the StarVR HMD[®]. Starbreeze also began collaborating with Tobii in 2015 in relation to eye-controlled VR technology and established the Starbreeze Publishing business area. The same year, Starbreeze acquired the Valhalla game engine and also entered into a new collaborative agreement with 505 Games in 2015 concerning continued support for the development of PAYDAY 2.

2016

Several strategic partnerships and location-based VR

Starbreeze began a strategic partnership with Smilegate in 2016 that provides the opportunity to release Starbreeze's game titles in the Asian games market via Smilegate's platform. It was announced during the year that Acer was to be the production partner for the development of a VR headset in the StarVR project.

Also that year, Dead by Daylight, a game published by Starbreeze for an external studio, was released and the company acquired ePawN, a French VR/AR company.

Första AP-fonden also became a major shareholder in the company. Both Acer and Smilegate made significant investments in the company and Starbreeze acquired the outstanding rights to PAYDAY from 505 Games.

2017

Acquisition of Enterspace and Dhruva

On 30 June 2017, Starbreeze finalized the acquisition of Enterspace, the Swedish location-based VR company. In December 2017, Starbreeze also closed the acquisition of Indian production company Dhruva. The Starbreeze share was admitted to trading on Nasdaq Stockholm on 2 October 2017. Agreements were made in 2017 on the two major publishing projects, Psychonauts 2 and System Shock 3.

2018

Directed issue

A directed issue of new shares to Swedish and international investors was executed on 25 January 2018, raising approximately SEK 238 million for the company. The contract for the 10 Crowns publishing project was signed in February. In March, the VR park at the Dubai Mall opened, where Starbreeze is the lead partner, and Starbreeze sold the publishing rights to Dead by Daylight to Behaviour for USD 16 million.

VISION, TARGETS AND STRATEGY

Vision: A leading provider in the entertainment industry by creating world-class experiences.

Business concept

Starbreeze develops games and experiences based on own and third-party rights, both in-house and in partnership with leading game publishers. Starbreeze is succeeding by creating fun, exciting and engaging game experiences in graphical masterpieces. We are accomplishing this by valuing, developing and challenging our gamers and our employees.

Financial targets

Net sales

Starbreeze's target is to achieve revenues of at least SEK 2 billion in 2020.

The substantial growth will be primarily driven by the company's major own game titles. In addition, the board of directors has identified significant growth potential in continuing to widen the game portfolios within both Starbreeze Games and Publishing, a higher number of distribution channels, new platforms like VR and new geographies.

Profitability

The profitability target is to generate positive EBITDA for the fourth quarter of 2018 and for every subsequent financial year on an annualized basis. As the Starbreeze business model is scalable in several dimensions while the cost base remains relatively constant when revenues increase, significantly higher profitability is expected in conjunction with future game releases.

Dividend policy

The board of directors does not intend to propose dividends in the next few years, and instead intends to use generated cash flow to finance the continued growth and development of the business. Starbreeze's long-term dividend policy is to distribute 50 percent of net profit after tax from the preceding financial year.

Business strategy

Starbreeze has a business strategy, as described below, to achieve its financial targets:

Be a market leader in proprietary games

Starbreeze will remain a leading developer of proprietary games. The company's main focus is on games based on own IP rights, but the company also develops games in-house, the rights to which are partially owned by other parties. Starbreeze's primary aim is to develop hard-core action games in the co-op and first person shooter segments, primarily for PC and console. In the Starbreeze Games business area, the company focuses on larger games with longer development times and storylines that provide natural opportunities for continuous releases of product updates for the life of the game.

Accordingly, Starbreeze's focus will be on ensuring that the organization has the capacity to continue developing major game titles and delivering a steady stream of new content to the market in order to extend the lifetime of existing and future game titles.

Drive growth in the existing game portfolio

Starbreeze is concentrating deliberately on extending the lifetime of its games and game revenues. In product development, Starbreeze focuses on rapid and consistent development of new content that is released to the market as product updates ("DLCs"), both paid and free, in order to maintain interest, revitalize gameplay and increase the popularity of the game. Starbreeze has demonstrated its capacity to successfully release DLC bundles

through PAYDAY 2, where Starbreeze has released more than 170 paid and free updates that have extended the life of the game and generated substantial revenues for the company for more than four years. Starbreeze is working actively to build and maintain a dedicated player community, via Steam for PAYDAY 2 for example. The aim is to attach users to the game, heighten loyalty and enable cross-promotion of other Starbreeze game titles to existing users, without incurring higher marketing costs. PAYDAY 2 has the largest community on Steam, with more than 5.5 million members. In addition, Starbreeze is focusing on reaching more gamers through continuously further developing games and making them compatible with more platforms and distribution channels in Starbreeze's existing and new markets.

Grow the game portfolio through the publishing business

Starbreeze will continue expanding the game portfolio in the publishing business. With regard to externally developed games, the company sees positive effects from greater scalability through lower risk per game in the development phase and reduced use of resources per game, while Starbreeze will be able to release more games on the market in parallel and thus be able to offer a relevant game portfolio to all platform owners. The focus is on augmenting the portfolio of proprietary games with games of varying size and where there is an opportunity to depart from the company's core genre and where the Starbreeze model of frequent updates and organic marketing can be adapted and exploited. The company has historically been and will remain flexible with regard to financing arrangements and management of IP rights with a view to growing the game portfolio. Based on its deep expertise in game development, good reputation and global network, the company believes it has good opportunities to attract external game studios and IP owners to the Starbreeze publishing platform.

Establishment on new platforms and geographies for the existing game portfolio

Starbreeze sees potential to further increase revenues by taking existing games onto new platforms and into new geographies and continuously evaluating new opportunities as they arise. The company intends to enter the mobile games market with successful IPs from its growing game portfolio. Through using PAYDAY 2 with a large number of users, the company sees an opportunity to continue keeping marketing costs low while attracting mobile users within its existing user base. In addition, Starbreeze intends to expand its geographical presence by entering the Asian market. The step into Asia will be taken primarily through games to which Starbreeze owns the IP rights and by entering into partnerships with one or more companies with strong local market knowledge that can optimize game distribution.

Content is King in VR as well

Starbreeze has pursued a number of initiatives in recent years to create an entertainment platform in the rapidly growing VR market. Outstanding among these initiatives are the development of the first-class VR headset, which is directed at the professional market with corporate customers, and VR parks in arcade-like settings. For Starbreeze, location-based VR is the key to the company's VR strategy and the company sees great potential in the development of VR arcades that give users access to premium VR experiences. The VR park that opened on 1 March 2018 in Dubai will serve as a flagship and platform for further deals. The Starbreeze strategy in location-based VR is to be a provider of premium content and deliver first-class VR technology via the joint venture, StarVR Corporation.

As the market for game entertainment in the VR segment matures, Starbreeze intends to develop games and related premium experiences for VR to a greater extent, both as a publisher and in-house, which will primarily be adapted to the Star VR headset and location-based VR parks. The company has released several VR experiences adapted for large-scale VR and the long-term ambition is to make more Starbreeze titles available in VR.

Strategic partnerships

Starbreeze has continuously invested in strategic partnerships in order to enhance its value proposition. These partners are usually leading companies in their respective markets, such as Acer in the hard-

ware market and Smilegate in the Asian games market. Starbreeze uses these partners to benefit from their specialized expertise and commercial networks in order to strengthen the company's value proposition and gain leverage in its organization. With its strong position as a game developer and publisher, its good reputation in the market and global network, Starbreeze is in a good starting position to continue entering into key partnerships aimed at securing skills, enabling Starbreeze to focus on its core business and thus increase the company's revenues with limited investments of its own resources.

Starbreeze's position in the VR segment is enabling the company to expand this business along with financial and strategic partners. In this context, the contributions of strategic partners include geographical expertise.

Based on the company's history of making strategic acquisitions and successfully integrating them into the organization, Starbreeze intends to continue carefully evaluating potential strategic acquisitions in the future in order to strengthen its market position. The global entertainment industry is growing, not least importantly in the VR segment, and the company cannot preclude supplementary acquisitions of skills, technology and geographical presence. The company's previous acquisitions include Dhruva (India) and Enterspace (Sweden) in 2017, Nozon and Parallaxter (Belgium) and ePawn, now Starbreeze Paris (France) in 2016 and InfinitEye (France) in 2015.

Strategic priorities

Starbreeze has the following overall strategic priorities, which affect all aspects of the organization:

- Build a flexible, production-aligned organization to enable continuous optimization in each business area;
- Work systematically to increase market recognition of Starbreeze and its product portfolio in order to continuously improve the choice of direction, timing and projects in each business area;
- Be agile in business, technology and game development;
- Create processes that make it possible for creative ideas to grow and develop into in-house intellectual property.
- Give gamers insight into the creative process for in-house game production and the opportunity provide feedback, thus increasing player commitment to the company's products;
- Be on the forefront of development of new entertainment platforms that are a good fit with the company's business;
- To instill cost-consciousness in all processes.



OPERATIONS



Operations

WE CREATE WORLD-CLASS GAMES AND EXPERIENCES:

CONTENT IS KING

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, Luxembourg, Bangalore and Dehradun, Starbreeze develops high-quality entertainment products based on own and third-party rights, both in-house and in partnership with external game developers. Operations are organized in three business areas: Starbreeze Games for own game development, Publishing, and VR Tech & Operations for technology and software development in virtual reality (VR) and operation of VR parks.

STARBREEZE GAMES

The Starbreeze Games business area consists of Starbreeze's in-house games portfolio. Revenues currently comprise sales revenue and royalties for the rights to PAYDAY. The business area also includes Starbreeze's ongoing game projects, including OVERKILL's The Walking Dead and Crossfire.

Game production used to be financed entirely by external publishers. In connection with current development of partially or entirely self-financed games, a larger share of revenues generated by the games accrues to Starbreeze. Own games are published and distributed by Starbreeze internally through digital platforms, while agreements are made with external publishers for games sold through physical distribution.

Starbreeze develops games primarily for PC and console, as well as other platforms including VR and mobile. Starbreeze works with its own, well-known IP like PAYDAY, and third-party IP like The Walking Dead and Crossfire. The Starbreeze development team consists of a mix of senior developers and young developers in the main gamer peer group. The goal is to develop games with interesting content and constantly evolving experiences in the optimal manner. Starbreeze outsources specific parts of most development projects, but always has its own development team to ensure and verify that product specifications are met. Fully developed games are normally sold in the price range of SEK 299–699 through digital distribution channels or physical stores, as full-price games.

Post-release, the strategy is to remain committed to the game for an extended

period, according to the Games As A Service (GAAS) model. This is done mainly by continuing to develop the game and by creating games for which the community is involved and has an influence on the future direction. Starbreeze therefore focuses on developing games with high replayability and the potential to generate a large player base. Further development leads to both free updates and updates sold for a nominal cost, additional content known as DLC (downloadable content). Read more about how this is working for PAYDAY 2 under "Keeping products alive: Case study PAYDAY 2" on page 30.



In 2017, at peak

247,000

gamers played PAYDAY 2 concurrently

This is one of the highest rating ever on Steam, for all games available on the platform.

Starbreeze Games business model

The business model is based on the GAAS model, where the goal is to release DLC bundles and updates for a long period of time after the game is released. In this way, revenues are generated for an extended period and the IP grows. This is extremely valuable in the games industry, as it increases the value of any sequels to the game.

If the IP is owned by Starbreeze and the company has financed the game internally, all revenues (less taxes and platform fees) accrue to Starbreeze. If the game was financed (in whole or in part) by a third party, they will receive a revenue share in the form of royalties. If the game is based on IP that Starbreeze does not own, the IP owner also receives a share of game revenues.

Starbreeze bears the costs of distribution and marketing for games it finances internally. Where there is a co-financial backer, the costs are normally shared equally. The company normally has a right to recoup these costs before any revenue sharing with an IP owner.

Illustrative business model for Starbreeze Games

Examples in USD	Digital sales	Physical sales
Selling price per unit	49.9	49.9
VAT, %	10	12
Cost per unit sold, %	-	10
Distribution fees, %	30	60
Starbreeze's net sales	31.4	15.8

Revenue sharing (if applicable) to external financial backers or external IP owners is additional.

>15
million

people watched the trailer of OVERKILL's The Walking Dead on YouTube and Facebook in the first week.

PAYDAY 2 HAS
>5.5
million
community members

Events in 2017

2017

- January:**
New office opened in Barcelona for project management of Starbreeze's mobile initiatives.
- February:**
John Wick DLC was released for PAYDAY 2.
- May:**
Starstream broadcast on Twitch TV.
- November:**
 - Beta version of PAYDAY 2 for VR released.
 - Master Plan DLC released for PAYDAY 2.
- December:**
 - PAYDAY team released the h3h3 character bundle with YouTube stars Ethan and Hila Klein.
 - Reservoir Dogs DLC was released for PAYDAY 2.
 - Marketing started for OVERKILL's The Walking Dead.

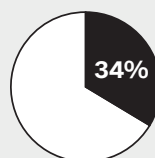
2018

2017 in figures

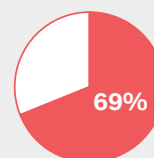
- Net sales amounted to SEK 122.1 million (162.4), with PAYDAY 2 accounting for the lion's share. The figures for 2016 include a non-recurring effect of SEK 19.9 million arising from the buy-back of the rights to PAYDAY.
- Development costs of SEK 148.2 million (82.4) were capitalized during the period. The increase was mainly driven by higher activity in the production of OTWD as well as the Crossfire game project and the PAYDAY Crime War mobile project.
- Operating profit/loss amounted to SEK -0.6 million (85.5). Operating costs increased by SEK 99.5 million year-on-year, driven primarily by higher activity in the OTWD project and the Crossfire game project and PAYDAY Crime War mobile project having moved into a more intensive phase. Earnings were also affected by exchange losses of SEK -17.6 million (12.0).

Key data

SEKK	2017	2016
Net sales	122,074	162,442
Capitalized development costs	148,196	82,443
Other operating revenue	-	11,977
Total	270,270	256,862
Operating costs	-270,820	-171,328
Operating profit (-loss)	-550	85,534



Share of
net sales
in 2017



Percent-
age of
workforce

PUBLISHING

In the Publishing business area, Starbreeze acts as the publisher for games developed by external developers.

Starbreeze's experience in game development has created a network and reputation in the market that puts the company in a good position to act as a publishing partner to other game developers. Starbreeze has the capacity to contribute vast knowledge and experience to game development projects, so that the game will be

as successful as possible, which benefits Starbreeze and the partner. Collaborative efforts are focused on companies that develop games of a similar nature to Starbreeze's own games, where the company's experience is the most useful. Normally, the game developer retains all or a large share of the IP rights.

Publishing business model

The Publishing business model is to identify studios and world-class game projects and then help game developers assure the quality of the game's most important components and to finance, market, release and distribute games for PC, console, VR and mobile. Revenues are shared with the external developer after Starbreeze has recouped its initial investment. Typical publishing deals provide limited rights to the developer. Starbreeze aims instead to be a catalyst for its partner and the partner's success. The business model varies according to the size of the investment but, aimed at creating the right incentive, always allows the game studio to retain partial ownership of the IP, and thus earn, compared to a typical publishing deal, a larger share of the revenues.

If the game is based on third-party IP that Starbreeze does not own, the IP owner also receives a share of the revenues. Distribution and marketing costs are normally shared equally between

Starbreeze and the external developer.

Starbreeze is working actively to teach the GAAS model in publishing projects, but the goal is to release DLC bundles and updates for a long time after the game is released. In this way, revenues are generated for an extended period and the IP grows. This is extremely valuable in the games industry, as it increases the value of any sequels to the game. When the GAAS model is applied, Starbreeze finances the further development of the game jointly with the external developer, often in equal shares.

More than

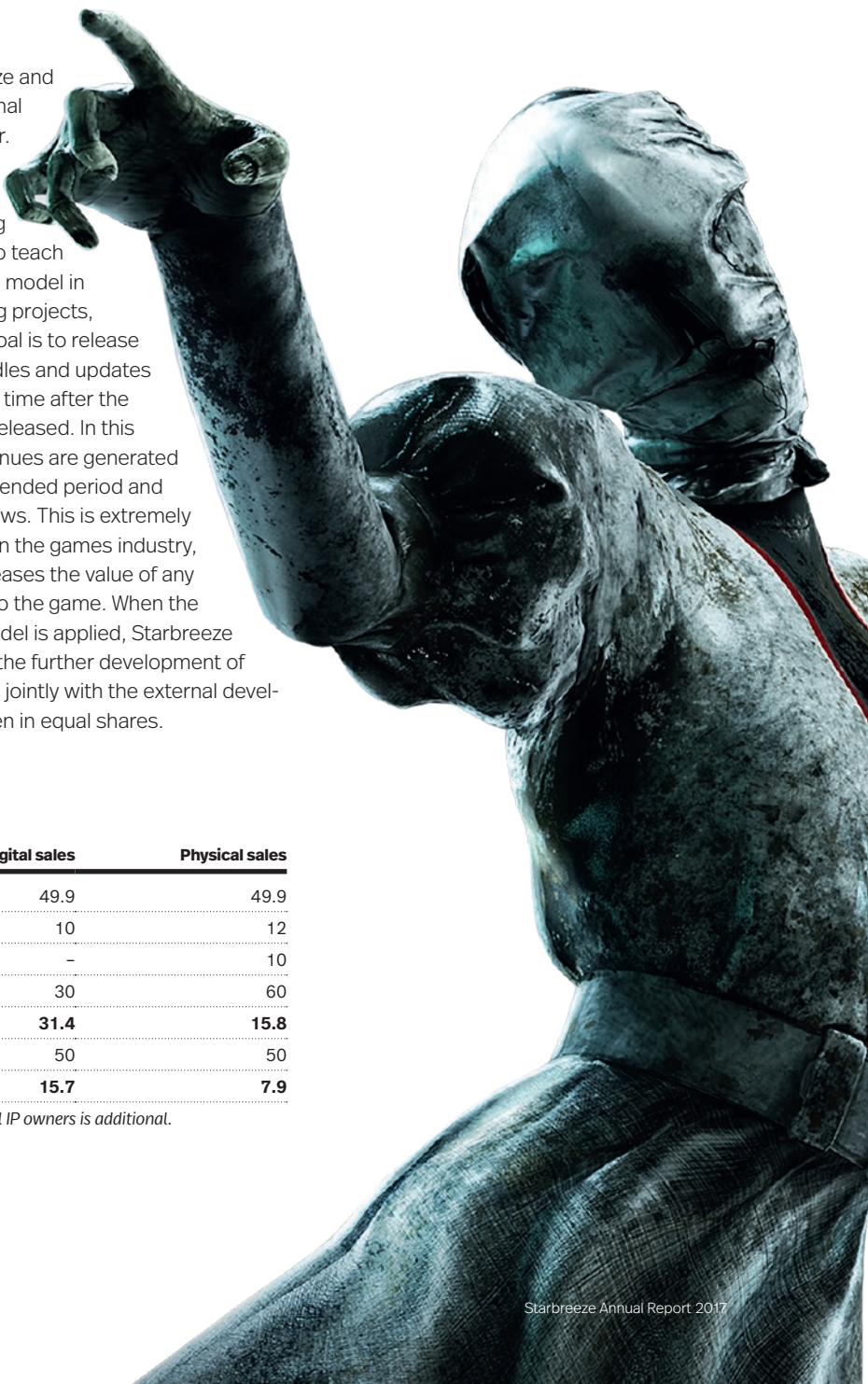
3 million

units sold of
Dead by Daylight

Illustrative business model for Publishing

Examples in USD	Digital sales	Physical sales
Selling price per unit	49.9	49.9
VAT, %	10	12
Cost per unit sold, %	-	10
Distribution fees, %	30	60
Starbreeze's net sales	31.4	15.8
Revenue sharing to external developers, %	50	50
Starbreeze's share	15.7	7.9

Revenue sharing (if applicable) to external financial backers or external IP owners is additional.



Events in 2017

2017

- **February:**
 - New publishing agreement with Double Fine Productions for Psychonauts 2.
 - VR title John Wick Chronicles released.
- **March:**
 - New publishing agreement with Otherside Entertainment for System Shock 3.
- **April:**
 - Left Behind update to Dead by Daylight released.
- **May:**
 - Spark of Madness DLC to Dead by Daylight released.
- **June:**
 - Dead by Daylight released for PlayStation 4 and Xbox One in Europe and the US.
 - Headcase DLC to Dead by Daylight released.
 - VR title The Mummy Prodigium Strike released.
- **July:**
 - Indielabs title Antisphere released for PC.
- **September:**
 - Nightmare on Elm Street and Leatherface DLCs to Dead by Daylight released.
- **September/October:**
 - Publishing title RAID: World War II released for PC, PlayStation 4 and Xbox One.
- **November:**
 - Digital version of Dead by Daylight for PlayStation 4 released in Asia.

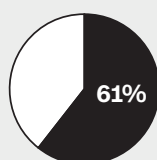
2018

2017 in figures

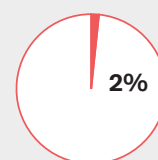
- Net sales amounted to SEK 219.9 million (176.1), of which Dead by Daylight accounted for SEK 201.5 million (143.7), RAID for SEK 4.6 million (32.5) and John Wick: Chronicles for SEK 8.3 million (0.0). The growth is primarily attributable the release of Dead by Daylight for console in Q2 2017 and sale of the game's physical console rights for SEK 22.0 million. During the third quarter of 2016, Starbreeze received a minimum guarantee of SEK 32.5 million in royalties for the physical console version of RAID, which should be considered in a comparison. Development costs of SEK 26.1 million (32.4) were capitalized during the period.
- Operating profit/loss amounted to SEK –42.5 million (64.6). Earnings were affected by costs of SEK 90.0 million (68.2) in royalties to partners and costs of SEK 36.7 million (12.6) for further development of Dead by Daylight and the VR game The Mummy. Earnings were also reduced by exchange losses of SEK –6.8 million (gain: 12.8 million) and amortization and impairments of intangible assets of SEK 63.5 million (5.3), including an impairment of RAID of SEK 20.2 million.

Key data

SEKK	2017	2016
Net sales	219,925	176,142
Capitalized development costs	26,137	32,440
Other operating revenue	–	7,951
Total	246,062	216,533
Operating costs	–288,527	–151,943
Operating profit (-loss)	–42,465	64,590



Share of
net sales
in 2017



Percentage
of workforce

Dead by Daylight has

800,000
community members



VR TECH & OPERATIONS

The VR Tech & Operations business area consists of Starbreeze’s 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 centers, primarily the VR park in Dubai, are also included as of the third quarter of 2017.



StarVR Corporation

StarVR Corporation is a joint venture with the Taiwanese company Acer, which sells and markets the StarVR headset. Profit or loss from StarVR Corporation is recognized as financial income or expense and thus not included in operating profit or loss.

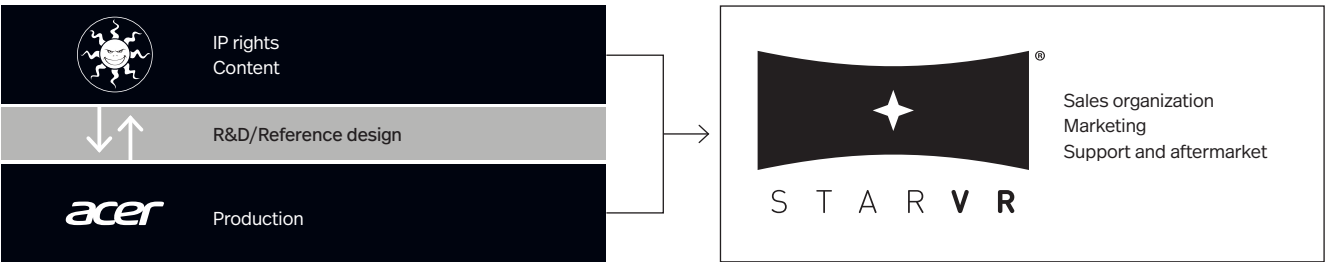
StarVR Corporation has begun serial production of the current version of the headset to meet demand from customers like SEGA and the VR park in Dubai. StarVR Corporation will present the next version of the headset for a professional cus-

tomers base during 2018. The joint venture delivers the VR technology and Starbreeze provides premium VR content.

The StarVR headset is being manufactured to become a high-quality VR product, where the main differentiation against other VR headsets is aimed at a professional market with a 210 degree field of vision with 5K resolution. The purpose of the joint venture is to market and sell the StarVR system to location-based VR parks, theme parks and various B2B segments,

such as real estate sales, the automobile industry, medical devices and education. The joint venture is a sales and marketing company that manages the sales organization, support and aftermarket support. 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.

Starbreeze and Acer’s joint venture, StarVR





Business model for location-based VR

The business model for location-based VR is based on sharing of net revenues (revenues less direct operating costs) from ticket sales among the content provider, technology provider and operator/property owner. If an experience is based on third-party IP, such as The Walking Dead experience, the IP owner receives a share of Starbreeze's net revenues. The share varies depending on the underlying agreement with the IP owner.

Illustrative business model for location-based VR

	Share of net revenues from ticket sales	Wholly owned (Stockholm)	Partnership (Dubai)	Content and technology provider (IMAX)
Headset, technology, pods	20–40%	StarVR	StarVR	StarVR
Content	20–40%	Starbreeze	Starbreeze	Starbreeze
Operation (property owner)	20–40%	Starbreeze	–	–
Costs borne by Starbreeze	–	All costs	Costs for build-up of own zones*	No costs (except for content development)

*Including content development

Events in 2017

2017

June:

- License agreement with IMAX for content for IMAX centers.
- Acquisition of Swedish location-based VR company Enterspace.

August:

Lead partner for operation, installation and content for the new VR park in the Dubai Mall.

October:

New financing plan for joint venture StarVR Corporation, where Acer assumes the majority of financing.

December:

StarVR closes an agreement with SEGA on premium VR experiences

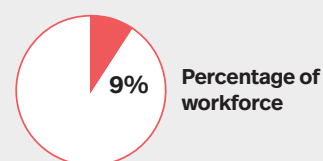
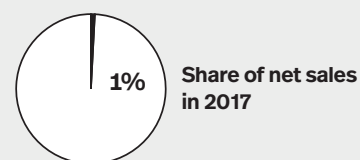
2018 in Japan.

2017 in figures

- Net sales amounted to SEK 3.9 million (0.0). Development costs of SEK 57.6 million (39.3) were capitalized during the period and refer mainly to development of the StarVR headset. Other operating revenue, consisting of currency effects, amounted to SEK 0.0 million (6.0). Operating profit/loss amounted to SEK –0.4 million (–31.9).

Key data

SEKK	2017	2016
Net sales	3,883	–
Capitalized development costs	57,601	39,264
Other operating revenue	–	5,983
Total	61,484	45,247
Operating costs	–61,895	–77,153
Operating profit (-loss)	–411	–31,906



MARKETING

Starbreeze has devised several internal marketing strategies. Handling marketing internally gives the company control over the marketing process while limiting external costs.

Starbreeze has defined a number of interacting factors in marketing that have been strategically selected to generate optimal returns.

- Strong presence and marketing via the Steam community.
- Collaboration with streamers¹⁾ active on YouTube and Twitch.
- Strategic releases of new content.
- Influences of and collaboration with well-known individuals and brands.
- Arrangement of events and merchandise sales.

Steam community

Actively marketing new games and features via Steam and other communication channels ensures that the company's fans are updated and informed about new products released on the market. The company's active dialogue with the community combined with a community-friendly game has made PAYDAY 2 the biggest community on Steam, with more than 5.5 million members.²⁾ PAYDAY 2 has received more than 190,000 game reviews on Steam, more than 80 percent positive.³⁾ Scores and reviews are hugely important in the

games industry and a high score based on a large number of reviews lends credibility and leads many new players to discover the game.

Streamers

Starbreeze maintains close dialogue with some of the most dedicated players, who stream directly on Twitch or YouTube when they play, aimed at understanding them and making it possible to develop relevant, high-quality games for its fans. Members of the community have also posted several popular clips on YouTube with game content. Dead by Daylight, a game published by Starbreeze, has been streamed on an average of 150–170 channels concurrently.

Wide distribution of Starbreeze games via streaming services and YouTube is leading new players to discover and begin to play the games themselves. Interacting with dedicated gamers who stream or upload clips to YouTube also entails the potential for gamers to begin playing and marketing new games and updates released by the company.

Keeping products alive:

Case study: PAYDAY 2:

Starbreeze continuously releases updates and new game features to further enhance gameplay. Updates released at a nominal cost, "DLC bundles," generate revenues for the company while revitalizing gameplay. The company also releases free updates, which enhance the popularity of the game and push it upwards on various top lists. Prominent rankings on top lists make new players aware of the game, who begin to play it, which leads to increased sales of the original game.

PAYDAY 2 was released in August 2013 and more than 170 paid and free updates have since been released for the game, which is still one of the most played on Steam. With PAYDAY 2, Starbreeze has achieved high impact upon release of DLCs and updates.

Starbreeze is working continuously to build and maintain a dedicated player community, primarily by releasing new DLCs in the form of new missions, new characters, new weapons or new game storylines. Starbreeze also maintains constant dialogue with the 5.5 million members of the player community on Steam. Two-way communication with the players, data collection and analysis is continuously ongoing in order to constantly develop

¹⁾ A person or persons who run media channels with content streamed to the public over the internet.

²⁾ Steam, 19 Feb 2018. <https://steamcommunity.com/games/218620>.

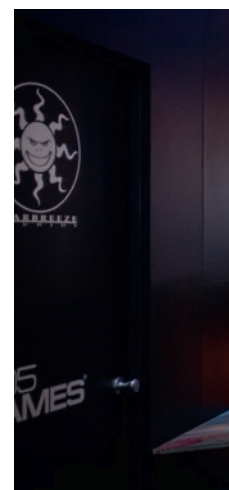
³⁾ Steam, 19 Feb 2018. <http://store.steampowered.com/app/218620>.



Starbreeze maintains close dialogue with some of the most dedicated gamers, who livestream on Twitch or YouTube.



PAYDAY 2 has the largest community on Steam, with more than 5.5 million members.



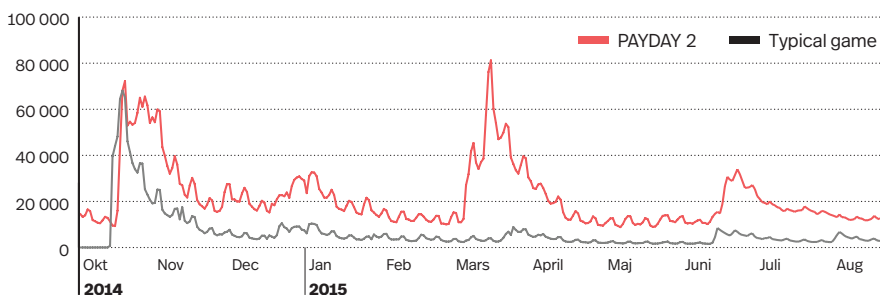
the game in the right direction and with relevant content.

Starbreeze's commitment to the game has extended its lifetime compared to an ordinary game. The number of players of ordinary games usually diminishes continuously towards zero, while PAYDAY 2 has successfully retained a large number of players who are continuing to play the game long after it was released. Releases of free updates or DLC bundles result in temporary spikes in the number of players, which shows that Starbreeze is developing updates and DLC bundles for PAYDAY 2 that enrich the experience and trigger widespread interest.

Collaborations

Starbreeze collaborates with well-known brands, individuals and companies in the entertainment world in order to generate higher interest in games among existing and new players. Upcoming collaborative efforts include "The Alesso Heist," a DLC bundle for PAYDAY 2 featuring the Swedish DJ Alesso, and development of the VR game John Wick Chronicles: Arcade Edition, which is being accomplished in collaboration with the motion picture studio Lionsgate, creator of the feature film John Wick. Collaborations of this kind create the potential that gamers who have

Sales trend for PAYDAY 2 compared to a typical game



PAYDAY 2 was released in August 2013. The comparison game was released October 2014. The chart above shows the sales trend from September 2015 (thus, one year after PAYDAY 2 was released).

not previously played Starbreeze games, but who are fans of the company's collaborative partner, will begin to play the new game and subsequently discover the rest of the Starbreeze game portfolio.

Events and Merchandise

Every year Starbreeze arranges events, both physical and online, for fans of the company's games. The most recent arrangement was an exclusive live-streamed event on Twitch TV on 10 May 2017. The content included interviews, presentations of the company's games and a panel discussion called "Veterans of the Industry" featuring Warren Spector, Tim Schafer and Bo Andersson Klint.

In connection with these events, players come into contact with other players and the sense of belonging to the community is enhanced, while Starbreeze has the opportunity to interact with the players and listen to their opinions and thoughts about the games. Dialogue with players is a key component of new game development as well as updates to existing games.

Starbreeze also has an online merchandise store where PAYDAY fans can buy official fan merchandise, which strengthens their relationship with the game and Starbreeze.



Starbreeze arranges events, both physical and online, for fans of the company's games every year.



Starbreeze collaborates with well-known brands, individuals and companies in the entertainment world in order to generate higher interest in games among existing and new players.

GAME DEVELOPMENT PROCESS

The Starbreeze strategy is to build a flexible, production-oriented and agile organization to enable continuous optimization. The ambition is to create processes that make it possible for creative ideas to grow and develop into in-house IP.

Production method

The Starbreeze production method is based on a combination of agile development and traditional planning. Different phases of the agile production cycle required different project methodologies because the objectives of the concept, production and delivery stages vary widely.

In its production, Starbreeze has chosen to take inspiration from the “scrum” project method. In brief, scrum is based on working in projects with cross-functional teams that work interactively. The goal is to create a fun but focused work environment in which the teams have a sense of ownership and responsibility, which is meant to lead to successful projects.

Project organization

The executive producer and producer are ultimately responsible for the project. The executive producer has lead responsibility for the game vision and for ensuring that it is communicated to all parties. The producer has overall responsibility for ensuring that the game project is delivered on time and on budget.

The executive producer is assisted by an art director who drives the visual vision, level designers and QA who design the game mechanics and writers. The producer is supported by associate producers or other co-producers.

Other roles in production include level designers, environment artists, animators, audio designers, audio composers, concept artists, gameplay programmers and quality assurers.

Skills areas

Production and creative direction

Producer

Has overall responsibility for ensuring that a game project is delivered on time and on budget. Tasks include maintaining overall planning for the project and staying involved in communication with the company's publishers.

Executive Producer

Ultimately responsible for the project vision. Resolves creative challenges and guarantees high quality and ensures that the vision for the end product informs the entire development process.

Art Director

Responsible for the visual vision of the game and reports to the game director. Tasks include planning and visualizing the vision.

Quality Assurers

Design the mechanics used in the game. Report directly to the executive producer and are involved in developing the framework of the game.

Content creation and implementation

Level Designers

Develop gameplay, which involves things like deciding which bad guys the player will encounter and what the gamer will do and experience in the game. Build the paths/environments used in the game.

Animators

Produce animation data for the game and develop the storytelling parts of the game.

Character and 3D Artists

Model the characters and artifacts used in the game based on the concepts created by the art director.

Texture Artists

Build the textures used in the game's environments.

Effect Artists

Develop the effects seen in the game.

Concept Artists

Create the originals for the models and environments to be included in the game.

Media Artists

Produce the video in the game.

Audio

Create and arrange the music and sound used in the game.

Programming

Game Programmers

Develop the systems that are specific to a game project. This includes things like weapons, artificial intelligence and effects systems.

Technology

Engine Programmers

Develop and modify the basic technology in the game engine.

Tools Programmers

Tasks similar to those of engine programmers, but focus is on the tools used to develop the game.

Quality Assurers

Find problems in the game and report them so they can be fixed. They are gatekeepers who ensure that the game maintains superb quality of playability and design: nothing leaves production without QA approval.

GAME PORTFOLIO AND GAMES IN DEVELOPMENT

The Starbreeze game portfolio comprises own games and publishing titles. Own-production games are games developed by Starbreeze and published by Starbreeze or outside publishers. Publishing titles are games developed by external developers and published by Starbreeze.

Game outline				Platforms				Distribution		Sales	
Title	Released	IP owner-ship	Genre	PC	Console	Mobile	VR	Digital	Physical	Starbreeze's revenues since release	Number of copies sold
										SEKm	million
Starbreeze Games											
PAYDAY: The Heist	2011	100%	Co-op, FPS, Action	■	■	–	–	■	–	100	> 2.5
PAYDAY 2	2013	100%	Co-op, FPS, Action	■	■	–	■	■	■	757	> 16
OVERKILL's The Walking Dead	In development	0%	Co-op, FPS, Action	■	■	–	–	■	■	–	–
Geminose	In development	100%	Children, Music	–	■	–	–	■	–	–	–
PAYDAY Crime War	In development	100%	PvP, FPS, Action	–	–	■	–	■	–	–	–
Project Crossfire	In development	0%	Co-op, FPS, Action	■	–	–	–	–	–	–	–
STORM	In development	100%	Co-op, FPS, Action	■	–	–	■	–	–	–	–
PAYDAY 3	In development	100%	Co-op, FPS, Action	■	–	–	–	–	–	–	–

– Not announced/defined



Game outline				Platforms				Distribution		Sales	
Title	Released	IP owner-ship	Genre	PC	Console	Mobile	VR	Digital	Physical	Starbreeze's revenues since release	Number of copies sold
										SEKm	million

Publishing

Dead by Daylight	2016	0%	Horror, Asymmetric, 4v1	■	■	-	-	■	■	345	> 3
Antisphere	2017	0%	Arena shooter, 2v2	■	-	-	-	■	-	-	-
RAID: World War II	2017	50%	Co-op, FPS, Action	■	■	-	-	■	■	-	-
Psychonauts 2	In development	0%	Adventure, platform	■	-	-	-	■	-	-	-
System Shock 3	In development	0%	-	■	-	-	-	-	-	-	-
Deliver Us The Moon	In development	0%	-	■	-	-	-	-	-	-	-
10 Crowns	In development	0%	Strategy	■	-	-	-	-	-	-	-

Publishing VR titles

OVERKILL's The Walking Dead: Outbreak	2016	0%	VR, Action, LBE				■				
John Wick Chronicles	2017	0%	VR, FPS, Action	■	-	-	■	-	-	8	-
The Mummy: Prodigium Strike	2017	0%	VR, Action, LBE				■				
The Raft	2017	50%	VR, Multiplayer, LBE				■				
APE-X	2018	0%	VR, Action, LBE				■				
PAYDAY: The VR Heist	2018	100%	VR, Action, LBE				■				
Geminose The VR Carousel	2018	100%	VR, Children, LBE				■				
ElemenTerra	In development	50%	VR, Puzzle				■				
Hero	In development	0%	VR, Drama, Puzzle, LBE				■				
Project Golem	In development	50%	VR, Action, LBE				■				

The Starbreeze games portfolio



Platforms PC, XBOX One, PlayStation 4, Xbox 360 and PlayStation 3	
Genre	Action/Role Play
Publisher	Starbreeze
Release	August 2013
Latest update	18 August 2017
Official website	crimenet.info
Average score: metacritic.com	Steam users
79%	82%

PAYDAY: The Heist

PAYDAY: The Heist is a downloadable co-op game designed to deliver a unique spin on the first person shooter genre. The game involves playing with friends and assuming the role of one of the hardened career criminals Dallas, Chains, Hoxton and Wolf, who are always aiming to pull off the next big heist. The players have to cooperate in order to commit the perfect crime.

In PAYDAY: The Heist, the player is a robber who has an array of guns at their disposal to complete objectives, usually in an effort to steal cash or valuables.

PAYDAY: The Heist has a high level of replayability due to a system that creates variation through random events. For example, someone you have to find in order to progress might be in a different place every time you pull off the heist, which means the player always experiences something new.



Platforms	PC and PlayStation 3
Genre	Action
Publisher	Sony Online Entertainment
Release	October 2011
Official website overkillsoftware.com/payday	
Average score: metacritic.com	Steam users
73%	94%

PAYDAY 2

PAYDAY 2 was released in August 2013 for PC and is a fast-paced co-op first-person shooter for four players, where the players once again take on the roles of the bank robbers in the PAYDAY gang – Dallas, Hoxton, Wolf and Chains – in a new crime wave across the city of Washington D.C.

In this sequel to PAYDAY: The Heist, the PAYDAY gang is once again contacted by their crony Bain, who this time invites them to come to Washington D.C., where Bain has launched his latest project, called Crime.net, to make it possible to pull off the biggest heist of all time. Crime.net gives all the criminals and their networks a digital meeting place to coordinate robberies and take their exploits to a whole new level.

Crime.net offers a wide array of dynamic heists and players are free to choose anything from small jobs where they rob convenience stores to major heists where they empty bank vaults that can result in a major payday. The more people play, the bigger, the better and the more lucrative the jobs and paydays they get.

PAYDAY 2: Crimewave Edition

PAYDAY 2: Crimewave Edition was released in June 2015 in retail outlets and in the digital market by Starbreeze's partner 505 games for the PlayStation 4 and Xbox One consoles. The update, PAYDAY 2: Crimewave Edition – The Big Score, was released in the third quarter of 2016 and gives gamers the option to buy updates to the game via either digital distribution on console or in stores.

PAYDAY 2 | DLC bundle

Since the game was released, more than 40 DLC bundles for PAYDAY 2 have been released, which players must pay to access. In addition, numerous free DLCs have been released. In total, more than 170 updates have been released since the game was originally released in August 2013. These contain new heists, new features, additional playable bank robbers, more weapons, masks and new challenges.

PAYDAY 2: Ultimate Edition was released in the summer of 2017 and is a bundling of all previously released content.

¹⁾ Cooperative gameplay, co-op, is a feature in a game that allows players to cooperate as teammates. See "Definitions and glossary".

Dead by Daylight

Publishing product

Dead by Daylight is an asymmetric multi-player horror game for five players. One player takes the role of the killer, who then hunts the other four players, who are trying to escape the killer, either by working together or on their own. The game can be described as an adult version of hide and seek. Dead by Daylight was released for PC in June 2016 and is available on Steam, the digital distribution platform. The game was released for console in June 2017.

Dead by Daylight was the first project within the Starbreeze Publishing business area to reach the market. Starbreeze's investment was paid off after the game had been on sale for less than one month. More than three million copies of the game have been sold since the game was released and ten paid updates to the game have since been released.



Platforms	
PC, PlayStation 4 and Xbox One	
Genre	Asymmetric horror game
Publisher	Starbreeze
Developer	Behaviour
Release	June 2016
Official website	deadbydaylight.com
Average score: metacritic.com	Steam users
72%	72%



Dead by Daylight was the first project in the Publishing business area to reach the market.

RAID: World War II

Publishing product

Like PAYDAY, RAID: World War II is a co-op first-person shooter for four players, but with a World War II theme. The game was released for PC in September 2017 and for console in October 2017. RAID: World War II was Starbreeze's second venture in publishing. Response to the game was less enthusiastic than expected and, despite corrective measures, sales have not taken off.



Platforms	
PC, PlayStation 4 and Xbox One	
Genre	Action
Publisher	Starbreeze
Developer	Lion Games Lions
Release	September 2017
Official website	raidworldwar2.com
Average score: metacritic.com	Steam users
48%	58%

PAYDAY 2 for Switch

PAYDAY 2 was released in February 2018 for the Nintendo Switch platform.

PAYDAY 2 VR

Release of the VR version of PAYDAY 2 began in March 2018.

John Wick Chronicles (VR)

Publishing product

John Wick Chronicles is Starbreeze's first VR-dedicated publication in cooperation with Lionsgate. The game was released on Steam, the digital distribution platform, in February 2017 and puts the player in the role of John Wick. The game is also available in a popular arcade version at IMAX and SEGA VR parks, where the game can be played wearing the Starbreeze StarVR HMD.

Antisphere

Publishing product

Antisphere is Starbreeze's first game under the Starbreeze IndieLabs brand, a brand that reflects smaller projects in terms of scale and investment.

Antisphere is an arena game where two people meet in a fast-paced sci-fi inspired battle. The game was released for PC via Steam on 14 July 2017.

Starbreeze game development in the pipeline

PAYDAY 2

PAYDAY is the main Starbreeze franchise. PAYDAY 2 has sold more than 16 million copies for PC and console and has an active player base, where the community on Steam has more than 5.5 million members. The continued production of both free updates and revenue-generating game updates of the size and quality found in the PAYDAY series is unusual in the game world. The company's deliveries to the game are on the forefront compared to what any other comparable developer is delivering on Steam, the digital distribution platform.

The PAYDAY series has many updates ahead and tremendous potential in the form of a future PAYDAY 3.

PAYDAY 2 has maintained its top ranking as the biggest official player community on Steam, and the membership base is still growing. Based on the undiminished interest in PAYDAY, we have also decided to extend the development period of PAYDAY 2 into 2019.

PAYDAY Crime War

PAYDAY Crime War is an ongoing development project of a mobile game in the PAYDAY series. It is the first mobile game project at Starbreeze. The product is expected to be released in 2018.

OVERKILL's The Walking Dead

Starbreeze is developing the OVERKILL's The Walking Dead game project in partnership with Skybound Interactive. The game is a co-op shooter with elements of survival horror, action and storytelling, based on the critically acclaimed graphic novel series The Walking Dead, written by Robert Kirkman. The game is being developed for PC and console. The Walking Dead is also one of the most popular TV series of all time in the world and, after eight seasons, still has more than 11 million viewers per episode on average.

Starbreeze has exclusive rights in the first-person shooter genre for all platforms. Advance interest in the game is huge and the plan is for Starbreeze to release the game in fall 2018.



Starbreeze is developing the OVERKILL's The Walking Dead game project in partnership with Skybound Interactive.



The image is from PAYDAY 2, which has sold more than 16 million copies.



Geminose

Geminose is in development, and the game focuses on music, dance and the Geminose characters. Geminose will initially be released exclusively for the Nintendo Switch platform.

Project CROSSFIRE

Project CROSSFIRE is a premium co-op first-person shooter game for PC, based on Smilegate's CROSSFIRE franchise. The game Starbreeze is developing is aimed mainly at gamers in the western world. Project CROSSFIRE is Starbreeze's second-largest own game development project, after OVERKILL's The Walking Dead.

STORM

STORM is a project in the early stages of development, where PAYDAY meets a science fiction theme. STORM is a co-op shooter, with wholly owned IP within Starbreeze that is being developed for both PC and VR.



The company's Games As A Service concept is used for Dead by Daylight, which includes development of free and revenue-generating game updates.

Dead by Daylight

Publishing product

Dead by Daylight is an ongoing development project, but has been on the market since June 2016 and is being developed by Starbreeze's partner studio, Behaviour. The game is a horror-filled game of hide and seek played four against one, a game concept with growth potential that can be replayed many times over. More than 3 million copies of Dead by Daylight for PC and console have been sold. Subsequent to release, ten paid updates to the game have been released. Under an agreement made on 21 March 2018, Behaviour is responsible for game development and development costs as of 1 January 2018.

Psychonauts 2

Publishing product

Psychonauts 2 is one of Starbreeze's published products of tremendous distinction in the game industry. The game is being developed by the Double Fine studio, led by the legendary game developer Tim Schafer.



System Shock 3 is a publishing product announced in 2017.

System Shock 3

Publishing product

System Shock 3 is a major publishing collaboration. The project is headed up by Warren Spector, the man behind the modern first-person RPG genre.¹⁾

¹⁾ A role-playing game where the players assume the roles of the characters in a fictional setting.



The image is from Psychonauts 2.

10 Crowns

Publishing product

10 Crowns is a turn-based strategy game on an epic scale that lets players create the most successful dynasty in world history. The game is being developed by an experienced development team at the Mohawk Games studio, headed up by Soren Johnson (Lead Designer for Civilization IV) and Dorian Newcomb (Art Director for Civilization V). The 10 Crowns game project is currently in the prototype stage.

PAYDAY 3

PAYDAY 3 is Starbreeze's next game in the PAYDAY series. The game is in the early design phase.



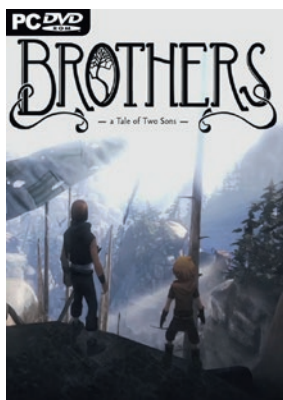
10 Crowns is a publishing product announced in 2018.

The image shows Chains, one of the main characters in the PAYDAY series.



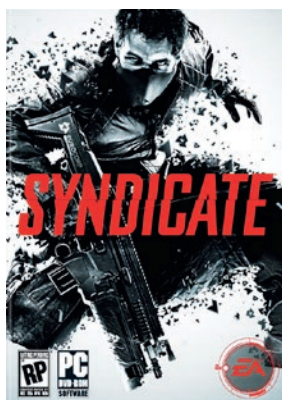
Historically developed titles¹⁾

Brothers – A Tale of Two Sons



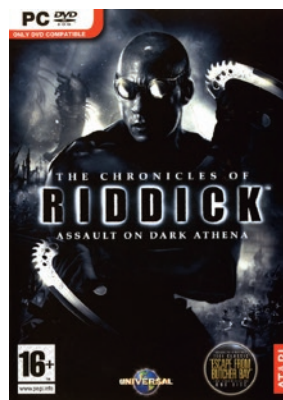
Platforms	PC, Xbox 360, PlayStation 3
Genre	Adventure
Publisher	505 Games
Release	August 2013
Official website	brothersthegame.com
Average score: metacritic.com	87%
Steam users	96%

Syndicate



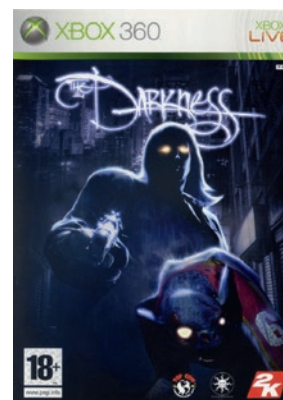
Platforms	PC, Xbox 360, PlayStation 3
Genre	Action
Publisher	Electronic Arts
Release	February 2012
Official website	ea.com/syndicate
Average score, metacritic.com	72%

The Chronicles of Riddick: Assault on Dark Athena



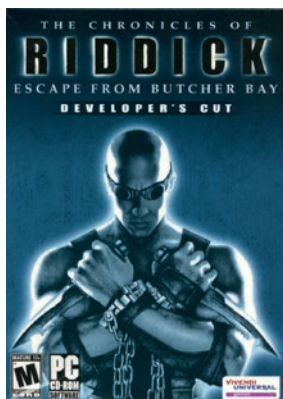
Platforms	PC, Xbox 360, PlayStation 3
Genre	Action/Adventure
Publisher	ATARI, developed in partnership with Tigon Studios
Release	April 2009
Official website	atari.com/buy-games/fps/chroniclesriddick-assault-dark-athena
Average score, metacritic.com	80%

The Darkness



Platforms	Xbox 360, PlayStation 3
Genre	Action/Adventure
Publisher	2 K Games
Release	June 2007
Official website	2kgames.com/thedarkness
Average score, metacritic.com	81%

The Chronicles of Riddick: Escape from Butcher Bay



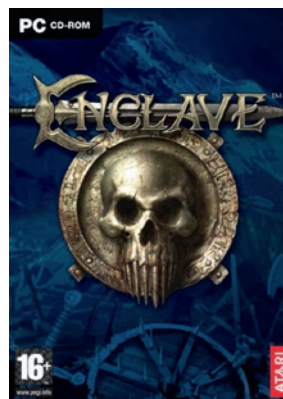
Platforms	PC, Xbox
Genre	Action/Adventure
Publisher	Vivendi Games, developed in partnership with Tigon Studios
Release	June 2004
Official website	starbreeze.com/games
Average score, metacritic.com	89%

Knights of the Temple: Infernal Crusade



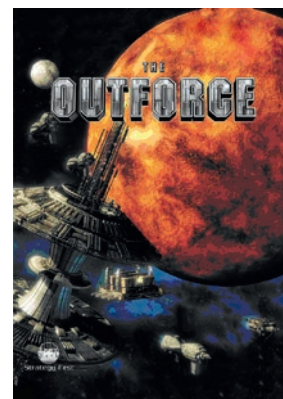
Platforms	PC, Xbox, PlayStation 2, GameCube
Genre	Action/Adventure
Publisher	TDK
Release	March 2004
Official website	starbreeze.com/games
Average score, gamerankings.com	56%

Enclave



Platforms	PC, PlayStation 2, Xbox, GameCube
Genre	Action/Adventure
Publisher	ATARI
Release	July 2002
Official website	starbreeze.com/games
Average score, gamerankings.com	73%

The Outforce



Platform	PC
Genre	Strategy
Publisher	Pan Interactive
Release	September 2000
Official website	starbreeze.com/games
Average score, gamerankings.com	59%

¹⁾ This section presents historical game titles developed by Starbreeze, where its role was only that of developer and hence Starbreeze does not own IP rights attributable to these titles.



EMPLOYEES AND ORGANIZATION



Employees and organization

THE ORGANIZATION IS GROWING AND CHANGING TO ALIGN WITH THE VISION.

Starbreeze is a knowledge company that is dependent upon the creativity and motivation of its employees. The company offers stimulating tasks, with high performance standards, to driven and committed employees in a multinational and multi-cultural workplace.

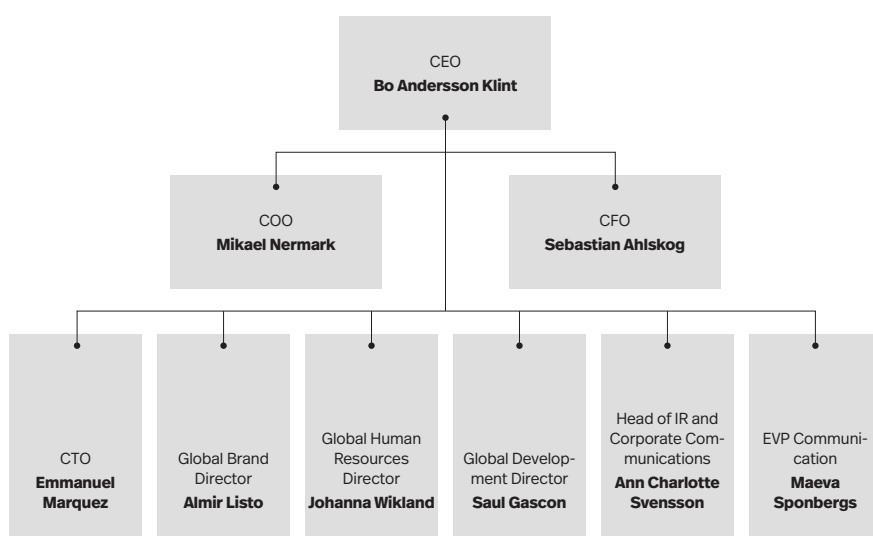
Organization

Headquarters are in Stockholm, Sweden, where the majority of the company's employees are based. Business is conducted in the parent company, Starbreeze AB (publ) and its subsidiaries, Starbreeze Studios AB, Starbreeze Publishing AB, Starbreeze Production AB, Starbreeze USA Inc, Starbreeze IP LUX, Starbreeze IP LUX II S.à.r.l, Starbreeze LA Inc, PAYDAY Production LLC, Starbreeze Paris SAS, Starbreeze VR AB, Starbreeze Ventures AB, Starbreeze Barcelona SL, Enterspace AB,

Enterspace International AB, Dhruva Infotech Ltd, Nozon and Parallaxter. The group also owns 33.3 percent of the joint venture, StarVR Corporation.

Starbreeze has offices/operations in Sweden, France, Belgium, the United States, Spain, Luxembourg and India.

Senior management is composed of nine individuals. In recent years, Starbreeze has reinforced the senior management team with a number of employees who brought long-term experience in the games industry and other digital industries.



Employee profile

Starbreeze is a knowledge company that is dependent upon the creativity and motivation of its employees. The HR policy at Starbreeze is based on offering stimulating tasks, with high performance requirements, to driven and committed employees.

The company is transitioning from an employee organization in which specialists were in charge of related areas to one where employees are given greater responsibility and challenges through closer collaboration and interaction throughout the product development process. In the past, a game director was responsible for both the big picture and the details. In the current model, producers are responsible for the whole, while the production team sees to all the details and uses their collective expertise to perform design tasks. This is usually accomplished in small teams through focus on problem-solving, with high priority awarded to quality. The foundation of this model is to benefit from the senior development expertise now found in the company, while accessing the “finger-on-the-pulse” instincts of young developers who are still living in the midst of the product’s user base.

At 31 December 2017, the company had 650 employees. The corresponding figure at 31 December 2016 was 212. The average number of full-time employees

during 2017 was 272, and the corresponding figure in 2016 was 151. The average age at 31 December 2017 was 31 and the gender breakdown was 88 percent men and 12 percent women. In order to maintain and strengthen its market position, Starbreeze is working actively to attract and retain skilled and motivated employees by, for example, offering employees clear career paths and scope for continuous personal and professional development. Starbreeze is a multinational and multicultural workplace characterized by an open atmosphere, positive attitude and strong camaraderie.

Gender equality and equal opportunity

Efforts to promote gender equality and equal opportunity at Starbreeze are intended to monitor and improve equality among the employees. Gender equality and equal opportunity are considered a key component of a good human resources policy. Matters of gender equality and equal opportunity must be considered and pursued in the company’s operations. This means that the business must be run in a gender-neutral manner. Goals of gender equality and equal opportunity at Starbreeze:

- The resources of all employees must be developed and utilized.
- All employees must be given equal pay and working conditions and opportunities for advancement.

- All employees must be given equal opportunities to combine work and family life.

Human resources policy

The basis of the compensation strategy at Starbreeze is that pay is set individually, taking into account the nature and difficulty of the position and the employee’s qualifications and performance. Starbreeze aims to offer:

- Market-based pay and an inclusive stock option program to ensure that the goals of employees and shareholders harmonize with Starbreeze’s strategy and results.
- Opportunities for advancement and career development. A workplace characterized by an open atmosphere, positive attitude and strong camaraderie.
- A multinational and multicultural workplace that offers interesting human interaction that encourages personal insight and open attitudes.
- The opportunity to build skills by collaborating with colleagues from many different countries, cultures and backgrounds.

Work environment

A good and safe work environment is a key topic for Starbreeze. The objective of work environment (health and safety) management at Starbreeze is to create a physically, psychologically and socially healthy workplace that promotes the development of all employees and where risks of occupational injury and work-related illness are prevented.

Starbreeze regularly evaluates its initiatives to ensure continuous improvements in the daily work environment efforts. The demands of the job must be adjusted to employees’ circumstances, physically and psychologically. Measures to improve the work environment have positive impact on individuals and the company as a whole.

Creating a good work environment puts considerable demands on the company and the individual employee. Work environment management is a joint task for the company and employees. In must be pursued collaboratively and everyone is responsible for participating. Measures to change the work environment must be characterized by a holistic view on all of the factors that affect people at work.

Monitoring and improving the work environment must be an unquestioned

Number of employees as of 31 December 2017

Office	Country	Head-quarters	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Stockholm	Sweden	Yes	182	5	20	36	243
Paris	France	No	5	0	19	0	24
Brussels	Belgium	No	0	0	7	14	21
Luxembourg	Luxembourg	No	0	0	2	0	2
Los Angeles	United States	No	0	6	10	2	18
Barcelona	Spain	No	6	0	2	0	8
Bangalore and Dehradun	India	No	255	0	0	79	334
Total			448	11	60	131	650

Employee key data

	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
Average number of employees	278	151	105	54
Number of employees at the end of the year	650	212	109	76
Proportion of women, %	12	17	12	12
Average age, years	31	34	33	32
Net sales per employee, SEKk	1,300	2,288	941	3,654



aspect of all activities within the company. Employees must not only know what risks might exist, but also how to avoid them.

Incentive and bonus programs

Starbreeze had an outstanding employee stock options program and an outstanding warrants program, which are described on page 48.

The board of directors has decided to institute a bonus program for all employees of the Group, effective 1 January 2018. The fundamental prerequisites for the program are i) that Starbreeze is profitable, ii) that the bonus is capped at 5% of net profit, and iii) that the bonus to senior management personnel is capped at 50% of base pay (in accordance with the guidelines adopted by the AGM). The bonus pool consists of 2 percent of net

revenues per product. Employees are put into various categories based on their performance in relation to individual objectives, which determines the allocation. Bonuses are earned quarterly and paid to qualified employees at the beginning of the next calendar year.

Values

The values laid out below must inform all activities at Starbreeze and contribute to the perception of Starbreeze as an attractive employer in the industry.

Team-oriented

We value trust and openness; clear communication where the team's results are more important than individual performance. There must be creative freedom in game development and employees must

be free to work with the games they are passionate about, all within set time and budget frameworks.

Ownership

We are dedicated to reliable, high-quality delivery and ensure that everyone accepts personal responsibility. Quality must be delivered across the work process, from execution to final result, so that the end user is given high-quality gameplay that is worth the time expended on games and experiences from Starbreeze. We get things done!

Focus on solutions

We always present solutions based on analysis of identified problems. What we do must create value for Starbreeze, our customers and or shareholders.

THE SHARE AND SHAREHOLDERS

The Starbreeze 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 same ticker and ISIN code as before: STAR A, SE 007158928 and STAR B, SE0005992831. At the end of the year, the closing price was SEK 8.15 (19.20) for the Class A share and SEK 8.40 (19.30) for the Class B share. Total market capitalization amounted to SEK 2,364 million (5,300).

Performance of Starbreeze Class A and Class B shares from 1 January 2015 to 28 February 2018.



Share capital

According to Starbreeze's Articles of Association adopted by the AGM held 12 November 2015, share capital must be a minimum of SEK 3,000,000 and a maximum of SEK 12,000,000. The number of shares in the company must be not less than 150,000,000 and not more than 600,000,000. Shares may be issued in two classes: A and B. According to the Articles of Association, Class A shares shall be converted to Class B shares upon request of the shareholder. The Articles of Association contain no specific provisions on redemption. All shares are freely transferable.

At 31 December 2017, there were 283,037,940 shares outstanding (276,879,720), each with a quotient value of SEK 0.02, corresponding to share capital of SEK 5,661 thousand (5,538). At 31 December 2017, there were 55,146,615 Class A shares (55,971,982) and 227,891,325 Class B shares (220,907,738). Each Class A share carries ten votes and each Class B share carries one vote.

Every shareholder eligible to vote is entitled to vote at the general meeting for the full number of voting shares owned and represented with no limitation to vot-

ing rights. All shares carry equal rights to a share in Starbreeze's assets and profits.

Class B shares outstanding increased during the year by 1,071,203 through a non-cash issue in connection with the acquisition of Enterspace and by 1,007,578 through a non-cash issue in connection with the acquisition of Dhruva. Class B shares were also issued upon redemption of warrants. After the end of the year, the company executed a directed issue that increased the number of Class B shares outstanding by 20,681,797. See the table on page 47.

History of share capital

As of 1 January 2015, the company's registered share capital amounted to SEK 2,899,707 divided among 144,985,325 shares, each with a quotient value of SEK 0.02. The following changes in share capital have occurred subsequent to that date.

Year	Transaction	Increase of share capital	Total share capital	Increase in the number of shares	Total number of shares	Quotient value, SEK
2015	Bonus issue	1,449,853	4,349,560	72,492,662	217,477,987	0.02
2015	New issue	72,000	4,421,560	3,600,000	221,077,987	0.02
2015	New issue	31,562.4	4,453,122	1,578,120	222,656,107	0.02
2015	Exercise of warrants	32,449.38	4,485,572	1,622,469	224,278,576	0.02
2015	New issue	99,900	4,585,472	4,995,000	229,273,576	0.02
2015	Exercise of warrants	179.84	4,585,651	8,992	229,282,568	0.02
2015	Exercise of warrants	9,149.9	4,594,801	457,495	229,740,063	0.02
2015	Exercise of warrants	12,420.56	4,607,222	621,028	230,361,091	0.02
2016	Exercise of warrants	28,249.98	4,657,549	1,412,499	231,773,590	0.02
2016	Exercise of warrants	22,077.24	4,629,299	1,103,862	232,877,452	0.02
2016	New issue	192,400.6	4,849,950	9,620,031	242,497,483	0.02
2016	Exercise of warrants	12,717.58	4,862,667	635,879	243,133,362	0.02
2016	Exercise of warrants	4,115.38	4,866,783	205,769	243,339,131	0.02
2016	Exercise of warrants	499.92	4,867,283	24,996	243,364,127	0.02
2016	Exercise of warrants	6,923.04	4,874,206	346,152	243,710,279	0.02
2016	New issue	218,684.2	5,092,890	10,934,211	254,644,490	0.02
2016	Exercise of warrants	14,199.76	5,143,332	709,988	255,354,478	0.02
2016	New issue	36,242.27	5,129,132	1,812,114	257,166,591	0.02
2016	Exercise of warrants	21,799.7	5,165,132	1,089,985	258,256,576	0.02
2016	New issue	329,059.8	5,494,191	16,452,991	274,709,567	0.02
2016	New issue	1,790.86	5,495,982	89,543	274,799,110	0.02
2016	New issue	20,976.84	5,516,959	1,048,842	275,847,952	0.02
2016	Exercise of warrants	9,955.36	5,526,914	497,768	276,345,720	0.02
2016	Exercise of warrants	10,680	5,537,594	534,000	276,879,720	0.02
2016	Exercise of warrants	999.84	5,538,594	49,992	276,929,712	0.02
2017	Exercise of warrants	4,615.36	5,543,209.62	230,768	277,160,480	0.02
2017	Exercise of warrants	40,000	5,583,209.62	2,000,000	279,160,480	0.02
2017	Exercise of warrants	9,173.04	5,592,382.66	458,652	279,619,132	0.02
2017	New issue	21,424.06	5,613,806.72	1,071,203	280,690,335	0.02
2017	Exercise of warrants	23,550.40	5,637,357.12	1,177,520	281,867,855	0.02
2017	Exercise of warrants	3,000.06	5,640,357.18	150,003	282,017,858	0.02
2017	New issue	20,151.56	5,660,508.74	1,007,578	283,025,436	0.02
2017	Exercise of warrants	250.08	5,660,758.82	12,504	283,037,940	0.02
2018	New issue	413,635.95	6,074,394.77	20,681,797	303,719,737	0.02

Shareholders

Starbreeze had 27,528 shareholders (28,767) as of 28 February 2018, of which 2 percent were foreign. Of the shareholders, 75 percent were men, 22 percent were women and 3 percent were legal persons. Shares held by legal persons corresponded to 61 percent of share capital. Of the total number of shareholders, 96 percent were natural persons residing in Sweden and their holdings corresponded to 39 percent of share capital. See the list of the company's ten largest shareholders below.

Shareholders as of 28 February 2018

Shareholders	Class A shares	Class B shares	Total	Holding, %	Voting rights, %
Bo Andersson Klint ¹⁾	18,718,667	5,377,866	24,096,553	7.93	24.30
Försäkringsaktiebolaget Avanza Pension	2,754,668	22,080,835	24,835,503	8.18	6.26
Swedbank Robur ²⁾	21,473,335	27,458,701	48,932,056	14.81	6.24
Smilegate Holdings Inc.	3,376,016	6,244,015	9,620,031	3.17	5.05
Första AP-Fonden	0	33,159,934	33,159,934	10.92	4.18
CBLDN-BFCM FULLTX, third party asset	1,387,500	1,835,500	3,223,000	1.06	1.98
Michael Hjorth ³⁾	1,469,275	807,049	2,276,324	0.75	1.96
Nordnet Pensionsförsäkring AB	644,799	3,874,825	4,519,624	1.49	1.30
CBNY-National Financial Services II	645,341	2,493,906	3,139,247	1.03	1.13
Viktor Vallin	864,800	41,000	905,800	0.30	1.10
Other	2,969,341	146,042,324	149,011,665	50.36	46.50
Total	54,303,742	249,415,955	303,719,737	100.00	100.00

¹⁾ Directly and via Varvtré.

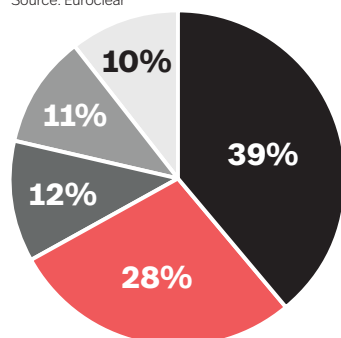
²⁾ Swedbank Robur consists of three funds: Ny Teknik BTI, Småbolagsfond Sverige and Småbolagsfond Norden.

³⁾ Directly and via Indian Nation Aktiebolag.

Source: Euroclear

Distribution of equity by shareholder category, 28 February 2018

Source: Euroclear



- Swedish private investors
- Financial services firms
- Foreign shareholders
- Social insurance funds
- Legal persons

Distribution of shares by holding, 28 February 2018

Holding	Number of shareholders	Number of Class A shares	Number of Class B shares	Holding, %	Voting rights, %
1-500	13,771	881,595	1,995,476	0.76	0.85
501-1,000	3,908	965,331	2,927,836	1.04	1.04
1,001-5,000	6,305	3,823,185	13,522,881	5.04	4.83
5,001-10,000	1,533	2,404,649	10,283,350	3.70	3.38
10,001-15,000	562	1,263,503	5,584,466	2.33	2.28
15,001-20,000	346	1,046,721	5,529,280	2.02	1.66
20,001-	1,096	43,918,758	209,572,706	85.12	85.96
Total	27,521	54,303,742	249,415,995	100.00	100.00

Source: Euroclear

Outstanding incentive programs

Employee stock option program 2014/2018

The extraordinary general meeting held 15 May 2014 resolved to establish an employee stock option program through a directed issue of 6,250,000 warrants to Starbreeze Studios (conferring rights to subscribe for 9,375,000 Class B shares after the bonus issue executed in 2015). Of the 6,250,000 warrants issued, 5,000,000 were used as under-

lying warrants in the employee stock option program and 1,250,000 were issued for cash flow hedging of employee social insurance contributions. A total of 4,775,000 employee stock options were issued against no monetary consideration to employees and these will vest during a period of 1, 2 and 3 years respectively, provided that the employee is still employed by the Group and provided that set performance requirements are met.

Of the 5,000,000 underlying warrants in the employee stock option program, 3,609,979 have been exercised to subscribe for shares. Of the 1,250,000 warrants issued for cash flow hedging of employee social insurance contributions, 1,217,334 have been exercised. The maximum dilutive effect of this program is 2.99 percent, of which approximately 0.48 percent remains to be exercised for subscription of shares by holders of

employee stock options. The strike price for the employee stock options program is approximately SEK 4.80 per share.

Warrants programs 2015/2018 and 2015/2019

The AGM held 12 November 2015 resolved in favor of an additional special share-based incentive program for senior management personnel and certain other key individuals aimed at managing new recruitments and promotions. A total of 3,500,000 warrants, conferring the right to subscribe for 3,500,000 Class B shares, were issued to one of the company's subsidiaries. The AGM approved the

transfer by the subsidiary of the warrants to senior management personnel and certain other key individuals against payment of the market value of the warrants established in accordance with a Black & Scholes options pricing formula from time to time.

Half of the warrants may be exercised up to 30 November 2018 at a strike price of 200 percent of the average share price during the ten trading days subsequent to 12 November 2015 (SEK 29.10). The other half of the warrants may be exercised up to 30 November 2019 at a strike price of 240 percent of the average share price during the ten trading days subsequent to

12 November 2015 (SEK 34.92).

As of 28 February 2018, 1,780,000 warrants had been allocated to senior management personnel and other key individuals, of which 1,750,000 warrants expire in November 2018 and 30,000 warrants expire in November 2019. None of the warrants issued in the warrant programs for 2015/2018 and 2015/2019 have yet been exercised. The maximum dilutive effect of this program is approximately 1.14 percent. The dilutive effect for the issued warrants is approximately 0.58 percent, of which approximately 0.57 percent remains to be exercised for subscription of shares by the warrant holders.

Dividends and dividend policy

Starbreeze is doing business in a rapidly growing market and, in order to benefit from this growth, intends to continue reinvesting profits in activities that promote organic growth, such as product development and marketing. The company has not historically distributed dividends to shareholders. Future dividends will be the result of Starbreeze's future revenues, cash flow, working capital and general

financial position. Moreover, future investments in acquisitions of other companies, for example, may affect the size of future dividends.

The board of directors does not intend to propose dividends in the next few years, and instead intends to use generated cash flow to finance the continued growth and development of the business. Starbreeze's long-term dividend policy is

to distribute 50 percent of net profit after tax from the preceding financial year.

No dividends were distributed to shareholders for the periods of 1 July 2014 to 30 June 2015, 1 July 2015 to 31 December 2015 or 1 January 2016 to 31 December 2016. The board of directors is proposing that no dividend (0) be distributed for the 2017 financial year.

Authorizations

The AGM held 11 May 2017 resolved to authorize the board of directors to, on one or more occasions before the next AGM, decide to issue, with or without waiver of shareholders' preferential rights, new Class A and Class B shares, or convertibles or warrants conferring the right to purchase Class A and/or Class B shares, corresponding (in connection with the planned exercise of such convertibles or options where applicable) to a maximum of 10 percent of the number of shares outstanding from time to time, against cash consideration, settlement of debt, or non-cash consideration.

The purpose of the authorization and the reason for the waiver of shareholders' preferential rights is to make it possible for the company to issue shares in connection with acquisitions of companies

or businesses and to carry out directed issues aimed at raising capital for the company, in connection with financing game production for example. The issue price must not be lower than the market price. Other terms and conditions will be decided by the board of directors and must be market-based.

The authorization was used for: the acquisition of Enterspace, for which SEK 17 million of the consideration was paid through the issue of 1,071,203 Class B shares in Starbreeze; the acquisition of Dhruva, for which some of the sellers acquired 1,007,578 newly issued Class B shares in Starbreeze for USD 1.5 million; and, after the end of the year, in a directed issue of 20,681,797 Class B shares to certain institutional investors.

The AGM held 20 March 2018 resolved to authorize the board of directors to, on one or more occasions before the next AGM, decide to issue, with or without waiver of shareholders' preferential rights, new Class A and Class B shares, or convertibles or warrants conferring the right to purchase Class A and/or Class B shares, corresponding (in connection with the planned exercise of such convertibles or options where applicable) to a maximum of 10 percent of the number of shares outstanding from time to time, against cash consideration, settlement of debt, or non-cash consideration. The issue price must not be lower than the market price. Other terms and conditions will be decided by the board of directors and must be market-based.

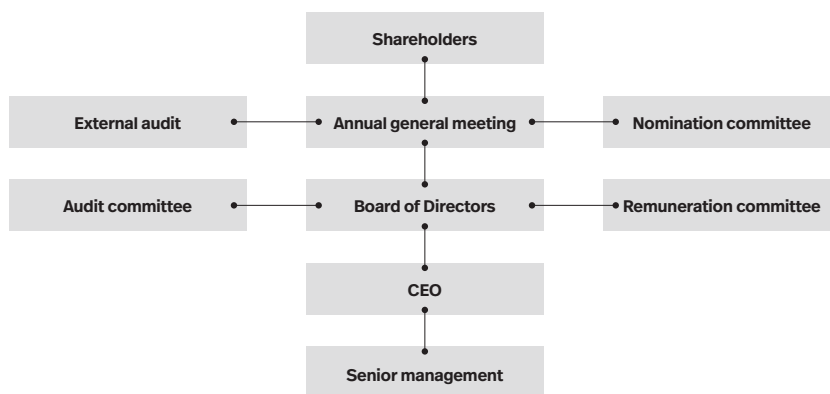
CORPORATE GOVERNANCE

About corporate governance

Starbreeze is a Swedish limited company and is listed on Nasdaq Stockholm. Corporate governance at Starbreeze is guided by Nasdaq's rules for issuers, the Swedish Corporate Governance Code ("the Code"), the Swedish Companies Act, generally accepted practices in the Swedish stock market, the company's Articles of Association, internal policy documents and other applicable laws, regulations and recommendations.

The main internal policy documents are the board charter, the CEO instruction, financial reporting guidelines and the authorization and financial policy manual. Starbreeze also has a number of policy documents and manuals that contain rules and recommendations, which contain principles and provide guidance in the company's operations and for its employees.

The corporate governance structure at Starbreeze



Companies that apply the Code are not required to comply with all rules set out in the Code at all times. The company is free to choose an alternative solution if it determines such is better suited to the company's particular circumstances, as long as the company openly reports

the deviation, describes the alternative solution it has chosen and explains its reasons for doing so (under the principle of "comply or explain"). Starbreeze began applying the Code on 2 November 2017 when the company was listed on Nasdaq Stockholm.

Annual General Meeting

The shareholders exercise their influence over the company at the annual general meeting (AGM), which is the company's highest decision-making body. All shareholders registered in the register of shareholders kept by Euroclear Sweden AB on the record date and entered in a book-entry system or CSD account have the right to participate in person or represented by proxy. The AGM is empowered to decide on any matter that concerns the company and which is not expressly under the exclusive competence of another corporate body pursuant to the Swedish Companies Act or the Articles of Association. The AGM may, for example, resolve to increase or decrease share capital, amend the Articles of Association, or that the company should be wound up. As regards the new issue of shares, convertible instruments or warrants, the AGM may decide on these matters itself or elect to authorize the board of directors to decide whether to carry out the issue. Each shareholder, regardless of the size of the holding, has the right to have a specified item on the agenda of the AGM. Shareholders wishing to exercise this right must submit a written request to the company's board of directors. Such requests

shall normally be received by the board of directors in sufficient time for the item to be included in the notice of meeting.

The AGM is held annually within six months of the end of the financial year. The ambition is for the chairman of the board, as many directors as required for a quorum and the chief executive officer shall attend the general meeting. The chairman of the meeting shall be nominated by the nomination committee and elected by the meeting. The tasks of the general meeting include electing the company's board of directors and auditors, adopting the company's balance sheet and income statement, deciding on appropriation of profits or losses in accordance with the adopted balance sheet, and deciding on discharge of liability for the directors and the chief executive officer. The meeting also decides the fees to be paid to directors and the company's auditors.

The board of directors may call an extraordinary general meeting when it deems there is reason to hold a meeting before the next AGM. The board is also required to call an extraordinary general meeting if the statutory auditor or a shareholder minority representing at least

ten percent of the company's shares so requests in order to address a specific matter.

Notices of general meetings must be made through advertisement in Post- och Inrikes Tidningar and on the company's website. On the date notice is made, information that notice has been issued must be advertised in Dagens Industri. Notices of ordinary general meetings and extraordinary general meetings at which amendments to the Articles of Association will be addressed must be issued no earlier than six (6) weeks and no later than four (4) weeks before the general meeting. Notices of other extraordinary general meetings must be issued no earlier than six (6) weeks before and no later than three (3) weeks before the general meeting. The minutes of the meeting must be available on the company's website no later than two weeks after the meeting.

The AGM was held during the 2017 financial year on 11 May 2017. One extraordinary general meeting has been held thus far in the 2018 financial year. The next AGM is planned for 9 May 2018.

Nomination committee

The AGM held 11 May 2017 resolved to adopt a procedure for appointment of the nomination committee leading up to the 2018 AGM.

According to this procedure, the nomination committee will be composed of the chairman of the board and no more than four members, who must represent the largest shareholders or shareholder groups in terms of voting rights. The four largest shareholders in terms of voting rights will be contacted on the basis of the list of registered shareholders in the company provided by Euroclear, as of the last banking day in August. A shareholder who is not registered with Euroclear and wishes to be represented on the nomination committee must notify the chairman of the board thereto by 1 September and must be able to prove the ownership status. In connection with determining which shareholders are the four largest in terms of voting rights, a group of shareholders will be regarded as constituting one owner if they (i) have been organized as a group in the Euroclear system, or (ii) publicly announced and notified the company in writing that they have reached written

agreement to take a long-term, unified position in matters of management of the company through coordinated exercise of voting rights. As soon as practicable after the end of August, the chairman of the board is to invite the four largest shareholders in the company in terms of voting rights to form a nomination committee. If any of the four largest shareholders in terms of voting rights waives their right to appoint a member of the nomination committee, the next-largest shareholder will be offered the opportunity to appoint a member, but no more than ten shareholders must be queried. Unless the members agree otherwise, the chairman of the nomination committee is to be the member who represents the largest shareholder. The names of the committee members and the names of the shareholders who appointed them, as well as contact details for the nomination committee, must be published as soon as the nomination committee has been appointed, which must occur no later than six months before the AGM.

The nomination committee's term of service is to extend until a new nomination

committee has been appointed. Fees will not be paid to the members of the nomination committee. The company will, however, pay reasonable costs associated with the nomination committee's performance of its remit.

The nomination committee's remit shall be to present a proposal before the AGM or, where applicable, extraordinary general meeting, on the number of directors to be elected by the meeting, directors' fees, composition of the board of directors, chairman of the board, chairman of the AGM, election of statutory auditors and auditors' fees and how the nomination committee should be appointed.

The members of the nomination committee must be publicly announced on the company's website no later than six months before the AGM.

The members of the company's nomination committee prior to the 2018 AGM and until a new nomination committee has been appointed are: Åsa Nisell (Swedbank Robur Fonder), Olof Jonasson (Första AP-fonden) and Michael Hjorth (Indian Nation and chairman of the board).

Board of Directors

The tasks of the board of directors

The board of directors has ultimate responsibility for the company's organization and managing the company's affairs in the interests of the company and all shareholders. The principal tasks of the board of directors include managing strategic issues related to operations,

financing, business establishments, growth, financial performance and position, and regularly reviewing the company's financial situation. The board must also ensure that there are appropriate systems for follow-up and control of the company's operations and ensure that the company's external communications are

characterized by openness and that they are accurate, reliable and relevant.

Size and composition of the board

According to Starbreeze's Articles of Association, the board must be composed of no fewer than four and no more than eight directors and no more than

Size and composition of the board

Name	Audit committee and remuneration committee	Has held position since	Independent of the company/ shareholders	Attendance board meetings	Attendance remuneration committee	Attendance
Michael Hjorth	Audit committee and remuneration committee	2007, chairman since 2013	Yes/Yes	20/20	7/7	3/3
Matias Myllyrinne	–	2013	Yes/Yes	19/20	–	–
Eva Redhe	Audit committee (chair) and remuneration committee	2014	Yes/Yes	20/20	7/7	3/3
Bo Andersson Klint	–	2012	No/No	19/20	–	–
Ulrika Hagdahl	Audit committee and remuneration committee (chair)	2017	Yes/Yes	15/15	4/4	3/3
Harold Kim	–	2016	No/No	19/20	–	–

two alternate directors. The directors are normally elected at the AGM for a term of service ending at the close of the next AGM, but additional directors may be elected during the year at an extraordinary general meeting.

The board is composed of six regular directors: Michael Hjorth (chairman), Bo Andersson Klint, Harold Kim, Ulrika Hagdahl, Matias Myllyrinne and Eva Redhe. The current term of office for all directors expires at the close of the next AGM, which will be held 9 May 2018. However, all directors have the right to resign from the assignment at any time. Prior to the 2018 AGM, the Starbreeze nomination committee has proposed re-election of directors Michael Hjorth, Bo Andersson Klint, Harold Kim and Matias Myllyrinne and the first-time election of Kristofer Arwin and Åsa Wirén. The nomination committee has proposed re-election of Michael Hjorth as chairman of the board. Director Eva Redhe has declined re-election.

According to the Code, a majority of directors are to be independent of the company and its management. At least two of the directors who are independent of the company and management should also be independent in relation to major shareholders in the company. In addition, no more than one director may be a member of senior management of the company or a subsidiary of the company. The table on page 51 shows the service of directors on various board committees, when the directors' service began and the board's assessment of each director's independence.

The board has assessed Michael Hjorth, Matias Myllyrinne, Eva Redhe and Ulrika Hagdahl as independent in relation to the company, its management and major shareholders. The composition of the board thus meets the Code's independence requirement.

The directors and auditors of the company are presented in greater detail in the "Board of directors and auditors" section on pages 56–57.

Chairman of the board

The tasks of the chairman of the board include organizing and leading the work of the board and ensuring that it is conducted efficiently and that the board fulfills its obligations. Through interaction with the chief executive officer, the chairman must be provided the information necessary to monitor the company's position, financial planning and performance. The

chairman must also consult with the chief executive officer concerning strategic matters and verify that the board's decisions are implemented in an effective manner.

The chairman is responsible for contacts with shareholders regarding ownership issues and communicating shareholders' views to the board. The chairman of the board is elected by the AGM.

Board procedures

The board complies with a written charter that must be reviewed annually and adopted at the first board meeting held after the AGM. The board charter governs matters including the board's rules of procedure, tasks, decision-making procedures within the company, the board of directors' meeting procedures, the tasks of the chairman of the board and the division of responsibilities between the board and the chief executive officer. A Financial Reporting Instruction and an Instruction to the Chief Executive Officer are also adopted in conjunction with the first meeting of the board after the AGM.

The board of directors held 20 minuted meetings during the 2017 financial year. Attendance was 97.5 percent. Issues of a significant nature addressed at board meetings include fundamental business planning, market positioning and financing. The chief executive officer reports to the board concerning strategic issues and the Group's chief financial officer reports to the board concerning financial issues. The board met with the statutory auditor once during the financial year to be informed of the auditor's ongoing reporting.

Board committees

The board of directors of Starbreeze has established two committees: the audit committee and the remuneration committee. The board has adopted rules of procedure for both committees.

Audit committee

The audit committee's remit is to prepare the board of directors' work to assure the quality of the company's financial reporting. The audit committee is also to establish guidelines for the services other than audit services that the company may procure from the company's statutory auditors. The committee is also tasked with delivering its evaluation of the audit process to the nominating committee in connection with drafting the nominat-

ing committee's proposals to the AGM regarding the appointment of auditors and the amount of audit fees. During the 2017 financial year, the activities of the audit committee included consulting with the company's auditors concerning accounting estimates. The audit committee has also proposed measures regarding its ongoing internal control in response to the Group's expanding operations, and submitted recommendations to the board in preparation for upgrading internal control within the framework of the planned listing switch.

Since the first board meeting after the 2017 AGM, the members of the audit committee are: Eva Redhe (chair), Michael Hjorth and Ulrika Hagdahl. The AGM held 11 May 2017 decided on fees to the members of the audit committee of SEK 400,000 in total, of which SEK 200,000 to the chair and SEK 100,000 to each of the other members.

The audit committee met seven times during the 2017 financial year. Attendance was 100 percent.

Remuneration committee

The main tasks of the remuneration committee are to prepare issues concerning remuneration and other terms of employment for the CEO and other senior management personnel. The remuneration committee is also to monitor and evaluate programs for variable remuneration to senior management personnel and to monitor and evaluate application of guidelines for remuneration to senior management personnel adopted by the AGM.

During the 2017 financial year, the remuneration committee submitted recommendations to the board of directors concerning the remuneration structure for the chief executive officer and the company's possible need for incentive programs for employees including senior management. The remuneration has also prepared matters for board decision in relation to bonus systems and stock option programs for the company's employees.

Since the first board meeting after the 2017 AGM, the members of the remuneration committee are: Ulrika Hagdahl (chair), Michael Hjorth and Eva Redhe. The AGM held 11 May 2017 decided on fees to the members of the remuneration committee of SEK 200,000 in total, of which SEK 100,000 to the chair and SEK 50,000 to each of the other members.

The remuneration committee met three times during the 2017 financial year. Attendance was 100 percent.

Remuneration to directors

Remuneration to directors elected by a general meeting is decided by the general meeting. The AGM held 11 May 2017 approved directors' fees of SEK 700,000 to the chairman of the board and SEK 200,000 to each of the other non-executive directors.

In addition to the specified remuneration for committee service set out above, the AGM held 11 May 2017 decided that additional fees of no more than SEK

300,000 may be paid for committee service.

Consequently, total fees paid to the board of directors (including fees for committee service) may not exceed SEK 2,400,000.

The remuneration paid to directors in 2017 is specified on the table below.

Evaluation of board performance

Board performance is evaluated annually in order to further develop board procedures and efficiency. The chairman of the board is responsible for the evaluation and for presenting it to the nomination committee. The evaluation is intended

to gain an understanding of directors' opinions on how the work of the board is pursued and the measures that can be taken to improve the efficiency of board work and to determine whether the board is well-balanced in terms of skills and expertise. The evaluation is key input for the nomination committee in preparation for the AGM.

The chairman of the board conducted a written survey of all directors in 2017. The nomination committee also held private discussions with all directors, at which the chairman was not present. The results of the evaluation have been reported and discussed by the nomination committee.

CEO and other senior management

Tasks of the CEO and other senior management

The chief executive officer is appointed by the board of directors and manages the day-to-day operations of the Group in accordance with board guidelines and instructions. The CEO is responsible for keeping the board informed about the company's development and reporting any material departures from adopted business plans and any events that have major impact on the company's performance and operations, and for preparing relevant decision input for the board with regard to matters including business establishments, investments and other strategic issues. The senior management team, which is led by the company's CEO, consists of individuals who are responsible

for significant areas of operation within Starbreeze.

Remuneration to the CEO and senior management personnel

Total remuneration, including salaries, variable pay and other benefits was paid in 2017 year to senior management personnel, including the CEO, in the amount of SEK 23,052 thousand (16,073). Share-based payments amounted to SEK 241 thousand (351). Defined contributions to pension plans were paid for senior management personnel corresponding to costs under the ITP plan.

Costs for stock options granted to employees were charged against profit and loss for 2017 in the amount of SEK 2,867 thousand (9,701).

Guidelines for remuneration to senior management

The Swedish Companies act requires the general meeting to decide on guidelines for remuneration to the CEO and other senior management. The AGM held 11 May 2017 adopted such guidelines with the following main content.

Senior management refers to the chief executive officer and other senior management personnel in the company.

Starbreeze is to offer market-based terms that make it possible to recruit and retain skilled personnel. Remuneration to senior management is to consist of fixed pay, pension benefits and other customary benefits. In addition, the board is to evaluate on an annual basis whether share-based or share price-based incen-

Board and senior management, 2017	Base pay/ director's fee, SEKk	Variable pay, SEKk	Other benefits, SEKk	Pension expense, SEKk	Share- related pay, SEKk	Total, SEKk	Allocated employee and director stock options	Remaining employee and director stock options	Allotted warrants	Remaining warrants
Michael Hjorth, director/ chairman	970	-	-	-	-	970	-	-	-	-
Matias Myllyrinne, direc- tor	200	-	-	-	-	200	267,000	-	-	-
Christoffer Saidac, director	109	-	-	-	-	109	-	-	-	-
Eva Redhe, director	496	-	-	-	-	496	267,000	-	267,000	-
Ulrika Hagdahl, director	355	-	-	-	-	355	-	-	-	-
Harold Kim	200	-	-	-	-	200	-	-	-	-
Bo Andersson Klint, CEO/director	4,907	1,750 ¹⁾	282	208	57	7,204	400,000	133,334	1,091,766	150,100
Mikael Nermark, deputy CEO	2,457	-	166	218	14	2,855	-	-	-	-
Other senior manage- ment	10,947	139	74	969	170	12,299	705,000	331,669	1,135,512	890,000
	20,641	1,889	522	1,395	241	24,688	1,639,000	465,002	2,494,278	1,040,100

¹⁾Refers to the 2016 financial year.

tive programs should be proposed to the AGM.

As a main rule, fixed pay is reviewed annually and the review is to take the individual's qualitative performance into account. Remuneration to the chief executive officer and other senior management personnel must be market-based. The board of directors is furthermore empowered to decide on variable remuneration in the form of a cash bonus in an amount that does not, on an annual basis, exceed

fifty percent of the fixed yearly salary for the senior manager in question.

Defined contributions to pension plans are paid for the chief executive officer and senior management corresponding to costs under the customary ITP plan.

The chief executive officer is required to give six months' notice of resignation and the company is required to give nine months' notice of termination. Notice periods for other senior management personnel range from three to nine months.

There are no agreements on severance pay.

The board of directors is empowered to depart from the guidelines above if it finds special circumstances exist to justify such a departure.

The proposed guidelines for remuneration to the company's senior management submitted by the board of directors to the 2018 AGM are identical to the present guidelines, as above.

Auditing and control

External auditor

The company's statutory auditor is appointed by the general meeting. The auditor is to audit the company's annual report and accounting records and the management of the company by the board of directors and chief executive officer. In addition to the auditor's report, the auditor normally also provides review reports on interim financial information (quarterly reports).

The AGM held 11 May 2017 reappointed auditing firm Öhrlings Pricewaterhouse-Coopers AB, (Torsgatan 21, 113 21, Stockholm, Sweden) as the company's statutory auditor for the period until the end of the 2018 AGM. Öhrlings Pricewaterhouse-Coopers AB was also the company's statutory auditor for 2015, 2016 and the period prior to the 2017 AGM. Authorized public accountant Nicklas Kullberg is the auditor in charge. Nicklas Kullberg is a member of FAR, the institute for the accountancy profession in Sweden. The auditor's report is signed by Nicklas Kullberg.

Remuneration to the auditor

Remuneration to the auditor is decided by the AGM according to the nomination committee's proposal. The AGM held 11 May 2017 decided that fees to the auditor would be paid in accordance with approved invoice.

Internal auditing and control

The board of directors' responsibility for internal control is regulated by the Swedish Companies Act and the Swedish Annual Accounts Act, which require Starbreeze to provide information in the corporate governance statement about the key elements of its system for internal control and risk management in conjunction with annual financial reporting. The board of

directors' responsibility for internal control is also regulated in the Code. Accordingly, the board's duties include ensuring that Starbreeze maintains good internal control and formalized procedures that ensure compliance with established principles of reporting and internal control and ensuring that appropriate systems exist for monitoring and control of the company's operations and the risks associated with its operations.

The overarching purpose of internal control is to obtain reasonable assurance that the company's operational strategies and objectives are followed up and shareholders' investments protected. Internal control should also determine, with reasonable assurance, that external financial reporting is reliable and prepared in accordance with generally accepted accounting practices, compliance with applicable laws and regulations and compliance with rules applicable to listed companies.

Control environment

Internal control at Starbreeze is based on a control environment that encompasses the organization, decision paths, duties and powers. The board of directors has a written charter that clarifies the board's responsibilities and regulates the division of work among the directors. The board charter also specifies the issues that must be submitted to the board for decision. The division of roles between the board of directors and the chief executive officer is communicated in the board charter and in its Instruction to the CEO. In addition, the chief executive officer manages operations based on the Swedish Companies Act, other laws and ordinances, regulations applicable to listed companies, the Swedish Corporate Governance Code, etc. The board of directors monitors

compliance with established principles of financial reporting and internal control and maintains appropriate relations with the company's statutory auditor. Senior management is responsible for the internal control system required to manage material risks in ongoing operations. The audit committee also prepares matters for decision by the board in order to maintain a good control environment.

Risk assessment and control activities

A clear organization and decision-making procedures are intended to generate high risk awareness among employees and carefully considered risk-taking. Embedded internal control points are also intended to minimize the risk of misstatements in the accounts. Likewise, there are documented procedures for the management of the company's finance and consolidation system. Ongoing monitoring and follow-up are applied to maintain good internal control and thus prevent and detect risks.

Risk management

Material risks that affect internal control of financial reporting and operational controls are identified and managed at the Group, business area and subsidiary levels. The board audit committee is responsible for ensuring that material financial risks and risks of misstatements in financial reporting are identified and prepared for board decision, where applicable, on corrective measures to ensure accurate financial reporting. Special priority is awarded to identifying processes where the risk of material misstatement is relatively higher due to the complexity of the process or in contexts that involve high monetary values.

The board of directors tasks senior management with analyzing operations

and identifying and quantifying the risks to which the Group is exposed. After the risks have been identified, they are ranked according to their probability and consequences. Based on this analysis, the company has designed a large number of controls in the areas of Finance, Management, IT, HR, Game Development and Publishing, Marketing and PR, and IR. A planned self-assessment process is conducted according to an established plan and the outcome is reported to the audit committee and the board of directors, who verify that the controls have been performed. The results, analysis and measures in connection with this process are reported directly to the audit committee and board of directors as outlined below.

Monitoring and follow-up

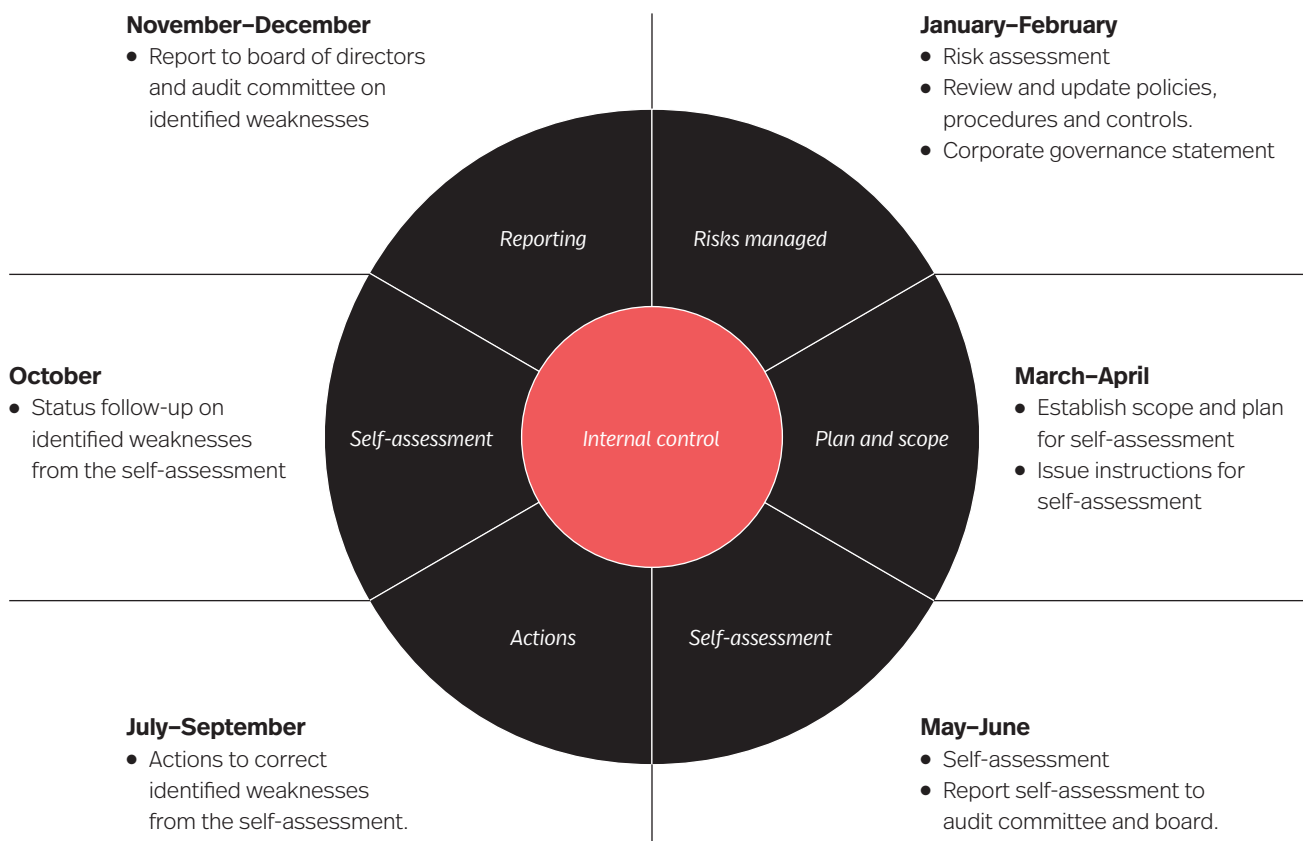
The board of directors continuously evaluates the information provided by senior management and the audit committee. The work of the board of directors also includes ensuring that measures are taken regarding any deficiencies, as well as measures recommended in connection with external audit and internal follow-up of internal control implemented by the company. After the board has received the initial analysis of internal control, the audit committee prepares a proposal for decision by the board of directors on measures to rectify the identified deficiencies and weaknesses.

Towards the end of the year, the audit committee receives a final report on the outcomes and status of internal control.

Based on that report, the audit committee prepares a proposal on improvement measures for submission to the board. This is a continuous process according to the annual cycle for auditing and control, as below.

The board is also provided regular reports on the Group's financial position and development. The Group's financial situation is reviewed at the end of each quarter and senior management analyses the profit and loss trend at the detailed level on a monthly basis and thereafter provides a summarized report to the board. At each meetings, the audit committee follows up on financial reporting and receives a special report from the auditors once a year concerning their observations.

Starbreeze annual cycle for auditing and control



Board of directors and auditors



Michael Hjorth

Chairman of the board since 2013 (director since 2007)

Born: 1963.

Education: Bachelor of Liberal Arts, Bard College, New York

Principal occupation: CEO of the wholly owned investment firm Indian Nation AB and an Executive Producer in film and television.

Other assignments: Chairman of the board of Mäklarappen AB, director of Ftrack AB and MAG Interactive AB, director and CEO of Indian Nation AB and alternate directors of AVZEL.LIFE AB.

Holdings in the company: Directly or indirectly owns 1,500,550 Class A shares and 869,149 Class B shares.

Michael Hjorth is independent in relation to the company, its management and major shareholders.



Ulrika Hagdahl

Director since 2017

Born: 1962

Education: MSc in Engineering Physics, KTH Royal Institute of Technology, Stockholm.

Principal occupation: Board service

Other assignments: Director of HiQ International AB, Sectra AB, Beijer Electronics Group AB, Westermo Teleindustri Aktiebolag, Image Systems AB and AB Idre Golf Ski & Spa, as well as chief executive officer and director of Montech Invest AB, Cancale Förvaltnings Aktiebolag and Lannion AB. Alternate director of Albanello AB and manager of Lannion SARL.

Holdings in the company: –

Ulrika Hagdahl is independent in relation to the company, its management and major shareholders.



Hyung Nam Kim (Harold Kim)

Director since 2016

Born: 1977

Education: Bachelor of Science, University of Southern California Marshall School of Business

Principal occupation: Vice President of Business Development for Smilegate Holdings Inc. and Acting Director of SG Interactive Inc.

Other assignments: Acting Director of SG Interactive Inc. and Vice President of Business Development for Smilegate Holdings Inc.

Holdings in the company: –

Harold Kim is not independent in relation to the company, its management and major shareholders.



Bo Andersson Klint

Director since 2012

Born: 1976

Education: Studies in strategy and organization, Linköping University.

Principal occupation: Chief Executive Officer of Starbreeze.

Other assignments: Director of Enterspace AB and director and chief executive officer of Varvtre AB, Fifi Holding AB and Digistrat AB. Chairman of the board of StarVR Corporation.

Holdings in the company: Directly or indirectly owns 18,718,667 Class A shares and 5,377,886 Class B shares, 133,334 employee stock options and 150,100 warrants.

Bo Andersson Klint is not independent in relation to the company, its management and major shareholders.



Matias Myllyrinne

Director since 2013

Born: 1974

Education: Master of Business Administration (MBA), Hanken School of Economics, Helsinki.

Principal occupation: In charge of game and technology initiatives at Wargaming Ltd. As Head of Development, Myllyrinne is responsible for more than 1,800 employees in the regions of North America, Europe, Russia and Australia.

Other assignments: Head of Development at Wargaming Ltd.

Holdings in the company: –

Matias Myllyrinne is independent in relation to the company, its management and major shareholders.



Eva Redhe

Director since 2014

Born: 1962

Education: Master of Science in Economics and Business Administration, Stockholm School of Economics, Stockholm

Principal occupation: Investor, company director and adviser.

Other assignments: Chair of the boards of Spago Nanomedical AB, Ftrack AB, Redhe Financial Communications AB, R-dental AB and DiagnoCit AB. Redhe is also a director of Första AP-fonden and Axel Christiersson AB.

Holdings in the company: Directly or indirectly owns 350,000 Class B shares.

Eva Redhe is independent in relation to the company, its management and major shareholders.

Auditors

The authorized auditing firm Öhrlings PricewaterhouseCoopers AB is the company's elected auditor.

Nicklas Kullberg

Auditor in charge

Auditor of Starbreeze AB (publ) since 2015.

Born: 1970

Authorized Public Accountant.

Senior management



Bo Andersson Klint

CEO of Starbreeze

See the preceding "Board of Directors" presentation for information about Bo Andersson Klint.



Sebastian Ahlskog

CFO since 2015

Born: 1970

Education: Business Administration, Stockholm University

Background: CFO at Videoplaza, eBay Sweden and Silva Sweden AB. Prior to that, auditor and manager at EY.

Holdings in the company: Directly or indirectly owns 278,734 Class A shares and 136,000 Class B shares, 200,000 employee stock options and 200,000 warrants.



Saül Gascon Barba

Global Development Director since 2015

Born: 1981

Education: Master in Videogame Creation, Universitat Pompeu Fabra, and Bachelor in Multimedia Engineering, Universitat Politècnica de Catalunya

Background: Worked in the video games industry for 13 years.

Holdings in the company: Directly or indirectly owns 26,499 Class B shares, 300,000 warrants and 83,334 employee stock options.



Almir Listo

Global Brand Director & Producer since 2015

Born: 1986

Education: Project Management within the Entertainment Industry, advanced professional training

Background: Project manager for 10 years.

Holdings in the company: Directly or indirectly owns 155,001 Class B shares and 90,000 warrants.



Emmanuel Marquez

CTO since 2014

Born: 1971

Education: BAC E, Lycee Louis Armand, DUT, IUT de Haute Alsace and MSc in Computer Science, EPITA (Graduate School for Computer Science).

Background: More than 18 years' experience in senior positions in the games industry and technology-driven companies.

Holdings in the company: Directly or indirectly owns 1,387,500 Class A shares and 2,290,000 Class B shares and 90,000 warrants.



Mikael Nermark

Deputy CEO since 2009 (CEO 2011–2013)

Born: 1970

Education: Business, Stockholm University

Background: Executive and expert in the games industry for 20 years.

Holdings in the company: Directly or indirectly owns 615,384 Class B shares, 66,668 employee stock options and 90,000 warrants.



Maeva Sponbergs

EVP of Communications since 2017 (prior to that, EVP of Communications and Head of Investor Relations since 2015 and Head of Operations since 2014)

Born: 1980

Education: IT Project Management, IHM Business School

Background: Eighteen years' industry experience and many years of experience in communications and investor relations.

Holdings in the company: Directly or indirectly owns 35,661 Class B shares, 23,333 warrants and 72,498 employee stock options.



Ann Charlotte Svensson

Head of Investor Relations and Corporate Communications since 2017

Born: 1973

Education: Master of Economics, Stockholm University

Background: Twenty years' experience in communications for listed companies as a consultant and in the role of head of communications and IR, including experience in the games and entertainment industry.

Holdings in the company: –



Johanna Wikland

Global Human Resources Director since 2016

Born: 1977

Education: Master of Science in Business Administration and Economics, Lund University

Background: Experience in HR matters, recruiting, organizational development and communications in senior roles at firms including Klarna.

Holdings in the company: Directly or indirectly owns 10,000 Class B shares and 40,000 warrants.

Stockholm, 12 April 2018

Michael Hjorth

Chairman of the Board

DIRECTORS:

Ulrika Hagdahl

Hyung Nam Kim

(Harold Kim)

Matias Myllyrinne

Eva Redhe

Bo Andersson Klint

CEO

THE AUDITOR'S EXAMINATION OF THE CORPORATE GOVERNANCE STATEMENT

To the annual meeting of the shareholders in Starbreeze AB (publ), corporate registration number 556551-8932.

Assignment and division of responsibility

The Board of Directors is responsible for that the corporate governance statement on pages 50–60 has been prepared in accordance with the Annual Accounts Act.

Scope and direction of the examination

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided me (us) with sufficient basis for my our opinions.

Opinion

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 12 April 2018

Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg

Authorized Public Accountant

FINANCIAL REVIEW

Condensed consolidated statement of comprehensive income

SEKk	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
Operating revenue				
Net sales	361,447	345,463	98,830	197,332
Capitalized development costs	231,934	154,450	50,248	28,135
Other operating revenue	0	23,132	481	6,846
Total	593,381	523,045	149,559	232,313
Operating costs	-744,840	-466,591	-128,525	-185,851
Operating profit (-loss) (EBIT)	-151,459	56,454	21,034	46,462
Net financial income/expenses	-24,726	-554	158	116
Profit (-loss) before tax	-176,185	55,900	21,192	46,578
Income tax	20,855	1,191	613	-12,428
Net profit (-loss) for the period	-155,330	57,091	21,805	34,150

Condensed consolidated balance sheet

1 January–31 December, SEKk	31 Dec 2017	31 Dec 2016	31 Dec 2015	30 Jun 2015
Assets				
Non-current assets				
Intangible assets	1,973,404	1,374,342	410,304	197,845
Property, plant and equipment	98,901	23,458	16,773	9,688
Total non-current assets	2,072,305	1,397,800	427,077	207,533
Current assets	386,859	751,141	141,053	163,844
Total assets	2,459,164	2,148,941	568,130	371,377
Equity and liabilities				
Equity	1,282,399	1,370,223	398,365	253,591
Liabilities				
Non-current liabilities	983,765	691,768	50,583	47,884
Current liabilities	193,000	86,950	119,182	69,902
Total liabilities	1,176,765	778,718	169,765	117,786
Total equity and liabilities	2,459,164	2,148,941	568,130	371,377

Condensed consolidated statement of cash flows

SEKk	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
Cash flow from operating activities	–21,086	15,291	46,690	36,751
Cash flow from (–used in) investing activities	–620,107	–289,754	–83,049	–67,884
Cash flow from financing activities	208,913	853,463	10,579	460
Cash flow for (–used in) the period	–432,280	579,000	–25,780	–30,673
Cash and cash equivalents at the beginning of the period	669,380	85,354	110,606	136,566
Exchange differences in cash and cash equivalents	–3,343	5,026	528	4,713
Cash and cash equivalents at the end of the period	233,757	669,380	85,354	110,606

Key data for the Group

	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
EBITDA margin, %	–9.0	15.5	15.8	25.5
Profit margin, %	–29.7	10.7	14.2	20.1
Basic earnings per share, SEK	–0.55	0.22	0.09	0.16
Diluted earnings per share, SEK	–0.55	0.22	0.09	0.15
Equity to assets ratio, %	52.1	63.8	70.1	68.3
Number of shares at the end of the period, basic	283,037,940	276,879,720	230,361,091	217,477,987
Number of shares at the end of the period, diluted	306,443,723	304,352,451	234,449,769	226,793,596
Average number of shares, basic	280,309,967	255,276,469	230,001,583	217,025,086
Average number of shares, diluted	280,309,967	257,234,798	234,090,261	226,340,695
Average number of employees	272	151	105	66
Number of employees at the end of the period	650	212	109	76

Definitions, consolidated key figures

EBITDA margin

EBITDA as a percentage of the sum of revenue and capitalized development costs.

Profit margin

Profit or loss after net financial income or loss as a percentage of the sum of revenue and capitalized development costs.

Earnings per share

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

Equity to assets ratio

Equity as a percentage of total assets.

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BOARD OF DIRECTORS' REPORT

The board of directors and chief executive officer of Starbreeze AB (publ), 556551-8932, hereby present the annual report and consolidated financial statements for the financial year beginning 1 January 2017 and ending 31 December 2017, Starbreeze AB's twentieth financial year. Unless otherwise specified, the information presented in the annual report refers to the Group. Information in parentheses refers to the preceding year.

About the business

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, Luxembourg, 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 organized in three business areas: Starbreeze Games for own game development, Publishing, and VR Tech & Operations for technology and software development in virtual reality (VR) and operation of VR parks.

Starbreeze has executed a comprehensive development project in recent years aimed at refining the business model. The company has, for example, reinforced the organization and senior management by recruiting key skills and a number of strategic acquisitions. Having previously operated only as a game developer and worked with external game publishers, the company has now started its own publishing business for both own games and externally developed games. The business has also been expanded through ventures in the VR segment, including development of a VR headset and location-based VR.

Starbreeze is well-positioned for continued development towards becoming a leading provider in the global

entertainment industry by creating world-class experiences.

The Starbreeze Group comprises the parent company Starbreeze AB (publ) and subsidiaries: Starbreeze Studios AB, Starbreeze Publishing AB, Starbreeze Production AB, Starbreeze US Inc, Starbreeze IP LUX, Starbreeze IP LUX II S.à.r.l, Starbreeze LA Inc, PAYDAY Production LLC, Starbreeze Paris SAS, Starbreeze VR AB, Starbreeze Ventures AB, Starbreeze Barcelona SL, Enterspace AB, Enterspace International AB, Dhruva Infotech Ltd, Nozon and Parallaxter. The Group also owns 33.3 percent of the joint venture, StarVR Corporation.

Financial targets

In conjunction with the listing on Nasdaq Stockholm in autumn 2017, the board of directors adopted the following new financial targets:

Net sales: Revenues of at least SEK 2 billion in 2020. The substantial growth will be primarily driven by the company's game titles developed in-house. In addition, the board of directors has identified significant growth potential in widening the game portfolios within both Starbreeze Games and Publishing, increasing the number of distribution channels, new platforms like VR and new geographies.

Profitability: Positive EBITDA for the fourth quarter of 2018 and every subsequent financial year on an annualized basis. As the Starbreeze business model is scalable in several dimensions while the cost base remains relatively constant when revenues increase, significantly higher profitability is expected in conjunction with future game releases.

Dividend policy: The board of directors does not intend to propose dividends in the next few years, and instead intends to use generated cash flow to finance the continued growth and development of the business. Starbreeze's long-term dividend policy is to distribute 50 percent of net profit after tax from the preceding financial year.

Significant events during the year

In January 2017, it was announced that the first IMAX VR pilot center had opened in Los Angeles and that the terms of the

contract between Starbreeze and IMAX were being renegotiated. That same month, Starbreeze and Behaviour made an agreement on a digital version of Dead by Daylight for PlayStation4 and Xbox One and with 505 Games for physical distribution of the game.

In February, Starbreeze made an agreement with Double Fine Productions to publish the game Psychonauts 2, in which Starbreeze will invest USD 8 million. An agreement was made in March with Otherside Entertainment to publish the game System Shock 3, where Starbreeze will invest USD 12 million.

Starbreeze and Skybound Entertainment announced in the second quarter that the release window for OVERKILL's The Walking Dead (OTWD) had been postponed to the second half of 2018 to ensure that the game reaches its full potential.

On 30 June, Starbreeze acquired Swedish location-based VR company Enterspace AB for SEK 68.8 million. Enterspace entered into a five-year agreement in August on a new VR park in Dubai, under the terms of which Starbreeze will be the lead partner for installation and content. The agreement requires an investment of about USD 10 million, financed entirely with a loan from Nordea, partially guaranteed by the Swedish Export Credit Agency, along with a marketing contribution from StarVR Corporation. Starbreeze will retain 20-25 percent of future net revenues from sales of tickets to Starbreeze experiences. In addition to the financing of the VR park in Dubai, Nordea granted a line of credit of SEK 150 million to Starbreeze.

Contract negotiations with IMAX on starting a joint venture for IMAX VR centers were terminated in June. The partnership will instead continue through a content licensing agreement for the centers on customary terms for revenue sharing, and StarVR Corporation will take over hardware sales and support.

At the end of June, Starbreeze and Canadian studio Behaviour Interactive co-released the publishing title Dead by Daylight for PlayStation 4 and Xbox One in Europe and the US. Antisphere, the first Indielabs title, was released on Steam for PC in July, but due to low sales of the PC version Starbreeze decided to make no

further investment in the title and cancel the planned release for console.

In August, Starbreeze and the owners of Indian production company Dhruva agreed to finalize the acquisition of 90.5 percent of equity in the company against cash consideration of USD 8.5 million. In conjunction, part of the seller group committed to acquiring newly issued Class B shares in Starbreeze to a value of USD 1.5 million. The agreement also contained a five-year earnout capped at USD 0.5 million. The acquisition closed on 22 December 2017 and Dhruva was subsequently consolidated in Starbreeze's financial statements.

On 22 September, the Nasdaq Listing Committee approved the admission to trading of the Starbreeze share on Nasdaq Stockholm. The first day of trading in the Starbreeze share in the Mid Cap segment was 2 October.

In September, Starbreeze, Lion Game Lion and 505 Games jointly released the publishing title RAID: World War II for PC. The game was also released for PlayStation 4 and Xbox One in the fourth quarter. The response to the game was poorer than expected and, due to low sales, an impairment loss of SEK 20.2 million was taken on RAID in December 2017 to match the asset to anticipated future cash flows.

In October, Starbreeze and Acer agreed a new financing plan for the joint venture company StarVR Corporation, under which Starbreeze was released from its commitment to provide an additional USD 7.5 million; instead, Acer will make a capital injection of SEK 5 million to Star VR Corporation. Following the new agreement, Starbreeze's stake in the joint venture is 33.3 percent. Starbreeze still owns the related intellectual property and will continue further development of the VR headset.

Starbreeze, Skybound Entertainment and 505 Games released a trailer for the own game OVERKILL's The Walking Dead (OTWD) in December that introduced the four main characters of the game. Advance interest in the game is huge, and more than 15 million viewers watched the trailer on YouTube and Facebook in the first week.

Stock option program

Key individuals exercised 0.9 million employee stock options during the year for new subscriptions of a total of 1.3 million shares. As of 31 December 2017, there were 1.0 million granted outstanding employee stock options and 1.8 million granted outstanding warrants. In addition, the company has 32,666

warrants that can be used for cash-flow hedging of the employee stock option programs.

Events after the end of the financial year

The following significant events have occurred subsequent to 31 December 2017. Supported by the authorization of the 2017 AGM, a directed issue to Swedish and international institutional investors was executed on 25 January 2018. 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, on 15 February 2018, the board of directors decided to offer existing shareholders the opportunity to participate in a rights issue of approximately SEK 150 million, pending approval of the subsequent general meeting. The purpose of the issues is to secure financing of the current business plan in the amount of about SEK 75 million until the release of OTWD; in addition, the company has identified several business opportunities in addition to the current business plan, which it has assessed will create substantial value for shareholders.

Starbreeze AB made a publishing agreement with Mohawk Games on 5 February 2018 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.

Payday 2 was released on 23 February 2018 for the Nintendo Switch platform.

On 21 March 2018, Starbreeze decided to sell the publishing rights to the Dead by Daylight game to the developer, Behaviour Interactive Inc. 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. The deal will accelerate cash flows to Starbreeze from the game, which will strengthen Starbreeze's earnings and free up capital for new projects.

Net sales and earnings

The financial year covers 12 months (January-December 2017).

Net sales for the financial year amounted to SEK 361.4 million (345.5), including revenues of SEK 120.3 million generated by PAYDAY and SEK 201.5 million (143.7) by Dead by Daylight. The growth is mainly attributable to the release of the console versions of Dead by Daylight in the second quarter of 2017.

Starbreeze also received non-recurring income of SEK 2.0 million during the year for the sale of the game's physical console rights.

Capitalized development costs for the period amounted to SEK 231.9 million (154.5). The increase was driven primarily by higher activity in the production of OVERKILL's The Walking Dead (OTWD), development of the StarVR headset, the mobile game project PAYDAY Crime War, the Crossfire game project and the build-up of the VR centers in Dubai and Stockholm.

Other revenue, consisting of currency effects, decreased to SEK 0.0 million (23.1).

Consolidated net sales, capitalized development costs and other operating revenue totaled SEK 593.4 million (523.0).

Costs for the financial year were driven mainly by higher activity in the company's game development projects, both in-house and within the publishing business.

Other external expenses increased to SEK 415.8 million (292.1), including SEK 91.1 million (72.6) in royalties to partners in the publishing business. Costs for purchased services related to game development increased to SEK 178.0 million (110.6). Office costs increased to SEK 40.7 million (22.3) due to acquisitions and expansion of premises in Stockholm and elsewhere.

Employee benefits expense increased to SEK 229.9 million (148.5), driven mainly by acquisitions and staff additions in the Starbreeze Games business area.

Other operating expenses, consisting of currency effects, were on par with the preceding year and amounted to SEK 1.2 million (1.2).

Earnings were further impacted by costs that cannot be capitalized because the projects have not reached a sufficient percentage of completion. EBITDA amounted to SEK -53.5 million (81.2). The loss before tax amounted to SEK -176.2 million (55.9). Depreciation, amortization and impairments of SEK 97.9 million (24.8) were charged to earnings, the majority consisting of amortizations of the released titles RAID and John Wick. Amortization for RAID includes an impairment loss of SEK 20.2 million. The loss after tax amounted to SEK -155.3 million (57.1).

Net financial income/expense consisted largely of the remeasurement of earnouts of SEK -10.1 million (8.8), of which SEK -5.3 million (7.1) in exchange losses. Interest on convertible bonds increased to SEK -21.7 million (-14.8); the share in the loss of the joint venture

company StarVR Corporation was SEK -4.2 million (0.1); remeasurement of derivatives attributable to the Smilegate convertible bond of SEK -8.4 million (4.7) and interest on the bank overdraft facility with Nordea of SEK -1.3 million (0.0). The majority of net financial income/expense had no effect on cash flow.

Basic and diluted earnings per share were SEK -0.55 (0.22).

On 21 March 2018, Starbreeze decided to sell the publishing rights to the Dead by Daylight game to the developer, Behaviour Interactive Inc (Behaviour). Starbreeze will receive an initial payment of USD 4 million, followed by an additional USD 12 million paid in stages as royalties amounting to 65 percent of game revenues. The publishing rights to the game will not be transferred to Behaviour until Starbreeze has received the entire consideration of USD 16 million.

Financial position

Goodwill at the end of the financial year amounted to SEK 545.0 million (404.5). The acquisitions of Enterspace and Dhruva increased this item in the balance sheet by SEK 68.8 million and SEK 72.9 million, respectively, as of acquisition date. Goodwill is recognized using the exchange rate on the reporting date. The preliminary acquisition analysis for Starbreeze Paris (formerly ePawn) was completed and resulted in a downwards adjustment of the acquisition price and goodwill by SEK 5.0 million. The adjustment had no impact on profit and loss. Other non-current intangible assets amounted to SEK 597.5 million (594.7).

Capitalized development costs increased by SEK 339.0 million to SEK 642.8 million (303.8) and refer to own game development projects, such as OVERKILL's The Walking Dead, and technology development within the VR Tech & Operations business area. Investments in publishing projects of SEK 187.5 million (71.7), which are posted directly to the balance sheet and are therefore not included in capitalized development costs in profit or loss, are included but do not affect cash flow.

Intangible assets were amortized during the year by SEK 82.3 million (20.6), including an impairment loss of SEK 20.2 million on RAID: World War II. Trade and other receivables amounted to SEK 27.8 million (25.6).

Prepaid expenses and accrued income at the end of the period amounted to SEK 125.3 million (56.2), of which SEK 57.1 million (35.1) related to receivables for digital sales, primarily via Steam, PlayStationStore and Xbox Live. The

increase is also attributable to the build-up of the VR center in Dubai, including advance payments of SEK 27.7 million and prepaid issue expenses of SEK 6.0 million.

Deferred tax assets relating to outstanding loss carryforwards in the parent company Starbreeze AB amounted to SEK 23.1 million (5.3) at the end of the period. Deferred tax assets relating to outstanding loss carryforwards in foreign subsidiaries amounted to SEK 37.8 million (12.1). In the Swedish subsidiaries, deferred tax assets relating to loss carryforwards amounted to SEK 47.3 million (13.4). The increase is due to the Group having reported a loss.

Consolidated equity on the reporting date amounted to SEK 1,282.4 million (1,370.2) and the equity to assets ratio was 52.1 percent (63.8).

Non-current liabilities for earnouts increased to SEK 347.9 million (307.1). The balance sheet item relates to earnouts for business combinations, primarily Nozon and Parallaxter. The acquisition of Enterspace increased this item in the balance sheet by SEK 46.8 million. The item is measured at fair value and the change is recognized in net financial income and expense in profit or loss.

Other non-current liabilities increased to SEK 466.6 million (265.5). The majority of the balance sheet item consists of the new bank overdraft facility from Nordea of SEK 141.0 million (0.0) and the convertible bonds issued to Acer of SEK 71.5 million (66.5) and to Smilegate of SEK 213.2 million (193.4).

Trade and other payables at the end of the period amounted to SEK 122.4 million (42.0), including SEK 41.6 million in development 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 period amounted to SEK 70.6 million (45.0). The increase was driven primarily by the acquired company Enterspace and refers mainly to the build-up of the VR park in Dubai. The revenue share liability for Dead by Daylight increased from SEK 13.1 million to SEK 19.0 million, driven by increased sales.

Cash flow

Cash and cash equivalents on 1 January 2017 amounted to SEK 669.4 million (85.4).

Cash flow from (-used in) operating activities amounted to SEK -21.1 million

(15.3). Cash flow from (-used in) investing activities was SEK -620.1 million (-289.8). Cash flow from financing activities was SEK 208.9 million (853.9). The change is due mainly to the new share issues executed in 2016.

Total cash flow for (-used in) the period was SEK -432.3 million (579.0). Cash and cash equivalents at the end of the period amounted to SEK 233.8 million (669.4)

Investments, amortization and depreciation

During the financial year, Group investments in property, plant and equipment amounted to SEK 87.3 million (9.4), investments in the form of capitalized game development costs amounted to SEK 412.1 million (194.9) and investments through business combinations amounted to SEK 59.1 million (60.4). Investments in other non-current financial assets increased to SEK 61.6 million (9.7), including SEK 37.5 million in the joint venture StarVR Corporation and SEK 21.8 million in loan receivables, primarily in Enterspace AB and an American start-up company.

Impairments

Starbreeze regularly tests assets with indefinite useful lives for impairment to ensure that the carrying amounts of assets do not exceed fair value. During the financial year, this led to an impairment of SEK 20.2 million on the game RAID: World War II to match the asset to the anticipated cash flow because the game did not perform as well as expected

Research and development

The Group engages in research and development in game development and VR technology. R&D costs are expensed on an ongoing basis during the research phase, i.e., until there is a playable version of the game or the VR technology has attained a level where it is technically feasible to complete the product and it is commercially viable. Once the project has reached this level and thus transitioned to the development phase, costs are capitalized and recognized as an intangible asset. Once the asset is complete, it is amortized straight-line across the useful life of the asset.

Environmental impact

No group companies are engaged in any activity that requires a permit under the Swedish Environmental Code. However, Starbreeze has an express ambition to minimize the negative environmental

impact of the business and has adopted several guidelines in that respect.

Sustainability

As of the 2017 financial year, large companies in Sweden are required under the Annual Accounts Act to present a sustainability report. According to the criteria, Starbreeze is not required to prepare a statutory sustainability report for the 2017 financial year.

A good and safe work environment is a key sustainability topic for Starbreeze. The objective of work environment (health and safety) management at Starbreeze is to create a physically, psychologically and socially healthy workplace that promotes the development of all employees and where risks of occupational injury and work-related illness are prevented. Starbreeze regularly evaluates the company's work environment initiatives to ensure continuous improvements in the daily work environment efforts. Gender equality and equal opportunity are a key component of sustainability management. Efforts to promote gender equality and equal opportunity at Starbreeze are intended to monitor and improve equality among the employees. Matters of gender equality and equal opportunity must be considered and pursued in the company's operations. Read more in the "Employees and organization" section on pages 43-45.

The company's Code of Conduct sets out the fundamental principles for how Starbreeze does business. It governs, for example, how Starbreeze must prevent corruption and promote fair competition. The Code of Conduct also explains what employees can expect of Starbreeze as an employer with regard to the work environment, health and safety, human rights, equal opportunity and personal privacy.

As regards the company's games and their marketing, the company must comply with labeling standards in accordance with regulations in effect and recommendations applicable to each respective market, such as PEGI for the EU and ESRB for the United States concerning aspects such as content and age restrictions. Marketing must be ethical, honest and reflect generally accepted social standards of good taste and decency.

Employees

The company had 650 (212) employees at the end of the period, of whom 570 men and 80 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 age of employees as of 31 December 2017 was 31 (34).

Remuneration to senior management

Guidelines for remuneration to senior management personnel previously decided and ahead of the 2018 AGM are presented in the Corporate Governance section on page 53. Costs of remuneration to senior management personnel in 2017 are specified in Note 13.

Corporate governance

The Swedish Corporate Governance Code ("the Code") must be applied by all companies whose shares are registered with or listed on a stock exchange. In accordance with this rule and the Annual Accounts Act, a Corporate Governance Statement has been prepared and is presented on pages 50-60.

The appointment and dismissal of directors proceed in accordance with the Swedish Companies Act.

Amendments to Starbreeze's Articles of Association are adopted in accordance with the Companies Act.

The parent company

Starbreeze AB (publ) is the parent company of the group. Executive management and other central group functions are coordinated in the parent company.

The parent company had net sales in 2017 of SEK 63.2 million (101.9) and the loss before tax was SEK -74.6 million (8.0). The loss after tax was SEK -56.7 million (8.0).

Investments in subsidiaries increased by SEK 591.0 million to SEK 1,281.1 million (690.1), with the increase consisting mainly of shareholder contributions to subsidiaries of SEK 384.4 million, the acquisitions of Enterspace and Dhruva and the internal purchase of Starbreeze IP Lux II, for a total of SEK 219.6 million.

Investments in joint ventures increased by SEK 37.5 million to SEK 46.0 million (8.5) through a capital injection to StarVR Corporation.

Non-current liabilities consisting of convertible bonds and earnouts increased by SEK 67.6 million to SEK 632.8 million (565.2), primarily due to the acquisitions of Enterspace and Dhruva, where the earnouts were valued at SEK 51.2 million and SEK 4.1 million, respectively, as of the reporting date.

The share and ownership structure

The Starbreeze share has been listed in the Mid Cap segment of Nasdaq Stockholm since 2 October 2017. The shares are traded under the same ticker and ISIN code as before: STAR A, SE 007158928 and STAR B, SE0005992831.

At the end of the year, the closing price was SEK 8.15 (19.20) for the Class A share and SEK 8.40 (19.30) for the Class B share. Total market capitalization was SEK 2,364 million (5,300).

Share capital at the end of the period amounted to SEK 5,661 thousand (5,538) distributed among 283,037,940 shares (276,879,720), of which 55,146,615 Class A shares (55,971,982) and 227,891,325 Class B shares (220,907,738).

Class B shares outstanding increased during the year by 1,071,203 through a non-cash issue in connection with the acquisition of Enterspace and by 1,007,578 through a non-cash issue in connection with the acquisition of Dhruva. Class B shares were also issued upon redemption of warrants. After the end of the year, the company executed a directed issue that increased the number of Class B shares outstanding by 20,681,797.

Starbreeze had 26,894 shareholders (27,155) at the end of the year. The three largest shareholders at year-end were Bo Andersson Klint with 8.52 percent of share capital and 24.59 percent of voting rights, Smilegate Holdings with 3.40 percent of share capital and 5.11 percent of voting rights and Swedbank Robur with 10.54 percent of share capital and 4.38 percent of voting rights. Additional information about the share and shareholders is presented on pages 46-49.

Risks and uncertainties

Internal control and risk management at Starbreeze are described in the Corporate Governance Statement on pages 50-60. The most material operational risks for Starbreeze are described below, in no particular order.

Risks related to external developers

Within the framework of the company's publishing business, Starbreeze is dependent upon the studios that produce contracted productions performing their contractual obligations.

Project delays

Both internal projects and projects developed by external partners may be subject to delays. Completion of a project may also require more resources than originally estimated. When this occurs,

especially in internal projects, the cost is borne by Starbreeze.

Low revenues upon release of games or other products

When new games or other products are released, there is risk that they will not be received enthusiastically by the market. This applies both to internally financed projects and to games for which the company is acting as the publisher and is responsible for a significant portion of the financing. There is also risk that capitalized development costs will require impairment.

Dependence upon key individuals

Starbreeze is a knowledge-intensive company and is dependent upon its continued capacity to employ, train and retain key individuals to achieve success in all functions in the locations where Starbreeze operates. This involves matters including commercial experience, understanding gamer preferences and expertise in game development and technology. The business is also dependent upon key individuals at the senior management level.

Financing requirements and capital

Within the framework of Starbreeze's operations, revenues will often be unevenly distributed over time. The company experiences peaks when liquidity is good and valleys when liquidity is less good. There is thus risk that the company will need to be capitalized in the future. There is also risk that the company, at any given time, might not be able to raise additional capital or might not be able to raise capital on terms favorable to existing shareholders.

Intellectual property rights

Intellectual property rights comprise a significant portion of Starbreeze's assets, primarily in the form of copyright on games and software developed in-house, publishing licenses for games whose rights are owned by third parties, patents and patent applications, trademarks and internal specific knowledge and know-how. It is thus very important that the assets developed within the Group remain the property of Starbreeze.

Furthermore, there is risk that outsiders may infringe the company's intellectual property rights, or the company may infringe intellectual property rights owned by another party.

Currency risks

Starbreeze operates in an international market. A large share of Starbreeze's

revenues are paid in USD, while costs are mainly in SEK, but also in EUR. The majority of investment commitments are in USD. Starbreeze is therefore exposed to fluctuations in the currency market and exchange rates.

Risk of impairment of goodwill and other intangible assets

The consolidated balance sheet consists largely of goodwill and other intangible assets, which amounted in total to SEK 1,785 million on 31 December 2017. The company continuously monitors relevant circumstances that have impact on the company's business and general financial situation and the possible impact that such circumstances may have on the measurement of the company's goodwill and other intangible assets. It is possible that changes in such circumstances, or in the many factors the company takes into consideration in connection with its judgments, assumptions and estimates in connection with the measurement of goodwill and other intangible assets, might require the company to impair goodwill and other intangible assets in the future.

Proposed disposition of profits

Parent	
12/31/2017	
Retained earnings (-loss)	82,561,951
Fair value reserve	328,543
Share premium reserve	1,180,697,398
Net profit (-loss) for the year	-56,749,000
Carried forward	1,206,838,892

The board of directors proposes that retained earnings of SEK 1,206,838,892 be carried forward.

Dividends

The board of directors is proposing that no dividend (0) be distributed for the 2017 financial year.

Annual General Meeting

The annual general meeting of shareholders in Starbreeze AB (publ), 556551-8932, will be held Wednesday 9 May at 16.00 CET at Hotel Rival in Stockholm. Further information is provided on page 105.

Consolidated statement of comprehensive income

SEKk	Note	2017	2016
	1, 2, 3, 4		
Net sales	5, 6	361,447	345,463
Capitalized development costs	21	231,934	154,450
Other operating revenue	7	-	23,132
Total		593,381	523,045
Other external expenses	8, 9, 10	-415,780	-292,106
Employee benefits expense	11, 12, 13	-229,938	-148,517
Amortization and impairments of intangible assets	21	-82,294	-20,600
Depreciation and impairments of property, plant and equipment	22	-15,642	-4,166
Other operating expenses	14	-1,186	-1,202
Operating profit (-loss), EBIT		-151,459	56,454
Financial income	15	10,105	17,511
Financial expenses	15	-30,631	-18,196
Share of profit or loss from holdings recognized using the equity method of accounting	43	-4,200	131
Profit (-loss) before tax		-176,185	55,900
Income tax	17	20,855	1,191
Net profit (-loss) for the year		-155,330	57,091
Other comprehensive income that may subsequently be reclassified to profit and loss			
Exchange differences		1,402	-4,375
Total comprehensive income for the year		-153,928	52,716
Total comprehensive income attributable to			
Capitalize Owners		-154,022	52,716
Non-controlling interests		94	-
Earnings per share attributable to owners of the parent during the period (SEK)			
Basic earnings per share, SEK	18	-0.55	0.22
Diluted earnings per share, SEK	18	-0.55	0.22

Consolidated balance sheet

SEKk	Note	2017-12-31	2016-12-31
Assets	1, 2, 3, 4		
Non-current assets			
<i>Intangible assets</i>			
Goodwill	21	544,971	404,530
Other intangible assets	21	597,467	594,728
Capitalized games and technology development costs	21	642,767	303,763
<i>Financial assets</i>			
Financial assets	23	38,156	31,971
Investments in joint ventures	43	41,890	8,638
Deferred tax assets	17	108,153	30,712
<i>Property, plant and equipment</i>			
Computers and other equipment	22	98,901	23,458
Total non-current assets		2,072,305	1,397,800
Current assets	25, 26		
Inventories	19	22	2
Trade and other receivables	27	27,821	25,576
Prepaid expenses and accrued income	27, 28	125,259	56,183
Cash and cash equivalents	29	233,757	669,380
Total current assets		386,859	751,141
Total assets		2,459,164	2,148,941
Equity and liabilities			
Equity attributable to owners of the parent	20, 30, 31		
Share capital		5,661	5,538
Non-registered share capital		-	-
Other capital contributions		1,243,573	1,175,563
Reserves		5,073	3,671
Retained earnings including profit or loss for the year		27,748	185,451
Non-controlling interests		344	-
Total equity		1,282,399	1,370,223
Non-current liabilities			
Non-current liabilities, earnouts	33	347,862	307,099
Deferred tax liabilities	17	169,346	119,134
Other non-current liabilities	42	466,557	265,535
Total non-current liabilities		983,765	691,768
Current liabilities	34		
Trade and other payables		122,396	41,990
Accrued expenses and deferred income	35	70,604	44,960
Total current liabilities		193,000	86,950
Total liabilities		1,176,765	778,718
Total equity and liabilities		2,459,164	2,148,941

Consolidated statement of changes in equity

SEKK	Share capital	Other capital contributions	Reserves	Retained earnings (-loss)	Total	Non-controlling interests	Total equity
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 year	-	-	-	-155,424	-155,424	94	-155,330
Other comprehensive income for the year							
Exchange differences	-	-	1,402	-	1,402	-	1,402
Total comprehensive income	5,538	1,175,563	5,073	30,027	1,216,201	94	1,216,295
Transactions with shareholders							
New issue through exercise of stock options	81	21,853	-	-	21,934	-	21,934
Acquired subsidiary with non-controlling interest	-	-	-	94	94	250	344
Vested employee stock options	-	586	-	-	586	-	586
Sale of equity instruments*		21,288			21,288	-	21,288
Tax effect on sale of equity instruments		-4,683	-	-	-4,683	-	-4,683
Non-cash issue	42	28,966	-	-	29,008	-	29,008
Issue costs recognized in equity		-	-	-3,041	-3,041	-	-3,041
Tax effect of issue costs recognized in equity		-	-	668	668	-	668
Total contribution from and value transfers to shareholders, recognized directly in equity	123	68,010	0	-2,279	65,854	250	66,104
Balance at 31 December 2017	5,661	1,243,573	5,073	27,748	1,282,055	344	1,282,399
SEKK	Share capital	Other capital contributions	Reserves	Retained earnings (-loss)	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	4,607	257,352	8,046	128,360	398,365	-	398,365
Net profit (-loss) for the year	-	-	-	57,091	57,091	-	57,091
Other comprehensive income for the year							
Exchange differences	-	-	-4,375	-	-4,375	-	-4,375
Total comprehensive income	4,607	257,352	3,671	185,451	451,081	-	451,081
Transactions with shareholders							
New issue through exercise of stock options	132	53,544	-	-	53,676	-	53,676
Vested employee stock options	-	1,302	-	-	1,302	-	1,302
New issue	521	514,178	-	-	512,612	-	512,612
Shareholder contributions received	-	-	-	-	2,087	-	2,087
Issue of convertible	-	38,093	-	-	38,093	-	38,093
Non-cash issue	278	311,094	-	-	311,372	-	311,372
Total contribution from and value transfers to shareholders, recognized directly in equity	931	918,211	-	-	919,142	-	919,142
Balance at 31 December 2016	5,538	1,175,563	3,671	185,451	1,370,223	-	1,370,223

* Refers to the hedge the company has had for employee stock options

Consolidated statement of cash flows

SEKk	NOTE	2017	2016
Operating activities			
Cash flow from operations	40	-11,167	8,868
Interest paid		-5,325	-2,682
Interest received		9	5,410
Income taxes paid		-4,603	3,695
Cash flow from (-used in) operating activities		-21,086	15,291
Investing activities			
Purchase of property, plant and equipment		-87,338	-9,449
Investments in subsidiaries	38	-59,076	-60,412
Purchase of intangible assets	21	-21,834	-15,354
Investments in other financial assets		-38,020	-9,668
Investments in capitalized game and technology development costs		-413,839	-194,871
Increase (-)/ decrease (+) in Short-term deposits		-	-
Cash flow from (-used in) investing activities		-620,107	-289,754
Financing activities			
New issue		-	554,906
Payments for warrants		43,073	14,128
Increase in loans	44	169,209	284,945
Repayment of loans		-3,369	-516
Cash flow from financing activities		208,913	853,463
Cash flow from (-used in) the year		-432,280	579,000
Cash and cash equivalents at the beginning of the year		669,380	85,354
Exchange differences in cash and cash equivalents		-3,343	5,026
Cash and cash equivalents at the end of the year		233,757	669,380
Total available cash and cash equivalents	29	233,757	669,380

Parent company income statement

SEKk	NOTE	2017	2016
	1, 2, 3, 4		
Net sales	6	63,217	101,935
Other operating revenue	7	1,752	13,905
Total revenue		64,969	115,840
Other external expenses	8, 9, 10	-68,230	-97,970
Employee benefits expenses	11, 12, 13	-45,534	-35,498
Depreciation of property, plant and equipment	22	-757	-703
Other operating expenses	14	-	-
Operating profit (-loss)		-49,552	-18,331
Financial income	15	4,130	13,870
Financial expenses	15	-29,202	-17,794
Impairment of investments in subsidiaries	37	-	-
Profit (-loss) after net financial income (-expense)		-74,624	-22,255
Appropriations	16	-	30,247
Profit (-loss) before tax		-74,624	7,992
Income tax	17	17,875	-1
Net profit (-loss) for the year		-56,749	7,991

Parent company balance sheet

SEKk	NOTE	31/12/2017	31/12/2016
Assets	1,2,3,4		
Non-current assets			
<i>Property, plant and equipment</i>			
Computers and other equipment	22	1,109	1,265
<i>Financial assets</i>			
Investments in group companies	24	1,281,195	690,126
Deferred tax assets	17	23,126	5,252
Investments in joint venture	43	45,958	8,507
Other financial assets	23	562	-
Total non-current assets		1,351,950	705,150
Current assets			
Trade receivables	27	23	-
Receivables from group companies		724,234	743,648
Other receivables		1,771	549
Prepaid expenses and accrued income	28	7,087	1,295
Cash and cash equivalents	29	75,353	540,118
Total current assets		808,468	1,285,610
Total assets		2,160,418	1,990,760
Equity and liabilities			
Equity	20,30,31		
Share capital		5,661	5,538
<i>Non-restricted equity</i>			
Fair value reserve		328	2,054
Share premium reserve		1,180,697	1,129,465
Retained earnings (-loss)		82,562	76,945
Net profit (-loss) for the year		-56,749	7,991
Total equity		1,212,499	1,221,993
Untaxed reserves			
Accumulated excess depreciation	32	16	16
Total untaxed reserves		16	16
Non-current liabilities			
Non-current liabilities, earnouts	33	347,862	305,207
Other non-current liabilities, convertible bonds	42	284,970	259,972
Total non-current liabilities		632,832	565,179
Current liabilities	34		
Trade payables		6,829	3,391
Liabilities to group companies		294,581	177,839
Other liabilities		4,439	6,664
Accrued expenses and deferred income	35	9,222	15,678
Total current liabilities		315,071	203,572
Total equity and liabilities		2,160,418	1,990,760

Parent company statement of changes in equity

SEKk	Restricted reserves		Non-restricted reserves		Total equity
	Share capital	Fair value reserve	Share premium reserve	Retained earnings (-loss)	
Balance at 1 January 2017	5,538	2,054	1,129,465	84,936	1,221,993
Fair value reserve	-	-1,726	-	-	-1,726
New issue through exercise of employee stock options	81	-	21,680	-	21,761
Shareholder contributions received	-	-	-	-	-
Vested employee stock options	-	-	586	-	586
Issue of convertible	-	-	-	-	-
New issue	-	-	-	-	-
Non-cash issue	42	-	28,966	-	29,008
Issue costs recognized in equity	-	-	-	-3,041	-3,041
Tax effects on issue costs recognized in equity	-	-	-	668	668
Profit (-loss) for the year	-	-	-	-56,749	-56,749
Balance at 31 December 2017	5,661	328	1,180,697	25,813	1,212,499

SEKk	Restricted reserves		Non-restricted reserves		Total equity
	Share capital	Fair value reserve	Share premium reserve	Retained earnings (-loss)	
Balance at 1 January 2016	4,607	-637	211,254	76,945	292,169
Fair value reserve	-	2,691	-	-	2,691
New issue through exercise of employee stock options	132	-	53,544	-	53,676
Shareholder contributions received	-	-	2,087	-	2,087
Vested employee stock options	-	-	1,302	-	1,302
Issue of convertible	-	-	38,093	-	38,093
New issue	521	-	512,091	-	512,612
Non-cash issue	278	-	311,094	-	311,372
Profit (-loss) for the year	-	-	-	7,991	7,991
Balance at 31 December 2016	5,538	2,054	1,129,465	84,936	1,221,993

Parent company statement of cash flows

	NOTE	2017	2016
Operating activities			
Cash flow from operations	40	80,971	-241,189
Interest paid		-5,094	-2,563
Interest received		4,159	1
Income taxes paid		-669	-30
Cash flow from (-used in) operating activities		79,367	-243,781
Investing activities			
Purchase of property, plant and equipment		-615	-409
Investments in subsidiaries	38	-62,472	-66,753
Increase (-)/ decrease (+) in Short-term deposits		-522,911	-
Cash flow from (-used in) investing activities		-585,998	-67,162
Financing activities			
New issue		-	554,906
Payments for stock options		43,043	14,128
Increase in loans		-	259,972
Repayment of loans		-	-
Cash flow from (-used in) financing activities		43,043	829,006
Cash flow for (-used in) the year		-463,588	518,063
Cash and cash equivalents at the beginning of the year		540,118	20,281
Exchange differences in cash and cash equivalents		-1,177	1,774
Cash and cash equivalents at the end of the year		75,353	540,118
Total available cash and cash equivalents	29	75,353	540,118

NOTES

1 General information

Starbreeze AB (publ) is an independent creator, publisher and distributor of high-quality entertainment products. With studios in Stockholm, Paris, Barcelona, Los Angeles, San Francisco, Bangalore and Dehradun, we create games based on our own design and licensed content.

The parent company, registration number 556551-8932 is a registered limited liability company domiciled in Stockholm, Sweden. The company's address is Regeringsgatan 38, Box 7731, 103 95 Stockholm, Sweden.

Starbreeze AB (publ) is listed on Nasdaq Stockholm Main Market.

The board of directors approved the consolidated financial statements for publication on 12 April 2018.

2 Summary of key accounting policies

The key accounting policies applied to preparation of the consolidated financial statements are specified below. These policies have been consistently applied to all presented years, unless otherwise specified.

2.1 Basis for preparing the parent company and consolidated financial statements

The consolidated financial statements for Starbreeze AB were prepared in accordance with the Annual Accounts Act; RFR 1 Supplementary Accounting Regulations for Corporate Groups issued by the Swedish Financial Accounting Standards Council, and International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU. The consolidated financial statements were prepared in accordance with the purchase method, with the exception of remeasurement of liabilities measured at fair value through profit or loss.

The parent company's functional currency is SEK, which is also the presentation currency for the parent company and the group. Accordingly, the financial statements are presented in SEK. All amounts, if not otherwise specified, are rounded off to the nearest thousand.

Preparation of the financial statements in accordance with IFRS requires the use of certain key accounting estimates. Furthermore, management must make certain assessments in the application of the company's accounting policies. Estimates and assumptions are based on historical experience and factors that seem reasonable under prevailing circumstances. The results of these estimates and assumptions are subsequently used to assess the carrying amounts of assets and liabilities not clearly apparent based on other sources. Actual outcomes may differ from these estimates and judgments. Areas that entail a high degree of judgment, which are complex or such areas where assumptions and estimates are of material significance to the consolidated financial statements are specified in Note 4. The parent company's accounting policies are specified in Note 2.23.

2.1.1 Changes to accounting policies and disclosures

A. New and amended standards applied by the group

None of the IFRS or IFRIC interpretations mandatorily effective for the first time for the financial year that began 1 January 2017 has had material impact on the group.

B. New standards, amendments and interpretations of existing standards not yet effective and for which the group has not elected early application

A number of new and revised standards are not mandatorily effective until the reporting period beginning on or after 1 January 2018 and were not applied in preparing these financial statements. These new standards and interpretations are expected to affect the consolidated financial statements as follows:

IFRS 9 Financial Instruments

IFRS 9 governs classification, measurement and recognition of financial assets and liabilities and introduces new rules for general hedge accounting. The complete version of IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that governed classification and measurement of financial instruments and introduces a new impairment model. The standard has been adopted by the EU.

The group will begin applying IFRS 9 in the reporting period that begins 1 January 2018. The group will not be restating comparison figures for the 2017 financial year, in accordance with the transition rules for the standard.

A project was carried out in the autumn of 2017 that included discussions of classification and measurement of financial instruments owned by the group. After the workshops, it was determined that the new rules for classification and measurement will not have material impact on the group's financial position as of the transition date, as the rules will not entail any change regarding measurement of the financial instruments included in the consolidated balance sheet as of that date.

IFRS 9 introduces a new impairment model based on expected credit losses and which takes forward-looking information into account. As the group has historically had no material credit losses, the group's model has been based primarily on current credit risk in financial receivables, and changes in macroeconomic variables. The new model has no material effect with regard to expected credit losses on financial instruments at the date of transition to IFRS 9. Accordingly, there has been no adjustment of carrying amounts as of 1 January 2018.

The group does not apply hedge accounting in accordance with IAS 39. Accordingly, the new rules in IFRS 9 concerning hedge accounting will have no impact on the group as of the date of transition.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is the new standard for revenue recognition. IFRS 15 supersedes IAS 18 Revenue and IAS 11 Construction Contracts.

IFRS 15 is based on the principle that revenue must be recognized when control of the good or service sold is transferred to the customer, superseding the earlier principle that revenue must be recognized when risks and benefits have been transferred to the buyer.

The standard permits modified retroactive application. Under the transition rule, entities must recognize transition effects as an adjustment to retained earnings at the date of initial application (for example, 1 January 2018), thus without restating the comparative reporting year. The new rules must be applied only to contracts not yet completed as of the date of initial application.

The group has studied the effect that the new accounting standard, IFRS 15, will have on the group. The analysis has changed in certain respects from that presented in the 2016 Annual Report. As regards disaggregation of revenue, the group has found no material non-conformances and there will thus be no effects for Starbreeze on the opening balances for equity in the figures for 2018. The analysis of the effect that the standard could have on Starbreeze with regard to whether Starbreeze is regarded as the principal and not the agent in the relationship with Steam has, however, been changed. In future, Starbreeze will continue to recognize revenue from steam net of royalty expenses, i.e., will continue to be regarded as an agent.

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. The agreed flows upon which future measurement will be based are presented in Note 10.

2.2 Consolidated financial statements

Subsidiaries are all companies over which the group exercises controlling influence. The group controls a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. The group also determines whether it has controlling influence even though its shareholdings carry less than half of voting rights but still has the ability to exercise controlling influence through de facto control. De facto control can arise in circumstances where the size of the group's holding of voting rights relative to the size and dispersion of the voting rights of other shareholders gives the group that ability to govern financial and operational strategies, etc.

Subsidiaries are included in the consolidated financial statements from the date the group obtains controlling influence. They are excluded from the consolidated financial statements from the date the group loses controlling influence.

The Group's business combinations are accounted for using the acquisition method. The consideration for the acquisition of a subsidiary comprises the fair values of assumed assets and liabilities incurred to the former owners of the acquired company and the shares issued by the group. The consideration also includes the fair values of all assets or liabilities consequent upon an agreement on a conditional earnout. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at their fair values at the acquisition date. For each acquisition - that is, acquisition by acquisition - the group determines whether holdings where there is a non-controlling interest in the acquired company should be recognised at fair value or at the holding's proportionate share of the carrying amount of the acquired company's identifiable net assets.

Acquisition costs are expensed when they are incurred.

Every conditional earnout to be transferred by the group is recognised at acquisition-date fair value. In accordance with IAS 39, subsequent changes in the fair value of a conditional earnout classified as a liability are recognized in profit or loss.

Goodwill is initially measured at the amount by which the total consideration and fair value of non-controlling interests exceed the fair value of identifiable acquired assets and assumed liabilities. If the consideration paid is less than the fair value of the acquired subsidiary's net assets, the difference is recognised directly in profit or loss. Group-internal transactions, balance sheet items, income and expenses arising from transactions between group companies are eliminated. Gains and losses resulting from group-internal transactions and which are recognized in assets are also eliminated. Where relevant, the accounting policies of subsidiaries have been amended to guarantee consistent application of group accounting policies.

2.3 Segment reporting

Operating segments are reported in a manner consistent with internal reports to senior management responsible for allocating resources to and assessing the performance of the segment. Segment reporting is provided for the first time in 2017 and the figures for 2016 have been restated.

As of the second quarter of 2017, Starbreeze reports according to the following segments: Starbreeze Games, Publishing and VR Tech & Operations. The Starbreeze Games segment consists of Starbreeze's in-house games portfolio. Revenues currently comprise sales revenue and royalties for the rights to PAYDAY. The business area also includes Starbreeze's ongoing game projects, including OVERKILL's The Walking Dead and Crossfire. The Publishing segment consists of Starbreeze's publishing business, where Starbreeze acts as the publisher for games developed by other game developers. The VR Tech & Operations segment consists of Starbreeze's 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 centers, primarily the VR park in Dubai, are also included as of the third quarter of 2017. Group-wide costs and projects that are not attributable to the above segments are reported under Other.

2.4 Translation of foreign currency

Functional currency and presentation currency

Items included in consolidated financial reporting are measured in the currency used in the primary economic environment in which the respective entity operates (functional currency). The consolidated financial statements are presented in SEK, which is the functional and presentation currency of the parent company.

Transactions and balance sheet items

Transactions denominated in foreign currency are translated to the functional currency at the exchange rates in effect at the date of the transaction. Exchange gains and losses arising from payments of such transactions and in translation of monetary assets and liabilities denominated in foreign currency at the closing rate are reported in profit or loss as other operating revenue or other operating expenses.

Group companies

Results and financial position for all group companies (none of whose functional currency is the currency of a hyperinflationary economy) whose functional currency differs from the presentation currency are translated to the Group's presentation currency as follows:

1. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
2. Income and expenses for each income statement are translated at average exchange rates (if this average rate is a reasonable approximation of the cumulative effect of the exchange rates in effect at the date of the transaction; otherwise, income and expenses are translated at the exchange rate in effect at the date of the transaction), and
3. All exchange differences that arise are recognized in other comprehensive income.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments are treated as part of the assets and liabilities of the foreign operation and are translated at the closing rate. Exchange differences are recognized in other comprehensive income.

2.5 Property, plant and equipment

Items of property, plant and equipment are measured at cost less depreciation. Cost includes all costs directly attributable to acquisition of the asset. Costs incurred subsequently are added to the carrying amount of the asset or recognized as a separate asset, depending upon which is appropriate, only if it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other forms of repairs and maintenance are recognized as costs in profit or loss during the period in which they are incurred.

Assets are depreciated systematically on a straight-line basis across the estimated useful life of the asset as follows:

- > Computers 3 years
- > Other machinery and equipment 5 years

The residual value and the useful life of the asset are reviewed at each financial year-end and adjusted as necessary.

The carrying amount of an asset is immediately impaired to its recoverable amount if the carrying amount of the asset exceeds its estimated recoverable amount (point 2.7).

Gains and losses upon disposal are determined through a comparison between the proceeds and the carrying amount at the date of disposal.

2.6 Intangible assets

A. Goodwill

Goodwill arises upon acquisition of subsidiaries and refers to the amount by which the consideration paid exceeds Starbreeze's share of the fair value of identifiable assets, liabilities and contingent liabilities in the acquired company and the fair value of non-controlling interests in the acquired company.

To test for impairment, goodwill acquired in a business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill has been allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored for each cash

generating unit. At present, there are four cash generating units, corresponding to the segments in the Group described in Note 5.

Goodwill is tested for impairment annually or more often if events or changes in circumstances indicate a possible decline in value. The carrying amount of goodwill is compared to the recoverable amount, which is the higher of an asset's fair value less costs of disposal and its value in use. Any impairments are immediately recognized as a cost and reversal is not permitted.

B. Capitalized costs for game and technology development

Software maintenance costs are expensed as they are incurred.

Development costs directly attributable to development and testing of identifiable and unique software products (usually game development projects) that are controlled by the Group are recognized as intangible assets when the following criteria are met:

- > It is technically feasible to complete the software for use,
- > The company intends to complete the software for sale or use,
- > The company has the ability to use or sell the software,
- > The company is able to demonstrate how the software will generate probable future economic benefits,
- > Adequate technical, economic and other resources to complete development and use or sell the software are available, and
- > The expenditures attributable to the software during development can be measured reliably.

Starbreeze normally expenses development costs as they are incurred. As regards certain larger development projects assessed as meeting all criteria for capitalization, these costs are capitalized in the balance sheet and designated "Capitalized development costs".

During the year, the Group has capitalized game development costs relating to OVERKILL's The Walking Dead, Geminose, Crossfire, Payday Crime War, Raid: World War II and Elementerra and costs relating to VR development within the Group.

Capitalization is reported gross in profit or loss, meaning that employee benefits for development work are included in costs in profit and loss and under the heading "Capitalized development costs" and as an intangible asset on the balance sheet. The asset is amortized from the date the game is released and over an estimated useful life, which is usually between 18 and 60 months.

C. Rights to software

Game rights, game engines and other software licenses (technology) acquired in a business combination are recognized at acquisition-date fair value.

Acquired software licenses are capitalized on the basis of the costs that arose when the software in question was acquired and deployed. These capitalized costs are amortized over the estimated useful life of the asset, which is normally between 18 and 60 months. The period of amortization is not always straight-line because it must reflect its economic life.

Rights relating to the PAYDAY game are amortized on a straight-line basis over an estimated useful life of 10 years. Assets added during the year are not yet complete or deployed and amortization has thus not yet begun.

D. Licenses and other rights

Separately acquired licenses and other rights are recognized at cost. Licenses acquired in a business combination are recognised at acquisition-date fair value. The Group has made contracts during the year under which the Group is the publisher for game developers. The payments made in the form of advance royalties refer to acquisition of rights (for example, the right to market and sell the game in question) and are thus recognized as a right. Licenses and rights have a definite useful life and are recognized at cost less accumulated amortization. Amortization is taken to allocate the cost of licenses across their estimated useful lives. Amortization of the distribution right to the game Dead by Daylight began this year, with an estimated economic life of 3 years, as well as Raid: World War II. The economic life of Raid: World War II had an estimated economic life of 36 months during 2017. This was shortened to 18 months as of the beginning of 2018.

2.7 Impairments of non-financial assets

Assets that have an indefinite useful life are not amortized, but are tested annually to assess any required impairment. Assets that are amortized are assessed for decline in value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. During the year, rights to the game Raid: World War II were impaired by SEK 20.2 million.

2.8 Financial instruments

The Group classifies its financial instruments in the following categories: financial assets available for sale, liabilities at fair value through profit or loss and loan receivables and trade receivables. The classification depends on the purpose for which the financial instrument was acquired. Management establishes the classification of financial instruments at initial recognition.

Financial assets and liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are financial liabilities held for trading and in the Group are comprised of conditional earnouts and the component of the convertible bond recognized at fair value. Liabilities in this category are classified as current liabilities if they are expected to be paid within twelve months, and are otherwise classified as non-current liabilities.

Loan receivables and trade receivables

Loan receivables and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for items that mature more than 12 months after the reporting date, which are classified as non-current assets. The Group's loan receivables and trade receivables comprise trade and other receivables and cash and cash equivalents.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In the Group, these assets comprise shares and investments in Group companies.

Recognition and measurement

Purchases and sales of financial assets are recognized on the transaction date, the date the Group becomes a party to a contract to buy or sell the asset. Financial instruments are initially recognized at fair value plus transaction costs, which applies to all financial assets.

Financial assets are derecognized when the contractual rights to the cash flows from the instrument expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. Loan receivables and trade receivables are measured at amortized cost using the effective rate method.

At the end of each reporting period, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.10.

2.9 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the first-in first-out method (FIFO).

2.10 Trade receivables

Trade receivables are amounts to be paid by customers for goods sold or services rendered in operating activities. If payment is expected within one year, they are classified as current assets. If not, they are recognized as non-current assets. Trade receivables are initially recognized at fair value and subsequently at amortized cost using the effective rate method, less any provision for decline in value.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and short-term investments that will mature within three months of acquisition date.

2.12 Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of new shares or options are recognized in equity, net after tax, as a deduction from the issue proceeds.

2.13 Trade payables

Trade payables are obligations to pay for goods or services acquired in operating activities. Trade payables are classified as current liabilities if they fall due within one year. If not, they are recognized as non-current liabilities. Trade payables are initially recognized at fair value and subsequently at amortized cost using the effective rate method.

2.14 Borrowing

Utilized bank overdraft facilities are recognized as borrowing among non-current liabilities in the balance sheet.

The company has issued convertible bonds, i.e., compound instruments, where the holder can demand conversion to shares and where the number of shares to be issued is not affected by changes in the fair value of the shares. The liability component of a compound instrument is initially recognized at the fair value of a comparable liability that does not confer a right to convert the liability to shares. The complete terms and conditions of these convertible bonds are available on the company's website.

The equity component is initially recognized as the difference between the fair value of the entire compound instrument and the fair value of the liability component. Directly attributable transaction costs are allocated to the liability and equity components in proportion to their initially recognized values. The equity component is recognized in equity, net after tax.

Subsequent to acquisition, the liability component of a compound instrument is measured at amortized cost through the use of the effective rate method. The equity component of a compound instrument is not remeasured subsequent to acquisition, but only upon conversion or redemption.

During the year, Starbreeze received a total of SEK 47.8 million from StarVR Corporation. In accounting for this amount, it has been recognized partly as revenue in the form of marketing of StarVR Corporation's products and partly as a loan. Under the terms of the agreement, the Group must repay StarVR Corporation by sharing revenues generated by the VR park in Dubai during a period of five years. The liability has been allocated through expected future cash flows from the revenue sharing, estimated at SEK 31.6 million as of the reporting date. The remaining portion of SEK 16.2 million has been accounted for as prepaid marketing income and will be recognized in revenue during the term of the contract.

2.15 Current and deferred tax

Tax expense for the period includes current and deferred tax. Tax is recognized in profit or loss. Current tax expense is measured on the basis of the tax laws that have been enacted or substantively enacted by the reporting date in the countries where the parent company and its subsidiaries operate and generate taxable income. Management regularly assesses the claims made on tax returns regarding situations in which applicable tax rules are open to interpretation. When deemed appropriate, management makes provisions for amounts that are likely to be paid to the tax authority.

Deferred tax is recognized in its entirety, using the balance sheet method, on all temporary differences that arise between the taxable value of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not recognized if it arises from the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit. Deferred tax is measured at the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Loss carryforwards cannot be utilized between companies in different countries and the remaining Swedish tax loss carryforward has a group contribution restriction with regard to Enterspace AB and the other Swedish Group companies, which is applicable to losses generated up to 31 December 2016 and cannot be utilized until 2023 at the earliest. Unrestricted offset rights apply to losses generated in 2017 and later.

2.16 Employee benefits

Pension obligations

The Group has only defined contribution pension plans. In defined contribution plans, the company pays defined contributions to a separate legal entity and has no future obligation to pay additional contributions. Employee benefits expense is charged to consolidated profit or loss as the benefits are earned.

Post-employment benefits

Post-employment benefits are paid when an employee's employment is terminated by the Group before the normal retirement date or when the employee accepts voluntary redundancy in exchange for such benefits. Severance pay is not recognized until the Group has offered voluntary redundancy or when a formal plan that cannot be withdrawn has been established.

Profit sharing and bonus plans

The Group recognizes a liability and an expense for bonus programs and variable remuneration. For bonus programs linked to sales royalties, the liability and cost are not recognized until the criteria for receiving royalties have been met. The liability and cost for variable remuneration are based on calculations of expected outcomes.

2.17 Share-based payments

The Group has instituted an employee stock option program. In exchange for equity instruments (options) employees render services.

The fair value of the services rendered that entitle employees to be granted options under the employee stock option program is expensed. The total amount expensed is based on the fair value of the granted options:

- > Including all market-based performance conditions (such as a target price for the share).
- > Excluding any impact of employment-based conditions (that the employee remains in the service of the company for a specified period of time).

Non-market related vesting conditions are taken into consideration in the assumption of the number of options expected to be vested. The total cost is recognized incrementally over the vesting period, which is the period during which all specified vesting conditions must be met.

At the end of each reporting period, the Group reviews its assessments of how many shares are expected to vest based on non-market vesting conditions. Any difference to the original assessments arising from the review are recognized in profit or loss and corresponding adjustments are made in equity.

When the options are exercised, the company issues new shares. Consideration received, less any directly attributable transaction costs, is credited to share capital (quotient value) and other capital contributions.

A provision for social security contributions is made at each reporting date for all outstanding employee stock option programs. The provision for social security contributions is made in accordance with the Swedish Financial Reporting Board's statement UFR 7, IFRS 2 and social security contributions for listed enterprises, with application of the same measurement model used when the options were issued. The provision is remeasured on each reporting date based on a calculation of the contributions that may be paid when the instruments are redeemed. Payments of social security contributions when employees redeem options are deducted against the provision made as above.

The Group holds treasury warrants for cash-flow hedging of social security contributions relating to the options programs. If and when these warrants are sold, the proceeds will be recognized as an increase in equity with no effect on profit or loss for the period. In addition to the

employee stock option program above, the Group also has a warrants program, which is described in Note 31.

2.18 Provisions

Provisions are recognized when there is a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation has been estimated in a reliable manner. No provisions are made for future operating losses.

Provisions are measured at the present value of outflows of resources expected to be required to settle the obligation. In this context, a pre-tax discount rate is used that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision consequent upon the passage of time is recognized as interest expense.

2.19 Revenue recognition

Revenues from customers who buy games are often shared among more than one party, depending on the role of the party in the deal. Various shares of gross revenues from customers are obtained depending upon whether a party is a distributor, publisher, developer or owner of rights upon which the game is based. For every agreement to which the group is a party, an analysis is made of the role and the implications, in terms of accounting, of acting as the principal or the agent in the revenue flow. Where the Group is assessed as the principal for a revenue flow, the revenue is recognized gross as net sales, and the revenue shares passed on to other parties are recognized as costs on the statement of comprehensive income. At present, the Group is assessed as the agent in all contracts and thus recognizes the net of revenues and shares passed on to the principle as net sales. Royalties for games sold are recognized as revenue in the period in which the sales were made. In accordance with certain publishing agreements, Starbreeze receives an advance royalty that is paid during the period of development and subsequently deducted from the royalty payments to which Starbreeze is entitled under the agreement. Such advances are recognized as liabilities and expensed as games and sold and royalties thus earned. In connection with sales to retailers, Starbreeze neither owns the product nor bears the risk. The Group thus does not receive royalties on sold units until the end consumer has purchased the game, and not when the product is delivered to the retailer. Interest income is recognised allocated across the term according to the effective rate method.

2.20 Leasing

Leases where substantially all the risks and rewards incidental to ownership of the asset are retained by the lessor are classified as operating leases. Payments made during the term of the lease (less any incentives from the lessor) are expensed in profit or loss on a straight-line basis over the lease term.

Leases that transfer substantially all the risks and rewards incidental to ownership of the asset to the Group are classified as finance leases. Finance leases are recognized in the balance sheet at the beginning of the lease term at the lower of the fair value of the leased asset and the present value of minimum lease payments.

Each lease payment is allocated between payment of the liability and financial expenses. The corresponding payment obligations, less financial expenses, are included in "Non-current borrowing" and "Current borrowing" on the balance sheet. The interest component of financial expenses is recognized in profit or loss allocated across the lease term, so that an amount corresponding to a fixed interest rate for the liability recognized during the period is charged to profit for that period. Non-current assets held under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

The Group only leases non-current assets under operating leases.

2.21 Statement of cash flows

The statement of cash flows is prepared using the indirect method. Reported cash flow comprises only transactions that involve inward or outward payments. Consolidated cash and cash equivalents as of the reporting date consist of cash and bank balances.

2.22 Earnings per share

Basic

Basic earnings per share are calculated by dividing profit attributable to owners of the parent by the weighted average number of common shares outstanding during the period, excluding any repurchased shares held by the parent company as treasury shares.

Diluted

To calculate diluted earnings per share, the weighted average number of common shares outstanding is adjusted by the dilutive effect of all potential common shares. The parent company has issued stock options that have a potential dilutive effect. In respect of stock options, a calculation is made of the number of shares that could have been bought at fair value for an amount corresponding to the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared to the number of shares that would have been issued under the assumption that the options were exercised.

2.23 Parent company accounting policies

The annual report of the parent company, Starbreeze AB, has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2. RFR 2 requires the parent to apply all IFRS and interpretations approved by the EU to its annual accounts for the legal entity to the extent possible within the framework of the Annual Accounts Act and with the consideration taken to the relationship between accounting and taxation. The recommendation states which exceptions and additions are required in relation to IFRS.

The parent company accordingly applies the policies presented in Note 2 to the consolidated financial statements with the exceptions presented below. The policies have been consistently applied to all presented years, unless otherwise specified. The accounting policies applied have not changed since the preceding year.

The parent company does not apply consolidated reporting of the costs of business acquisitions. Acquisition costs in the parent company are included with regard to investments in group companies under "Non-current assets."

Preparation of financial statements in accordance with applicable regulations requires the use of certain key accounting estimates. Furthermore, management must make certain assessments in the application of the company's accounting policies. Areas that entail a high degree of judgment, which are complex or such areas where assumptions and estimates are of material significance to the consolidated financial statements are specified in Note 4.

Presentation format

The presentation format of the income statement and balance sheet complies with the Annual Accounts Act. This results in certain differences to the consolidated financial statements, primarily with regard to financial income and expenses, provisions and the statement of changes in equity.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognized at cost less any impairments. Dividends received are recognized as income.

When there is indication that investments in subsidiaries or associates have declined in value, the recoverable amount is calculated. If the recoverable amount is lower than the carrying amount, the asset is impaired. Impairments are recognized under "Impairment of investments in subsidiaries."

Financial instruments

Financial assets are classified differently in the parent company's balance sheet than in the consolidated balance sheet. The notes on financial assets explain how balance sheet items are related to the classification used on the consolidated balance sheet and in consolidated accounting policies. The company applies measurement at fair value in accordance with Chapter 4: 14 (a-d) of the Annual Accounts Act and the description of accounting policies in Note 2.8 to the consolidated financial statements thus also applies to the parent company.

Group contributions

Group contributions are reported as appropriations.

Deferred income tax

Amounts allocated to untaxed reserves consist of taxable temporary differences. Due to the relationship between accounting and taxation, however, deferred tax liabilities on untaxed reserves in a legal entity are recognized as a component of untaxed reserves. Appropriations reported in the income statement include deferred tax.

Leases

All leases, regardless of whether finance or operating leases, are reported as operating leases (rental agreements).

2.24 Joint ventures

According to IFRS 11, a joint arrangement must be classified as either a joint operation or a joint venture depending upon the contractual rights and obligations of each investor. The Group has only joint ventures. Joint ventures are accounted for using the equity method.

Using the equity method, interests in joint ventures are initially recognized at cost in the balance sheet. The carrying amount is subsequently increased or decreased to account for the Group's share of profit or loss and other comprehensive income from its joint ventures subsequent to acquisition date. The Group's share of profit or loss is included in consolidated profit or loss and the Group's share of other comprehensive income is included in other comprehensive income for the Group. Dividends from joint ventures are accounted for as a reduction in the carrying amount of the investment. Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in joint ventures. Unrealized losses are also eliminated provided that the transaction does not constitute an indication of impairment of the asset that is transferred. The accounting policies of joint ventures have been adjusted if necessary to ensure conformance with consolidated accounting policies.

2.25 Earnouts

Earnouts are measured at fair value and at the closing day rate. The remeasurement is through profit or loss and recognized in net financial income and expense. See Note 4 and Note 33.

3 Financial risk management

Through its business activities, the Group is exposed to various types of financial risks: market risks (primarily currency risk and a significant interest rate risk), credit risks and liquidity risks. The Group's general risk management policy is focused on the unpredictability of the financial markets and aims to minimize potentially deleterious effects on the Group's operating results. Risk management is performed by the accounting department and the CEO in accordance with board decisions. A more detailed description of the Group's risk and risk management is provided in the Board of Directors' Report.

A. Market risk

Currency risk

The Group operates internationally and is subject to currency risks from various currency exposures. Currency risk arises through future business transactions, recognized assets and liabilities and net investments in foreign operations. The Group has the option to use futures/forward contracts to manage the currency risk arising from future business transactions and recognized assets and liabilities. The Group held no futures/forward contracts during the financial year. The Group receives royalties for games sold and other revenues in USD. Currency risks arise when future business transactions or recognized assets and liabilities are denominated in a currency other than the Group's functional currency. Decisions on forward cover are made by the board of directors.

If the USD exchange rate had been 10 percent higher in relation to SEK, with all other variables constant, revenues for the year as of 31 December 2017 would have been SEK 33.4 million (32.7) higher and costs for the year would have been SEK 23.3 million (37.1) higher.

If the USD exchange rate had been 10 percent lower in relation to SEK, with all other variables constant, revenues for the year as of 31

December 2017 would have been SEK 33.4 million (32.7) lower and costs for the year would have been SEK 23.3 million (37.1) lower.

If the EUR exchange rate had been 10 percent higher in relation to SEK, with all other variables constant, revenues for the year as of 31 December 2017 would have been SEK 1.6 million (0) higher and costs for the year would have been SEK 3.3 million (16.0) higher.

If the EUR exchange rate had been 10 percent lower in relation to SEK, with all other variables constant, revenues for the year as of 31 December 2017 would have been SEK 1.6 million (0) lower and costs for the year would have been SEK 3.3 million (16.0) lower.

If the Swedish krona (SEK) had depreciated/appreciated by 10 percent in relation to EUR, with all other variables constant, the restated profit after tax as of 31 December 2017 would have been SEK 32.6 million (29,8,1 CHECK THIS) lower/higher, mainly due to gains/losses upon recalculation of the earnouts for Nozon and Parallaxter.

If the Swedish krona (SEK) had depreciated/appreciated by 10 percent in relation to USD, with all other variables constant, the restated profit after tax as of 31 December 2017 would have been SEK 2.2 million (18.9) lower/higher.

The parent company also has claims on subsidiaries, primarily in EUR and USD. These receivables are remeasured at the closing rate and changes are recognized through profit or loss in the parent company.

Interest rate risk relating to cash flow and fair value

At present, the company has interest-bearing debt in the form of convertible bonds and a bank overdraft facility whose interest rate is linked to the STIBOR, where a lowering of the rate has no effect, as this has a floor of zero percent. STIBOR was negative as of the reporting date. An increase of the STIBOR by 5 percentage points would entail an increase in interest expense of SEK 8.3 million per year. The convertible bonds accrue interest at a fixed rate and payment plan, which means that the interest rate risk is low.

Price risk

The Group is exposed to price risk if it holds investments classified as assets measured at fair value through profit or loss. As of 31 December 2017, the company had no short-term investments.

B. Credit risk

Credit risk arises through cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures towards customers, including outstanding receivables and agreed transactions. The Group accepts only banks and financial institutions that have been given an "A" credit rating or better by an independent rating institute.

The credit ratings of partners are regularly assessed to minimize credit risks.

As the Group's customers are few in number and financially strong, credit risk in the Group is low.

C. Liquidity risk

Cash flow forecasts are prepared for the entire Group. The Finance Department regularly prepares and evaluates forecasts for the Group's liquidity reserve. As of the reporting date, the Group had a bank overdraft facility. See Note 2.14.

The Group policy is that if placements are made, they must be safe, low risk and of short duration, which reduces the risk of liquidity shortfalls.

The following table analyzes consolidated financial liabilities, distributed according to the time remaining to the contractually agreed due date as of the reporting date. The amounts stated in the table are the contracted, non-discounted cash flows. As the discount effect is immaterial, the amounts that fall due within 12 months coincide with the recognized amounts.

	1-6 months	7-12 months	1-2 years	2-5 years	> 5 years
At 31 December 2017					
Trade and other payables	122,396	-	-	-	-
Non-current liability, earnout, ePawn	2,915	8,149	5,331	2,110	-
earnout, Geminose Inc.	-	7,450	20,827	-	-
Non-current liability, earnouts, Nozon/ Parallaxter	-	-	-	164,139	328,180
Non-current liability, earnout, Enterspace	-	-	2,052	64,169	12,402
Non-current liability to StarVR Corporation	-	7,842	15,057	11,293	-
Bank overdraft facility, Nordea	-	-	141,007	-	-
Convertible bond, Smilegate	2,151	2,151	4,301	216,774	-
Convertible bond, Acer	-	76,271	-	-	-
Other non-current liabilities	-	-	-	2,359	-
Total	127,462	101,863	188,575	460,844	340,582
	1-6 months	7-12 months	1-2 years	2-5 years	> 5 years
At 31 December 2016					
Trade and other payables	41,990	-	-	-	-
Non-current liability, earnout, ePawn	80	2,599	30,136	6,697	-
Non-current liability, earnouts, Nozon/ Parallaxter	-	-	-	154,910	545,414
Non-current liability, earnout, Geminose Inc.	-	-	9,370	-	-
Convertible bond, Smilegate	2,151	2,151	4,301	221,075	-
Convertible bond, Acer	-	755	76,271	-	-
Other non-current liabilities	-	-	-	2,448	-
Total	44,221	5,505	120,078	385,130	545,414

D. Capital risk

The Group's objective for the capital structure is to secure its capacity to operate as a going concern, so that it can generate returns for shareholders and benefit to other stakeholders and maintain an optimal capital structure to keep the costs of capital down.

In order to maintain or adjust the capital structure, the Group can change the dividend distributed to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce its liabilities.

Capital is assessed on the basis of the consolidated equity to assets ratio.

Based upon 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 company's board and management continually evaluate the Group's long-term capital requirements and financing options.

E. Fair value measurement

The table below shows financial instruments measured at fair value based on classification in the fair value hierarchy. The various levels are defined as follows:

- > Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- > Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as quoted prices) or indirectly (i.e., derived from quoted prices) (Level 2).
- > Inputs for the asset or liability that are not based on observable market data (i.e., unobservable market data) (Level 3).

The table on the next page presents the Group's financial assets and liabilities measured at fair value as of 31 December 2017. There were no transfers between the levels during the year.

Financial instruments at Level 2

Measurement techniques are used to determine the fair value of financial instruments that are not traded in an active market (e.g., OTC derivatives). In this connection, market information is used to the greatest extent possible when available, while company-specific information is used to the least extent possible. Instruments at this level for the Group include shares in Cmune and investments in convertible bonds and an embedded derivative in the convertible loan issued by Smilegate. For the investment in convertible loan receivables, the cost is estimated to equal fair value due to the short maturity of the convertible. The embedded derivative in the convertible loan issued by Smilegate is measured at fair value based on the prevailing share price, share volatility and risk-free interest rate. If one or more material inputs are not based on observable market information, the instrument concerned is classified at Level 3.

Financial instruments at Level 3

Fair value has been estimated by calculating the present value of future expected cash flows. The calculations are based on a discount rate of 12 percent and assumed probability-adjusted income.

The following table shows changes for instruments at Level 3 during the financial year. Fair value is based on future revenues, upon which the earnout will be based.

Fair value calculation, Group 2017	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2017		
Assets available for sale		
Financial assets, shares in Cmun	11,502	-
Assets measured at fair value through profit or loss		
Investment in convertible bond	15,641	-
Financial liabilities		
Conditional earnout	-	347,862
Convertible bond	25,237	-
Fair value calculation, Group 2016	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2016		
Assets available for sale		
Financial assets, shares in Cmun	11,502	-
Assets measured at fair value through profit or loss		
Investment in convertible bond	14,183	-
Financial liabilities		
Conditional earnout	-	307,099
Convertible bond	16,857	-
Conditional earnout related to acquisition		
Balance at 31 December 2016	-	307,099
Acquisitions during the year	-	5,290
Remeasurement of liability	-	-15,474
Acquisitions during the year	-	50,947
Balance at 31 December 2017	-	347,862

Fair value calculation, Parent 2017	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss at 31 December 2017		
Financial liabilities		
Conditional earnout	-	347,862
Convertible bond	25,237	-

Fair value calculation, Parent 2016	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2016		
Financial liabilities		
Conditional earnout	-	307,099
Convertible bond	16,857	-
Conditional earnout related to acquisition		
Balance at 31 December 2016	-	307,099
Acquisitions during the year	-	5,290
Remeasurement of liability	-	-15,474
Acquisitions during the year	-	50,947
Balance at 31 December 2017	-	347,862

4 Key accounting estimates and judgments

Estimates and judgments are regularly evaluated and are based on historical experiences and other factors, including expectations of future events considered reasonable under prevailing circumstances.

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that result from these will, by definition, rarely correspond to actual outcomes. The estimates and assumptions that entail substantial risk of material adjustments to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Income taxes

Deferred tax assets are recognized for tax loss carryforwards to the extent that they can be utilized through future taxable profits.

Because the company's future estimated profits are expected to be sufficiently stable and it is thus probable that these can be utilized, a deferred tax asset of SEK 108.2 million (30.7) has been recognized on the value of loss carryforwards as of 31 December 2017. The asset in respect of the accumulated Swedish tax loss carryforward as of 31 December 2017 amounts to SEK 70.4 million (84.8) and the asset in respect of the accumulated tax loss carryforward in foreign subsidiaries amounts to SEK 37.8 million (12.1). Losses cannot be utilized between companies in different countries and the remaining Swedish tax loss carryforward has a group contribution restriction with regard to Enterspace AB and the other Swedish group companies, which is applicable to losses generated up to 31 December 2016 and cannot be utilized until 2023 at the earliest. Unrestricted offset rights apply to losses generated in 2017 and later.

Starbreeze also has companies located in Luxembourg, where future profits may be taxed at a tax rate lower than that in Sweden. If this tax arrangement is not approved by the tax authority, it could have adverse impact on Starbreeze.

Revenue recognition

Sales of own games are effected both with Starbreeze as the distributor and by external distributors. The latter refers mainly to sales of physical games for game consoles like PS4 and Xbox Live. In most cases, the gross payment streams flow through Starbreeze. In Starbreeze's judgment, certain agreements must be classified as revenue sharing agreements, which means that Starbreeze recognizes only its share of the revenue (royalty) in profit or loss. For agreements where the assessment is instead that Starbreeze is a party to the end customer, the company must recognize the total revenue gross and the publisher's share of revenue must be reported as a deductible cost item, which entails the same net profit or loss as with current accounting. Net sales also include sales of licenses, game franchises or other comparable rights, as these transactions are of a recurring nature. The sale of certain console rights to the game Raid: World War II is an example of such a transaction.

Capitalization of game development costs

The Group's game development costs are capitalized when the game is "First Playable," which means that the game is sufficiently technically playable to assess its commercial potential. The assessment of commercial viability and return is based on factors including previously released games.

As the time required to develop additional content bundles for games (Downloadable Content or DLC) is relatively short, the Group expenses these costs as they are incurred.

In respect of PAYDAY 2, amortization of the asset over an estimated useful life of 18 months began upon release of the game.

Earnout Geminose

A probability assessment has been made for the conditional earnout that is linked to EBITDA generated by the GEMINOSE game and which may be triggered within five years of the date of the acquisition agreement. The liability is recognized as a liability in the parent company and the Group.

Earnout ePaw

A probability assessment has been made for the conditional earnout linked to the acquired technology. The liability is recognized as a liability in the parent company and the Group.

Earnout Nozon/Parallaxter

A probability assessment has been made for the conditional earnout that is linked to the acquired technology and which may be triggered within ten years of the date of the acquisition agreement. The liability is recognized as a liability in the parent company and the Group.

Earnout Enterspace

A probability assessment has been made for the conditional earnout that is linked to revenues generated by the VR experience centers in Stockholm and Dubai, which may be triggered within six years of the date of the acquisition agreement. The liability is recognized as a liability in the parent company and the Group.

Earnout Dhruva

A probability assessment has been made for the conditional earnout that is linked to revenues generated by Dhruva and which may be triggered within four years of the date of the acquisition agreement. The liability is recognized as a liability in the parent company and the Group.

Impairment testing of intangible assets

The Group tests annually for impairment of goodwill and other intangible assets with indefinite useful lives, in accordance with IFRS and IAS 36. Testing is performed more often if there is indication of decline in value.

See Note 21 Intangible assets concerning sensitivity analysis.

5 Segment information

As of the second quarter of 2017, Starbreeze reports according to the following segments: Starbreeze Games, Publishing, VR Tech & Operations and Other. Reporting is provided down to operating profit or loss, and assets and liabilities are not reported. The comparative figures for 2016 have been restated.

Operating segments are reported in a manner consistent with internal reports to senior management responsible for allocating resources to and assessing the performance of the segment. Senior management assesses operations divided into four segments.

Segment reporting, Group

	2017	2016
Starbreeze Games		
Net sales	122,074	162,442
Capitalized development costs	148,196	82,443
Other operating revenue	-	11,977
Total	270,270	256,862
Operating costs	-270,820	-171,328
Operating profit (-loss)	-550	85,534

Publishing

Net sales	219,925	176,142
Capitalized development costs	26,137	32,440
Other operating revenue	-	7,951
Total	246,062	216,533
Operating costs	-288,527	-151,943
Operating profit (-loss)	-42,465	64,590

VR Tech & Operations

Net sales	3,883	-
Capitalized development costs	57,601	39,264
Other operating revenue	-	5,983
Total	61,484	45,247
Operating costs	-61,895	-77,153
Operating profit (-loss)	-411	-31,906

Other

Net sales	15,565	6,879
Capitalized development costs	-	303
Other operating revenue	-	-2,779
Total	15,565	4,403
Operating costs	-123,598	-66,167
Operating profit (-loss)	-108,033	-61,764

Total

Net sales	361,447	345,463
Capitalized development costs	231,934	154,450
Other operating revenue	-	23,132
Total	593,381	523,045
Operating costs	-744,840	-466,591
Operating profit (-loss)	-151,459	56,454

As there are no revenues from transactions with other segments, presented net sales refer to revenues from external customers.

Profit or loss per segment is distributed through operating profit or loss.

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

Starbreeze Games	-550	85,534
Publishing	-42,465	64,590
VR Tech & Operations	-411	-31,906
Other	-108,033	-61,764
Total	-151,459	56,454
Net financial income or expense	-24,726	-554
	-176,185	55,900

The Group's partners are found in three geographical regions. The Group sells to distributors/platform owners and does not sell directly to consumers. The largest distributor/platform owner accounted for 53 percent of sales in 2017.

Assets and investments are localized as shown on the table below.

Segment reporting, Group

	2017	2016
Net sales, Sweden	66	2,779
Net sales, Rest of Europe	64,755	91,794
Net sales, USA & Asia	296,625	250,889
Total	361,447	345,463

Assets and investments, distribution at 31 December 2017

	Sweden	USA	France	Luxembourg	Belgium	Spain	Taiwan	India	Total, Group
Intangible assets	765,585	147,677	130,418	285,043	383,581	-	-	72,902	1,785,206
Financial assets	127,830	2,395	2,470	7,627	1,534	365	45,958	21	188,199
Property, plant and equipment	70,491	14,986	2,539	-	6,930	2,309	-	1,646	98,901
Total	963,905	165,059	135,426	292,670	392,044	2,673	45,958	74,569	2,072,305

Assets and investments, distribution at 31 December 2016

Intangible assets	293,095	211,735	131,041	299,763	367,387	-	-	-	1,303,021
Financial assets	47,336	2,119	8,938	4,267	22	-	8,639	-	71,321
Property, plant and equipment	11,052	8,491	1,088	-	2,188	639	-	-	23,458
Total	351,483	222,345	141,067	304,030	369,597	639	8,639	-	1,397,800

6 Net sales

	Group		Parent	
	2017	2016	2017	2016
Development contracts	-	69,783	-	62,940
Royalties	-	275,380	-	-
Other services	-	300	-	38,995
Total	-	345,463	-	101,935

7 Other operating revenue

	Group		Parent	
	2017	2016	2017	2016
Exchange differences	-	21,515	-	13,905
Other income	-	1,617	-	-
Total	-	23,132	-	13,905

8 Costs distributed by type

	Group		Parent	
	2017	2016	2017	2016
External services	-	195,143	-	4,828
Employee benefits expenses	-	148,517	-	35,499
Cost of premises	-	22,320	-	-293
Other costs	36	75,845	-	93,434
Depreciation, amortization and impairments	-	24,765	-	703
Total	36	466,591	-	134,171

9 Remuneration to the auditor

	Group		Parent	
	2017	2016	2017	2016
Öhrlings Pricewaterhouse-Coopers AB				
Statutory audit	886	688	763	604
Auditing services in addition to statutory audit	502	284	502	284
Tax advisory services	1,653	2,322	1,653	2,322
Other services	2,670	670	2,670	670
Total	5,712	3,964	5,588	3,880

Group: Of the amount for auditing activities other than the statutory audit, SEK 0.5 million refers to PwC Sweden, of fees for tax advisory services, SEK 1.7 million refers to PwC Sweden and of the amount for other services SEK 2.7 million refers to PwC Sweden.

Parent company: For the parent company, of the amount for auditing activities other than the statutory audit, SEK 0.5 million refers to PwC Sweden, of fees for tax advisory services, SEK 1.7 million refers to PwC Sweden and other services refers to SEK 2.7 million PwC Sweden.

10 Operating leases

The Group leases 13 offices and some machinery of minor value under non-cancellable contracts. The leases for office space will end on the following dates: 14 Nov 2019, 1 Jan 2022, 31 Jan 2026, 18 Apr 2018, 29 Sep 2019, 1 Dec 2021, 30 Sep 2023, 14 Aug 2019, 31 Mar 2018, 1 Jul 2024 and 31 May 2024.

The nominal value of future minimum lease payments for non-cancellable leases is distributed as follows. 98.5 percent of lease payments refer to rental of premises.

Leasing costs (minimum payments)	Group		Parent	
	2017	2016	2017	2016
Due within 1 year	32,295	33,448	274	245
Due within 2-5 years	115,797	118,016	231	483
Due > 5 years	16,104	22,598	-	-
Total	164,196	174,062	505	728

Leasing costs	Group		Parent	
	2017	2016	2017	2016
Rent of premises	35,471	21,316	307	118
Equipment	523	313	269	233
Total	35,995	21,629	576	351

11 Average number of employees

Average number of employees	2017		2016	
	Total	Of whom, men	Total	Of whom, men
Parent company				
Sweden	22	14	17	12
Subsidiaries				
Sweden	178	155	95	84
France	24	22	15	14
USA	19	15	19	15
Luxembourg	2	2	1	1
Belgium	18	12	3	2
Spain	7	6	1	1
India	8	7	-	-
Total	278	234	151	129

	2017		2016	
	Number on reporting date	Of whom, men	Number on reporting date	Of whom, men
Directors and senior management personnel				
Group				
Directors	6	4	6	6
CEO and senior management personnel	9	6	8	6
Parent company				
Directors	6	4	6	6
CEO and senior management personnel	8	5	7	5

12 Employee benefits expense

Board of Directors

Directors' fees are paid to the chairman of the board and directors as resolved by the annual general meeting. Directors' fees resolved by the general meeting for the 2017 financial year amount to SEK 1,500 thousand (1,300). The chairman will be paid SEK 700 thousand (700) and each director will be paid SEK 200 thousand (200). In addition, fees are paid for service on the remuneration committee of SEK 100 thousand (100) and on the audit committee of SEK 200 thousand (100) for committee chairmen, SEK 50 thousand (50) per member of the remuneration committee and SEK 100 thousand (50) per member of the audit committee.

Pension expenses amounted to SEK 0 thousand (0). The company's outstanding pension commitments to the board of directors amount to SEK 0 thousand (0). Of directors' fees paid during the year, directors have billed SEK 495 thousand (960) and the remainder was paid as salary.

Chief Executive Officer

The chairman of the board negotiates with the CEO regarding the CEO's pay and other terms of employment. The chairman reports the outcome of these negotiations to the entire board prior to final decision. Pay and remuneration to the board of directors and the CEO includes salary and benefits to the CEO during the year of SEK 6,939 thousand (3,944) and pension expenses of SEK 208 thousand (206). The CEO is required to provide six months' notice of resignation and the company is required to provide nine months' notice of termination. There is no agreement concerning severance pay. Defined contributions to pension plans are paid for the CEO corresponding to costs under the ITP plan.

Senior management

Remuneration to other senior management personnel is decided by the CEO.

Cost of employee compensation

Total	Group		Parent	
	2017	2016	2017	2016
Salaries and other remuneration	159,751	106,616	31,413	21,808
Social insurance costs	46,062	37,668	11,964	12,579
(of which, pension expenses)	(7 441)	(3 704)	(2 988)	(2 084)
Total	205,813	144,284	43,377	34,387

Salaries and other remuneration distributed between board and CEO and other employees

	Board and CEO		Other employees	
	2017	2016	2017	2016
Group	9,326	5,815	150,425	103,786
Parent company	9,326	5,815	22,087	17,675

13 Remuneration to senior management

Policies

Policies for remuneration to senior management were established by the annual general meeting held in May 2017. Remuneration to the CEO and other senior management personnel shall consist of fixed salary. The board of directors is also empowered to decide on variable remuneration in the form of a cash bonus in an amount that does not, on an annual basis, exceed fifty percent of the fixed yearly salary for the senior manager in question.

Defined contributions to pension plans are paid for the CEO and senior management personnel corresponding to costs under the customary ITP plan. The CEO is required to provide six months' notice of resignation and the company is required to provide nine months' notice of termination. Notice periods for other senior management personnel range from one to nine months. There are no agreements on severance pay.

"Other senior management" refers to executive management as listed in the "Senior management" section.

Remuneration and other benefits during the financial year

Total salaries, variable pay and other benefits were paid in the 2016 financial year to senior management personnel, including the CEO, in the amount of SEK 23,052 thousand (16,073). Share-based payments amounted to SEK 241 thousand (351). Defined contributions to pension plans were paid for senior management personnel corresponding to costs under the ITP plan.

Costs for stock options granted to employees were charged against profit and loss for the year in the amount of SEK 2,867 thousand (9,701).

Board and senior management

2017	Base pay/director's fee	Variable pay and royalties	Other benefits	Pension expenses	Share- based payments	Total	Granted employee/director stock options	Remaining employee/director stock options	Granted warrants	Remaining warrants
Michael Hjorth, director/ chairman	970	-	-	-	-	970	-	-	-	-
Matias Myllyrinne, director	200	-	-	-	-	200	267,000	-	-	-
Christoffer Saidac, director	109	-	-	-	-	109	-	-	-	-
Eva Rødhe, director	496	-	-	-	-	496	267,000	-	267,000	-
Ulrika Hagdahl, director	355	-	-	-	-	355	-	-	-	-
Harold Kim, director	200	-	-	-	-	200	-	-	-	-
Bo Andersson Klint, CEO/ director	4,907	1,750	282	208	57	7,204	400,000	133,334	1,091,766	150,100
Mikael Nermark, deputy CEO	2,457	-	166	218	14	2,855	-	-	-	-
Other senior management personnel; average of 6.6 individuals, 7 individuals at year- end	10,947	139	74	969	170	12,299	705,000	331,668	1,135,512	890,000
Total	20,641	1,889	522	1,395	241	24,688	1,639,000	465,002	2,494,278	1,040,100

Board and senior management

2016	Base pay/director's fee	Variable pay and royalties	Other benefits	Pension expenses	Share- based payments	Total	Granted employee/director stock options	Remaining employee/director stock options	Granted warrants	Remaining warrants
Michael Hjorth, director/ chairman	900	-	-	-	-	900	-	-	-	-
Matias Myllyrinne, director	200	-	-	-	52	252	267,000	-	-	-
Christoffer Saidac, director	300	-	-	-	-	300	-	-	-	-
Eva Rødhe, director	300	-	-	-	36	336	267,000	-	267,000	-
Bo Andersson Klint, CEO/ director	2,669	1,250	25	206	83	4,233	400,000	133,334	991,766	-
Mikael Nermark, deputy CEO	2,422	-	89	215	30	2,756	-	-	-	-
Other senior management personnel; average of 6 individuals, 6 individuals at year- end	6,989	487	442	679	150	8,747	705,000	368,336	572,435	341,666
Total	13,780	1,737	556	1,100	351	17,524	1,639,000	501,670	1,831,201	341,666

14 Other operating expenses

	Group		Parent	
	2017	2016	2017	2016
Exchange losses	-1,186	-1,202	-	-
Total	-1,186	-1,202	-	-

15 Financial income and expenses

	Group		Parent	
	2017	2016	2017	2016
Interest income	-	8	4,130	4,572
Remeasurement of earnouts	10,105	8,787	-	-
Change in value of Short-term deposits and convertible bonds	-	8,716	-	9,298
Total financial income	10,105	17,511	4,130	13,870
Interest expenses	-573	-408	856	-5
Interest expenses, convertible bonds	-21,678	-14,788	-21,678	-17,789
Remeasurement of derivatives attributable to convertible bonds	-8,380	-3,000	-8,380	-
Total financial expenses	-30,631	-18,196	-29,202	-17,794
Total	-20,526	-685	-25,072	-3,924

16 Appropriations

	Parent	
	2017	2016
Difference between recognized and planned depreciation and amortization	-	-
Group contribution	-	30,247
Total	-	30,247

17 Income tax and deferred tax

The applicable tax rate is the income tax rate for the Group. Temporary differences exist when the respective taxable values of assets or liabilities differ. Temporary differences in Starbreeze have arisen mainly through tax loss carryforwards. Deferred tax assets are recognized for tax loss carryforwards to the extent that they can be utilized through future taxable profits and to the extent they can be offset against deferred tax liabilities on temporary differences.

A deferred tax asset of SEK 108.3 million (30.7) has been included in the value of tax loss carryforwards as of 31 December 2017. The asset in respect of the accumulated Swedish tax loss carryforward as of 31 December 2017 amounts to SEK 70.5 million (84.8) and the asset in respect of the accumulated tax loss carryforward in foreign subsidiaries amounts to SEK 37.6 million (84.1). Losses cannot be utilized between companies in different countries and the remaining Swedish tax loss carryforward has a group contribution restriction with regard to Enterspace AB and the other Swedish group companies, which is applicable to losses generated up to 31 December 2016 and cannot be utilized until 2023 at the earliest. Unrestricted offset rights apply to losses generated in 2017 and later.

Recognized loss carryforwards in the Group have no expiration dates.

	Group		Parent	
	2017	2016	2017	2016
Recognized profit (-loss) before tax	-176,185	55,900	-74,624	-22,255
Tax at applicable tax rate	27,587	-21,991	16,417	4,896
Tax effect of other non-deductible costs	-160	-603	-111	-141
Tax effect of other non-taxable income	2,157	4,595	898	38
Tax effect of costs for issue of equity instruments *)	671	1,368	671	1,368
Tax effect of appropriations	-	-	-	-6,654
Foreign withholding tax	-2,419	-1,240	-	-
Tax effect of loss carryforwards recognized in the balance sheet	-	25,461	-	492
Change of unrecognized tax assets related to loss carryforwards	-8,581	-6,182	-	-
Adjustment of tax for previous year	1,600	-216	-	-1
Tax on profit for the year according to income statement	20,855	1,191	17,875	-

* Recognized directly in equity

Distribution of income tax, Group	2017	2016
Current tax	-3,576	947
Deferred tax	24,431	244
Tax on profit for the year according to income statement	20,855	1,191

Group	31/12/2017	31/12/2016
Balance at 1 January, deferred tax assets	30,713	5,252
Change of value of loss carryforwards through profit or loss	77,440	25,461
Balance at 31 December, deferred tax assets	108,153	30,713

Balance at 1 January, deferred tax liabilities	119,135	42,356
Increase through business combination	828	47,308
Change of temporary differences in capitalized development costs through profit or loss	55,505	25,510
Change relating to reversal of deferred tax through profit or loss	-3,849	-294
Exchange differences	-2,273	4,255
Balance at December 31, deferred tax liabilities	169,346	119,135

Specification of deferred tax liabilities	31/12/2017	31/12/2016
Amortization, game engine	-	-2,442
Temporary differences in surplus values in the Group	91,094	95,230
Untaxed reserves	-	837
Change of temporary differences in capitalized development costs	78,252	25,510
Total deferred tax liabilities	169,346	119,135

18 Earnings per share

Basic and diluted earnings per share are calculated by dividing profit attributable to owners of the parent by the weighted average number of shares outstanding during the period. To calculate diluted earnings per share, the weighted average number of common shares outstanding is adjusted by the dilutive effect of all potential common shares. In respect of stock options, a calculation is made of the number of shares that could have been bought at fair value for an amount corresponding to the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared to the number of shares that would have been issued under the assumption that the stock options were exercised.

Group	2017	2016
Earnings per share		
Basic, SEK	-0.55	0.22
Diluted, SEK	-0.55	0.22

Number of shares at the end of the

Basic	283,037,940	276,879,720
Diluted*	306,443,723	304,352,451
Average number of shares		
Basic	280,309,967	255,276,469
Diluted**	280,309,967	257,234,798

*Accounting for issued convertibles, an assumed conversion of the Smilegate convertible would result in an additional 15,941,586 shares (the potential dilution, under particular conversion circumstances, of an additional 12,146,871 Class B shares that arose consequent upon the

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rescheduling of the Smilegate convertible was not considered in the calculation), and an assumed conversion of the Acer convertible would result in 4,237,677 shares. Also included are employee stock options covering 1,427,520 shares, warrants covering 1,750,000 shares and, finally, warrants held by the company to hedge the employee stock option programs covering 49,000 shares. This brings the total number of shares after dilution to 306,443,723. This calculation of dilution has not taken into account the consideration for the shares; instead, all potential shares are considered dilutive shares, unlike the calculation of the average number of shares, where the dilution is regarded as a function between the consideration paid for the shares and market value.

**Upon calculation of earnings per share, the convertibles had a reverse dilutive effect. According to IFRS regulations, these should thus not be included in the calculation of the average number of shares after dilution. Only employee stock options and warrants are included in this calculation.

19 Inventories

	Group		Parent	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Finished goods	22	2	-	-
Total	22	2	-	-

20 Dividend per share

No dividend will be proposed.

21 Intangible assets

The goodwill consists of synergies and other intangible assets, such as market position, relationships with third parties and employees from the acquisitions of Overkill Software in June 2012, Geminose Inc in September 2014, Starbreeze Paris (formerly InfinitEye) in June 2015, Orange Grove Media LLC in July 2015 and Payday Production LLC in September 2015. Further acquisitions in 2016 of ePaw, Parallaxter and Nozon increased the goodwill balance in respect of relationships with third parties and employees. Enterspace was acquired in June 2017 and Dhruva was acquired in December 2017.

The Group tests regularly for impairment of goodwill and other intangible assets that are not complete, in accordance with IAS 36. Completed intangible assets that are being amortized are tested for impairment if the Group is given indications that fair value might be lower than the carrying amount.

The recoverable amounts for cash generating units have been determined through calculation of value in use. For these calculations, sales forecasts have been estimated for the entire Group and for separate game development projects.

As of 30 September 2017, impairment testing had been performed for goodwill and investments in subsidiaries. Game development projects for which costs have been capitalized but which are not yet complete and thus not yet being systematically amortized have been tested separately. Business combinations (acquisitions) during the year were made shortly before the end of the financial year and because there are no changes in the estimates of underlying cash flows, the transaction price is considered equal to the recoverable amount.

No impairment need for goodwill was found, where the Group comprises four cash generating units, corresponding to the Group's operating segments, or with regard to individual game development projects.

Goodwill

Cash flows for the next five years were used to calculate value in use with growth of 2 percent (2 percent) after the forecast period. A tax rate of 22 percent (22 percent) was used, which was assumed to be the average in the Group. A pre-tax discount rate of 12 percent (17.6) was also applied. A sensitivity analysis shows that a margin remains even with a reduction in revenue by 30 percent (30 percent) and an increase in the discount rate by 10 (10) percentage points. The test indicated no need for impairment and no events occurred during the year that indicate a decline in value.

The average EBITDA margin was 20 percent (20 percent) for the forecast period.

Key assumptions applied in impairment testing are the quantification of future revenues, growth and the cost of capital.

Acquired goodwill is distributed by segment as shown on the table below.

Segment	12/31/2017	12/31/2016
Starbreeze Games	93,909	23,747
Publishing	-	-
VR Tech & Operations	314,488	238,642
Other	136,574	142,141
Total	544,971	404,530

Game development projects

Impairment testing of game development projects was based on each game's estimated future cash flows and profit or loss based on management's forecasts and budgets for the next five years. The discount rate used in impairment testing is between 12 percent (17.5-20 percent). A sensitivity analysis shows that a margin remains even with a reduction in revenue by 10 percent (10 percent) and an increase in the discount rate by 10 (10) percentage points. As a result of the test, the game Raid: World War II was impaired by SEK 20.2 million and the period of amortization has been adjusted from 36 months to 18 months. The impairment was due to poorer than expected sales of the game. Following the impairment, the value of the game was measured at SEK 74.2 million. Other than this, there are no indications of impairment.

Group	Goodwill	IP	Technology	Capitalized game and technology development costs	Other	Total
Cost at 1 January 2017	404,530	356,540	253,552	333,681	6,705	1,355,008
Acquisition of subsidiary	136,683	3,762	-	9,703	-	150,148
Acquisition of technology	-	-	15,836	-	-	15,836
Acquisition of IP	-	5,998	-	-	-	5,998
Development in progress						
Own development	-	-	805	173,737	-	174,542
Game development in publishing business	-	-	-	211,826	-	211,826
Own technology development	-	-	-	5,952	-	5,952
Exchange differences	3,758	-4,666	595	490	-	177
Cost at 31 December 2017	544,971	361,635	270,787	735,388	6,705	1,919,487
Depreciation, amortization and impairments at 1 January 2017	-	-10,392	-11,677	-29,918	-	-51,987
Depreciation, amortization and impairments for the year	-	-12,394	-7,197	-62,703	-	-82,294
Depreciation, amortization and impairments at 31 December 2017	-	-22,786	-18,874	-92,621	-	-134,281
Total carrying amount at 31 December 2017	544,971	338,849	251,914	642,767	6,705	1,785,206

Group	Goodwill	IP	Technology	Capitalized game and technology development costs	Other	Total
Cost at 1 January 2016	74,314	102,350	98,983	138,464	6,705	420,816
Acquisition of subsidiaries	331,859	-	145,221	35	-	477,115
Acquisition of technology	-	-	-	-	-	-
Acquisition of IP	-	254,190	-	-	-	254,190
Development in progress						
Own development	-	-	-	115,173	-	115,173
Game development in publishing business	-	-	-	40,392	-	40,392
Own technology development	-	-	-	39,277	-	39,277
Exchange differences	-1,643		9,348	340	-	8,045
Cost at 31 December 2016	404,530	356,540	253,552	333,681	6,705	1,355,008
Depreciation, amortization and impairments at 1 January 2016	-	-4,689	-3,147	-23,551	-	-31,387
Depreciation and amortization for the year	-	-5,703	-8,530	-6,367	-	-20,600
Depreciation, amortization and impairments at 31 December 2016	-	-10,392	-11,677	-29,918	-	-51,987
Total carrying amount at 31 December 2016	404,530	346,148	241,875	303,763	6,705	1,303,021

22 Property, plant and equipment

	Group		Parent	
Computers and other equipment	12/ 31/ 2017	12/ 31/ 2016	2017-12-31	12/ 31/ 2016
Cost at 1 January	32,142	21,527	4,573	4,084
Purchases	87,108	9,449	602	489
Increase through business combinations	4,529	1,816	-	-
Retirements and disposals	-6,794	-650	-1,555	-
Accumulated cost at 31 December	116,985	32,142	3,620	4,573
Depreciation at 1 January	-8,683	-4,754	-3,308	-2,605
Retirements and disposals	6,241	236	1,555	-
Planned depreciation for the year	-15,642	-4,166	-757	-703
Accumulated depreciation at 1 January	-18,084	-8,683	-2,511	-3,308
Planned residual value at 31 December	98,901	23,458	1,109	1,265

23 Financial assets

	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Deposits, rent guarantees	10,993	5,387	562	-
Non-listed shares	11,502	11,502	-	-
Convertible loan receivables*	15,641	14,184	-	-
Other financial assets	20	898	-	-
Total	38,156	31,971	562	-

*The convertible loan receivable refers to investments in a start-up company in the United States. The balance for the preceding year also includes an investment in the now wholly owned company Enterspace of SEK 9,999 thousand.

24 Investments in Group companies

Country of registration and operation		Business	Share of equity	Share of votes	Number of shares in parent company	Carrying amount
Starbreeze Studios AB	Sverige	Game development	100%	100%	10,000	16,979
Starbreeze Publishing AB	Sverige	Game development	100%	100%	1,000	171,902
Starbreeze Production AB	Sverige	Game development	100%	100%	1,000	13,265
Starbreeze USA Inc.	USA	Game development	100%	100%	100	74,267
Starbreeze IP LUX	Luxemburg	Technology development	100%	100%	12,500	96,598
Starbreeze LA Inc	USA	Game development	100%	100%	100	106,168
Starbreeze VR AB	Sverige	Technology development	100%	100%	50,000	50
Starbreeze Ventures AB	Sverige	Investments	100%	100%	50,000	550
Starbreeze Paris SAS	Frankrike	Technology development	100%	100%	58,281	127,546
Starbreeze Barcelona SL	Spanien	Game development	100%	100%	3,000	29
Nozon	Belgien	Technology development	100%	100%	8,000	32,282
Parallaxter	Belgien	Technology development	100%	100%	10,000	296,499
Enterspace AB	Sverige	Technology development	100%	100%	50,000	91,216
Starbreeze IP LUX II Sarl	Luxemburg	Game development	100%	100%	230,000	176,822
Dhruva Infotech Ltd	Indien	Game development	91%	91%	580,061	77,021
						1,281,195

Parent company, shares in subsidiaries	12/ 31/ 2017	12/ 31/ 2016
Cost at 1 January	690,126	151,588
Acquisition of subsidiaries	214,478	430,639
Shareholder contribution	384,369	116,689
Adjustment of earnouts	-7,778	-8,790
Accumulated cost at 31 December	1,281,195	690,126

25 Financial instruments by category

Group, 31 December 2017

Assets on the balance sheet	Loan and trade receivables	Assets measured at fair value through profit or loss	Assets available for sale	Total
Non-listed shares	-	-	11,502	11,502
Trade receivables	14,136	-	-	14,136
Other receivables	24,678	15,641	-	40,319
Short-term deposits	-	-	-	-
Derivative instruments	-	-	-	-
Cash and cash equivalents	233,756	-	-	233,756
Total	272,570	15,641	11,502	299,713

Liabilities on the balance sheet	Other financial liabilities	Financial liabilities at fair value through profit or loss		
Trade and other payables excluding non-financial liabilities	122,395	-	-	122,395
Convertible bonds	259,733	25,237	-	284,970
Liability, earnout, Geminose Inc	-	23,247	-	23,247
Liability, earnout, ePawn	-	15,545	-	15,545
Liability, earnouts, Nozon and Parallaxter	-	253,737	-	253,737
Liability, earnout, Enterspace	-	51,217	-	51,217
Liability, earnout, Dhruva	-	4,116	-	4,116
Other non-current liabilities	181,326	-	-	181,326
Total	563,454	373,099	-	936,553

*See Note 42

Group, 31 December 2016

Assets on the balance sheet	Loan and trade receivables	Assets measured at fair value through profit or loss	Assets available for sale	Total
Non-listed shares	-	-	11,502	11,502
Trade receivables	16,672	-	-	16,672
Other receivables	15,189	14,183	-	29,372
Short-term deposits	-	-	-	-
Derivative instruments	-	-	-	-
Cash and cash equivalents	669,380	-	-	669,380
Total	701,241	14,183	11,502	726,926

Liabilities on the balance sheet	Other financial liabilities	Financial liabilities at fair value through profit or loss		
Trade and other payables excluding non-financial liabilities	41,990	-	-	41,990
Convertible bonds	243,113	16,857	-	259,970
Liability, earnout, Geminose Inc	-	7,841	-	7,841
Liability, earnout, ePawn	-	32,705	-	32,705
Liability, earnouts, Nozon and Parallaxter	-	266,553	-	266,553
Other non-current liabilities	5,563	-	-	5,563
Total	290,666	323,956	-	609,059

Parent company at 31 December 2017

Assets on the balance sheet	Loan and trade receivables	Assets measured at fair value in profit	Assets available for	Total
		or loss	sale	
Non-listed shares	-	-	-	-
Trade receivables	23	-	-	23
Other receivables	733,092	-	-	733,092
Cash and cash equivalents	75,353	-	-	75,353
Total	808,468	-	-	808,468

Liabilities on the balance sheet	Other financial liabilities		Total	
Trade and other payables excluding financial liabilities	20,490	-	-	20,490
Convertible bonds	259,733	25,237	-	284,970
Liability, earnout, Geminose Inc	-	23,247	-	23,247
Liability, earnout, ePawn	-	15,545	-	15,545
Liability, earnouts, Nozon and Parallaxter	-	253,737	-	253,737
Liability, earnout, Enterspace	-	51,217	-	51,217
Liability, earnout, Dhruva	-	4,116	-	4,116
Other non-current liabilities	-	-	-	-
Total	280,223	373,099	-	653,322

Parent company at 31 December 2016

Assets on the balance sheet	Loan and trade receivables	Assets measured at fair value in profit	Assets available for	Total
		or loss	sale	
Non-listed shares	-	-	-	-
Trade receivables	-	-	-	-
Other receivables	745,491	-	-	745,491
Cash and cash equivalents	540,119	-	-	540,119
Total	1,285,610	-	-	1,285,610

Liabilities on the balance sheet	Other financial liabilities		Total	
Trade and other payables excluding financial liabilities	25,732	-	-	25,732
Convertible bonds	243,113	16,857	-	259,970
Liability, earnout, Geminose Inc	-	7,842	-	7,842
Liability, earnout, ePawn	-	32,705	-	32,705
Liability, earnouts, Nozon and Parallaxter	-	266,553	-	266,553
Other non-current liabilities	-	-	-	-
Total	268,845	323,957	-	592,802

26 Credit quality of financial assets

Trade receivables, Group

	31/12/2017	31/12/2016
Counterparties with no external credit rating		
Group 1	10,837	16,672
Group 2	3,299	-
Total	14,136	16,672

At 31 December 2017, past due and unpaid trade receivables amount to SEK 3,482 thousand (2,883).

Group 1: Existing customers (more than 6 months) with no previous missed payments.

Group 2: Existing customers (more than 6 months) with previous missed payments. All missed payments have been recovered in full.

Bank deposits and short-term deposits, Group

	31/12/2017	31/12/2016
Moody's rating Aa1	473	4,036
Moody's rating Aa2	945	1,120
Moody's rating Aa3	229,903	657,727
Moody's rating A+	1,336	6,436
Moody's rating Baa1	923	61
Total	233,580	669,380

27 Trade and other receivables

	Group		Moderbolaget	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Non-current receivables		-	-	-
Trade receivables	14,136	16,672	23	-
Provision for doubtful receivables	-	-	-	-
Receivables from group companies	-	-	724,234	743,648
Other receivables	13,685	8,904	1,771	549
Prepaid expenses and accrued income	125,259	56,183	7,087	1,295
Derivative instruments	-	-	-	-
Total	153,080	81,759	733,115	745,492

Aging report	31/ 12/ 2017	31/ 12/ 2016
Not due	13,363	13,789
3-6 months	612	2,883
> 6 months	162	-
Total	14,136	16,672

Trade and other receivables per currency

	31/ 12/ 2017	31/ 12/ 2016
SEK	60,619	50,992
EUR	11,797	22,647
USD	74,674	8,120
INR	5,992	-
Total	153,080	81,759

28 Prepaid expenses and accrued income

	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Other accrued receivables	57,317	13,947	7,087	1,295
Accrued royalty income	67,941	42,236	-	-
Total	125,259	56,183	7,087	1,295

29 Cash and cash equivalents

	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Cash and bank deposits	233,580	466,804	75,183	338,557
Short-term deposits	177	202,576	170	201,561
Total	233,756	669,380	75,353	540,118

Cash and cash equivalents include short-term deposits that mature within three months of acquisition and can be readily converted to cash with no interest expenses

30 Change in shares outstanding

The annual general meeting held in November 2017 voted to authorize the board of directors to make decisions on new issues of shares with or without preferential rights up to a maximum of 10 percent of share capital.

Non-cash issues were executed during the financial year in connection with acquisitions. The acquisition of Enterspace was paid partially with 1,071,203 Class B shares and the acquisition of Dhruva was paid partially with 1,007,578 Class B shares.

The company has 32,666 warrants for hedging of employee stock option programs. These options correspond to 49,000 shares. All common shares are fully paid.

Number of shares	Class B shares	Class A shares
Number of shares 31 Dec 2015	173,885,984	56,475,107
New subscription through exercise of stock options	6,610,890	-
Non-cash issue	13,834,717	-
New issue	22,697,006	3,376,016
Conversion	3,879,141	-3,879,141

Number of shares 31 Dec 2016	220,907,738	55,971,982
New subscription through exercise of stock options	-	-
Non-cash issue	2,078,781	-
New issue	4,079,439	-
Conversion	825,367	-825,637

Number of shares 31 Dec 2017	227,891,325	55,146,345
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31 Share-based payments

The long-term incentive programs were decided by the annual general meeting. A summary of the company's existing long-term incentive programs follows.

Employee stock option program 2014/2018

The company issued a total of 4,775,000 employee stock options in June 2014, as well as 534,000 "director stock options" to two directors. The employee stock options were issued against no monetary consideration to employees and will vest during a period of 1, 2 and 3 years respectively, provided that the employee is still employed by the Group and provided that set performance requirements are met. The director stock options were also issued against no monetary consideration and will vest during a period 1, 2 and 3 years respectively (from the date of the AGM in November 2013), but will expire if the director resigns, dismissed or chooses not to stand for reelection. Subsequent to the bonus issue in June 2015, two employee stock options confer the right to subscribe for three Class B -shares. The redemption price per share was recalculated by reason of the bonus issue. The new redemption price is equal to 2/3 of the earlier redemption price and now amounts to SEK 4.8 per share for the original grant. The employee and director stock options expire on 15 June 2018 and 30 May 2017, respectively.

In respect of the employee stock option program 2014/2018, the weighted average fair value of options granted during the financial year was SEK 1.2 per option and was determined using the Black-Scholes valuation model. Key inputs in the model were the share price of SEK 6.25 at grant date, the redemption price of SEK 7.2, volatility of 30 percent, expected dividend of 0 percent, the expected maturity of the options of 4 years and annual risk-free interest rate of 0.73 percent. The redemption price was recalculated by reason of the bonus issue in June 2015 and is, subsequent to the bonus issue, SEK 4.8. The same inputs were used for the director stock option program, other than the term, which is three years.

Volatility measured as the standard deviation for expected return on the share price is based on statistical analyses for Starbreeze and other companies in the same industry during several different measurement periods preceding the decision date, in which connection the specific terms and conditions of the options were considered.

Warrants program 2014/2017

The company issued a total of 1,999,999 warrants to employees in May/June 2014, including 1,000,000 warrants to the CEO and 999,999 warrants to senior management/key individuals. Furthermore, 267,000 warrants were issued to one director on similar terms and conditions, provided that the director did not leave the board prior to the 2015 annual general meeting. The warrants were issued on market terms. Subsequent to the bonus issue in June 2015, two warrants confer the right to subscribe for three Class B -shares. The redemption price per share was recalculated by reason of the bonus issue. The new

redemption price is equal to 2/3 of the earlier redemption price and now amounts to SEK 8 per share for the original award. The warrants expire on 30 November 2018.

In respect of the warrants program 2014/2017, the weighted average fair value of warrants granted during the financial year was SEK 0.305 per warrant and was determined using the Black-Scholes valuation model. Key inputs in the model were the share price at grant date, volatility of 30 percent, expected dividend of 0 percent, the expected term of the warrants of 3 years and annual risk-free interest rate of 0.73 percent. The redemption price was recalculated by reason of the bonus issue in June 2015 and is SEK 8. Subsequent to the bonus issue, two warrants confer the right to subscribe for three Class B shares.

Warrants programs 2015/2018 and 2015/2019

The annual general meeting held in November 2015 resolved in favor of an additional special share-based incentive program for senior management personnel and certain other key individuals aimed at managing new recruitments and promotions. In total, up to 3,500,000 warrants conferring rights to subscribe for 3,500,000 Class B shares can be issued within the framework of the special incentive program, where approximately half have a term of three years and the other half a term of four years, at a redemption price corresponding to 200 percent of the current market price in the former case and 240 percent in the latter. As of 31 December 2017, 1,780,000 of these warrants had been granted, all expiring in November 2018, and 30,000 expiring in November 2019. The warrants expire 30 November 2019. The warrants were issued on market terms.

In respect of the 3-year portion of the warrants program 2015/2018, the weighted average fair value of warrants granted during the financial year was SEK 0.291 per warrant and was determined using the Black-Scholes valuation model. Key inputs in the model were the share price at grant date, volatility of 41.0 percent, expected dividend of 0 percent, the expected term of the warrants of 3 years and annual risk-free interest rate of -0.30 percent.

In respect of the 4-year portion of the warrants program 2015/2019, the weighted average fair value of warrants granted during the financial year was SEK 0.3492 per warrant and was determined using the Black-Scholes valuation model. Key inputs in the model were the share price at grant date, volatility of 41.0 percent, expected dividend of 0 percent, the expected term of the warrants of 4 years and annual risk-free interest rate of -0.09 percent.

See Note 13 for information on the total cost recognized in profit or loss for stock options granted to other employees.

Employee stock option program 2014/ 2018

	31/12/2017		31/12/2016	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	5.23	2,805,046	3.76	5,771,020
Granted employee stock options	-	-	-	-
Granted director stock options	-	-	4.80	-
Expired employee stock options	4.80	-37,500	4.90	-274,521
Exercised employee stock options	4.96	-1,340,027	4.83	-2,691,453
At 31 December	5	1,427,519	5	2,805,046

Warrants program 2014/ 2017

	31/12/2017		31/12/2016	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	8.00	689,424	8.00	3,400,496
Granted warrants	-	-	-	-
Granted director warrants	-	-	-	-
Exercised warrants	8.00	-689,424	8.00	-2,310,572
Exercised director warrants	-	-	8.00	-400,500
At 31 December	-	-	8	689,424

The redemption price for the warrants program 2014/ 2017 has been recalculated by reason of the bonus issue in June 2015.

Warrants program 2015/ 2018 (3 years)

	31/12/2017		31/12/2016	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	29.10	1,720,000	29.10	1,639,900
Granted warrants	-	-	29.10	110,100
Expired warrants	-	-	29.10	-30,000
At 31 December	29	1,720,000	29	1,720,000

Warrants program 2015/ 2019 (4 years)

	31/12/2017		31/12/2016	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	34.92	30,000	-	-
Granted warrants	-	-	34.92	30,000
At 31 December	35	30,000	35	30,000

32 Untaxed reserves

	Parent	
	31/12/2017	31/12/2016
Difference between recognized and planned depreciation and amortization	16	16
Total	16	16

33 Liability, earnouts

Non-current liabilities, earnouts	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Liability, earnout, Geminose Inc	23,247	7,842	23,247	5,950
Liability, earnout, ePawn	15,545	32,705	15,545	32,705
Liability, earnout, Nozon	25,373	26,655	25,373	26,655
Liability, earnout, Parallaxter	228,363	239,897	228,363	239,897
Liability, earnout, Enterspace	51,217	-	51,217	-
Liability, earnout, Dhruva	4,116	-	4,116	-
Total	347,861	307,099	347,861	305,207

34 Trade and other payables

	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Trade payables	81,344	19,863	6,829	3,391
Liabilities to group companies	-	-	294,581	177,839
Liabilities, royalties	-	-	-	-
Other liabilities	35,578	21,216	3,042	5,821
Social insurance and comparable fees	5,474	911	1,398	843
Accrued expenses and deferred income	70,604	44,960	9,222	15,678
Total	193,000	86,950	315,071	203,572

35 Accrued expenses and deferred income

	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Accrued salaries	8,217	2,628	500	1,250
Accrued annual leave pay	11,519	7,773	5,462	3,107
Accrued social insurance fees, annual leave pay	3,686	2,414	1,716	976
Accrued social insurance fees, employee stock options	1,599	12,768	808	6,420
Deferred income	-	-	-	-
Accrued expenses	45,583	19,377	736	3,925
Total	70,604	44,960	9,222	15,678

36 Pledged assets

	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Pledged shares in subsidiaries for loan credit with Nordea	484	-	-	-
Deposits, rent guarantees	24	5,387	-	-
Total	508	5,387	-	-

37 Contingent liabilities

The Group has no contingent liabilities

38 Business combinations

Acquisition of Enterspace

On 30 June 2017, 100 percent of the shares in Enterspace AB were acquired for preliminary consideration of SEK 66.8 million through a non-cash issue of 1,071,203 new Class B shares in Starbreeze AB worth SEK 17.0 million based on the quoted share price that month of SEK 15.87, cash consideration of SEK 3.0 million and a conditional earnout linked to future revenues, which is estimated at SEK 46.8 million and may be triggered within the next six years. The figure of SEK 46.8 million is the present value of the maximum purchase consideration of SEK 75 million, calculated at a discount rate of 12 percent. Enterspace develops technology and content for location-based entertainment. The goodwill that arose in connection with the acquisition consists mainly of the company's commercial relationships.

The effect of the acquisition on cash flow at the consolidated level totals SEK 0.2 million, comprising cash consideration of SEK 3.0 million, acquisition costs of SEK 0.5 million and acquired cash and cash equivalents of SEK 3.3 million.

Preliminary costs for the acquisition of Enterspace of SEK 0.5 million have been charged to consolidated profit and are included in other external expenses.

Acquisition of Dhruva Infotech

On 22 December 2017, 90.45 percent of the shares in Enterspace AB were acquired for preliminary consideration of SEK 75.6 million through a non-cash issue of 1,007,578 new Class B shares in Starbreeze AB worth SEK 12.0 million based on the quoted share price that month of SEK 11.92, cash consideration of SEK 59.5 million and a conditional earnout linked to future revenues, which is estimated at SEK 4.1 million and may be triggered within the next four years. Dhruva is a well-reputed production company with a long history as a subcontractor to Starbreeze. Founded in 1997, the company is India's leading game developer with more than 320 employees that provides production services to the global games industry. Dhruva has three studios in India. The goodwill that arose in connection with the acquisition consists mainly of the company's commercial relationships and industry know-how.

The effect of the acquisition on cash flow at the consolidated level totals SEK -60.85 million, comprising cash consideration of SEK 59.5 million, acquisition costs of SEK 1.4 million and acquired cash and cash equivalents of SEK 0.05 million.

Preliminary costs for the acquisition of Dhruva of SEK 1.4 million have been charged to consolidated profit and are included in other external expenses.

Contribution of acquisitions to the Group

Subsequent to acquisition, Enterspace has contributed revenues of SEK 3.7 million and profit after tax of SEK 6.8 million. If Enterspace had been acquired on 1 January 2017, the company would have contributed a revenue stream of SEK 0.3 million and a loss after tax of SEK -3.0 million.

Subsequent to acquisition, Dhruva has contributed revenues of SEK 1.7 million and a loss after tax of SEK 0.4 million. If Dhruva had been acquired on 1 January 2017, the company would have contributed a revenue stream of SEK 54.6 million and a loss after tax of SEK -9.9 million.

No portion of recognized goodwill for the acquisitions above is expected to be tax deductible.

Information on the preliminary value of acquired net assets and goodwill in Enterspace and Dhruva as of acquisition date, SEKk:

Acquisitions during the year	Enterspace	Dhruva
Consideration:		
Cash consideration paid	3,000	59,472
Shares in Starbreeze AB (publ)	17,000	12,008
Earnout	46,831	4,116
Fair value of acquired assets as below	-5,762	2,674
Consolidated surplus values of intangible assets (patents)	3,762	-
Capitalized development costs	-	-
Goodwill	68,831	72,922

Assets and liabilities included in the acquisition:

Patents (technology)	10,406	-
Capitalized development costs	-	1,244
Other assets	4,728	12,087
Cash and cash equivalents	3,344	51
Deferred tax	-828	-
Liabilities	-23,412	-10,708
Identifiable acquired net assets	-5,762	2,674

The preliminary acquisition analyses for ePawn, Nozon and Parallaxter, which were acquired during the 2016 financial year, were finalized as shown on the table below.

Acquisition analyses finalized during the year	ePawn	Nozon and Parallaxter
Consideration:		
Cash consideration paid	14,221	44,855
Shares in Starbreeze AB (publ)	37,843	24,228
Earnout	32,190	274,758
Fair value of acquired assets as below	22,936	-29,726
Consolidated surplus values of intangible assets (patents)	-	108,096
Goodwill	61,318	265,471

Assets and liabilities included in the acquisition:

Intangible assets	31,833	1,844
Other assets	3,482	7,399
Cash and cash equivalents	2,835	3,505
Deferred tax	-9,727	-37,582
Liabilities	-5,487	-4,892
Identifiable acquired net assets	22,936	-29,726

The only adjustments made were that the initial acquisition analysis for ePawn was changed by adjusting goodwill downwards by SEK 5,070 thousand and adjusting the fair value of acquired assets upwards by the corresponding amount.

39 Related party transactions

The parent company Starbreeze AB, which is the ultimate parent of the Group, has billed Group companies SEK 63.2 million (39.0) for costs related to game development and for a portion of Group costs. The table below shows billing by other Group companies to Group companies:

The parent company Starbreeze AB has purchased services from Group companies amounting to SEK 22.1 million (48.8). Other purchases by Group companies from Group companies are shown on the table below.

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 year. The company also received a marketing contribution of SEK 47.8 million during the year from the joint venture company StarVR Corporation. Of that amount, SEK 3.7 million was recognized in revenue during the year. There were no related party transactions during the period other than the transactions disclosed in the report above.

Remuneration to senior management is specified in Note 13.

Receivables and liabilities arising from purchase 31/12/2017 31/12/2016

Receivables

Parent company Starbreeze AB	724,234	743,647
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Liabilities

Parent company Starbreeze AB	294,581	177,839
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Group company billing	2017	2016
Starbreeze AB	63,198	39,003
Starbreeze Production AB	242	44,205
Starbreeze Publishing AB	53,713	326
Starbreeze Studios AB	162,391	97,890
Starbreeze Paris SAS	42,446	25,936
Starbreeze IP LUX	2,178	46,721
Starbreeze IP LUX II	2,458	16,446
Nozon SPRL	9,974	133
Parallaxter SPRL	193	142
Starbreeze Barcelona	7,140	820
Starbreeze LA	91,151	88,749
Enterspace AB	6,555	-
Total	441,640	360,371

Purchases from group companies	2017	2016
Starbreeze AB	22,118	48,815
Starbreeze Production AB	78,197	94,390
Starbreeze Publishing AB	131,437	136,595
Starbreeze Studios AB	28,337	17,241
Starbreeze Paris SAS	4,966	2,607
Starbreeze IP LUX	17,077	10,876
Starbreeze IP LUX II	121,735	43,471
Nozon SPRL	4,057	825
Parallaxter SPRL	5,524	-
Starbreeze Barcelona	1,515	117
Starbreeze LA	5,239	4,514
Starbreeze USA	5,018	920
Enterspace AB	3,541	-
Enterspace International AB	12,879	-
Total	441,640	360,371

40 Cash flow from operations

	Group		Parent	
	2017	2016	2017	2016
Operating profit (- loss)	-151,459	56,454	-49,552	-18,331
Adjustments for non-cash items				
Amortization of intangible assets	82,294	20,600	-	-
Depreciation of property, plant and equipment	15,642	4,166	757	704
Other unrealized exchange losses	-2,508	19,332	151	15,411
Increase (-) / decrease (+) in receivables	-45,458	-49,337	17,446	-343,337
Increase (-) / decrease (+) in current liabilities	90,322	-42,347	112,169	104,364
Cash flow from (- used in) operations	-11,167	8,868	80,971	-241,189

41 Events after reporting date

The following events significant to Starbreeze have occurred subsequent to 31 December 2017.

Supported by the authorization of the 2017 AGM, a directed issue to Swedish and international institutional investors was executed on 25 January 2018. 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.

Starbreeze AB made a publishing agreement with Mohawk Games on 5 February 2018 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.

Payday 2 was released on 23 February 2018 for the Nintendo Switch platform.

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

On 21 March 2018, Starbreeze decided to sell the publishing rights to the Dead by Daylight game to the developer, Behaviour Interactive Inc. 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. The deal will accelerate cash flows to Starbreeze from the game, which will strengthen Starbreeze's earnings and free up capital for new projects.

42 Other non-current liabilities

A convertible loan was received from Smilegate in February 2016. The carrying amount of the convertible amounted to SEK 213.2 million (193.4) at 31 December 2017. The annual interest on the non-current interest-bearing liability to Smilegate of SEK 215 million is 2 percent. Of the principal amount of SEK 215 million, SEK 25.1 million has been recognized as a share of equity, SEK 172.8 million as a non-current liability and SEK 17.1 million as a derivative. The convertible bond will mature in February 2020 if not previously converted to shares at the request of the holder. Upon full conversion and prior to any amendment of terms and conditions, the bond can be converted to 15,941,586 Class B shares. The derivative is measured at fair value and was recognized at a value of SEK 25.2 million as of the reporting date.

On 24 August 2017 Starbreeze Publishing AB entered into a loan agreement with Nordea Bank (publ), which also includes Starbreeze AB and Starbreeze Production AB as guarantors. Under the terms of the agreement, Starbreeze Publishing AB will have access to SEK 150 million as a general line of credit that can be drawn down as an ordinary debt or a bank overdraft facility. The subsidiary Enterspace AB also arranged a bank overdraft facility of SEK 40 million. The carrying amount of the bank overdraft facility amounted to SEK 141.0 million (0.0) at 31 December 2017. Part of this credit (SEK 36.7 million) will be converted to a loan in Q1 2018 with a repayment plan of two years. The remaining SEK 104.3 million will remain as a bank overdraft facility. This agreement will run for 36 months before the Group must repay the loan or extend the agreement. The Group has therefore classified the entire loan as non-current.

	Group		Parent	
	31/ 12/ 2017	31/ 12/ 2016	31/ 12/ 2017	31/ 12/ 2016
Other non-current liabilities				
Convertible bond, Smilegate	213,221	193,434	213,221	193,434
Convertible bond, Acer	71,749	66,536	71,749	66,538
Loan to StarVR Corporation	31,644	-	-	-
Bank overdraft facility, Nordea	141,007	-	-	-
Other non-current liabilities	8,936	5,565	-	-
Total	466,557	265,535	284,970	259,972

43 Investments in joint venture

Country of registration and

operation	Country of operation	Business	Share of equity	Share of votes	Number of shares	Carrying amount
StarVR Corporation	Taiwan	Technology development	33%	33%	16,000,000	41,890

StarVR Corporation, the company's joint venture with Acer, is a sales and marketing company that manages the sales process vis-à-vis business customers, support and aftermarket support. Under the terms of the joint venture, Starbreeze owns and controls IP rights related to StarVR, 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 StarVR, but as long as Starbreeze retains the IP rights, Starbreeze will bear R&D related costs. Production costs are borne by Acer. The reconciliation below 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.

Investments in joint venture

	12/31/2017	12/31/2016
Reconciliation against carrying amounts:		
Net assets at 1 January	17,276	-
Purchases	-	17,264
Profit (-loss) for the period	-6,418	262
Exchange differences	-3,261	-250
Capital injection	119,341	-
Dividend paid	-	-
Net assets at 31 December	126,938	17,276
Group share	33%	50%
Group share, SEKk	41,890	8,638
Carrying amount	41,890	8,638

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

	12/31/2017	12/31/2016
Condensed balance sheet		
Current assets	66,048	20,618
Non-current assets	88,834	-
Current liabilities	27,944	3,342
Non-current liabilities	-	-
Net assets	126,938	17,276
Condensed statement of comprehensive income		
Revenue	36,612	4,478
Profit (-loss) for the period	-6,418	262
Other comprehensive income	-	-
Total comprehensive income	-6,418	262

44 Liabilities whose cash flows are reported in financing activities

	Convertible bonds	Derivatives	Other non-current liabilities	Total
Balance at 1 January 2017	243,113	16,857	-	259,971
Cash flow	-	-	169,209	169,209
Purchases (not affecting cash flow)	-	-	-	-
Exchange differences	-	-	-	-
Other non-cash items	16,620	8,380	12,378	37,378
Balance at 31 December 2017	259,733	25,237	181,587	466,557

The consolidated financial statements for the Group will be presented to the annual general meeting on 9 May 2018 for adoption.

The board of directors and the CEO hereby certify that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair presentation of the Group's financial position and earnings. The annual report was prepared in accordance with generally accepted accounting practices in Sweden and provides a fair presentation of the parent company's financial position and earnings.

The Board of Directors' Report for the Group and the parent company provides a fair presentation of the operations, position and earnings of the parent company and the Group and describes the material risks and uncertainties faced by the parent company and the companies included in the Group.

Stockholm, 12 April 2018, Starbreeze AB (publ)

Michael Hjorth

Chairman

Directors

Ulrika Hagdahl

Hyung Nam Kim
(Harold Kim)

Matias Myllyrinne

Eva Redhe

Bo Andersson Klint
CEO

Our audit report was submitted on 12 April 2018
Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg

Authorized Public Accountant

Annual general meeting and address

Annual general meeting 2018

The annual general meeting of shareholders in Starbreeze AB (publ), 556551-8932, will be held 9 May at 16.00 CET at Hotel Rival in

Stockholm. Shareholders who wish to attend the annual general meeting must:

- > Be entered in the register of shareholders kept by Euroclear AB by Thursday, 3 May 2018, and
- > Notify the company of their intent to attend the annual general meeting by 3 May 2018, preferable before 16.00 CET. Notice of participation in the annual general meeting must be made in writing to Starbreeze AB, "AGM", Box 7731, 103 95 Stockholm, Sweden, or by email to bolagsstamma@starbreeze.com. The notice must specify the shareholder's name, civic or company registration number, address, telephone number and shareholding.

To be eligible to attend the annual meeting, shareholders whose shares are nominee-registered must temporarily re-register their shares in their own names. Such registration must have been executed by Euroclear in the register of shareholders kept by Euroclear by 3 May 2018. This means that the shareholder must inform the nominee of such re-registration well in advance of that date.

Shareholders represented by proxy must issue a signed and dated proxy form for the proxy. If the proxy form is issued by a legal person, a certified copy of the certificate of incorporation or equivalent proof of company registration of the legal person must be appended. The proxy form and certificate of incorporation must have been issued within the past year. The original proxy form and, if applicable, the certified copy of the certificate of incorporation must be sent by post to Starbreeze.

Address

Starbreeze AB (publ)
Box 7731, 103 95 Stockholm, Sweden
Telephone: +46 (0) 8-209 208

Investor Relations: ir@starbreeze.com
Internet: starbreeze.com

AUDITOR'S REPORT

To the annual meeting of the shareholders in Starbreeze AB (publ), corporate registration number 556551-8932.

Report on the annual accounts and consolidated financial statements

Opinions

We have audited the annual accounts and consolidated accounts of Starbreeze AB (publ) for the 2017 financial year. The company's annual accounts and consolidated financial statements are presented on pages 63-105 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and of its financial performance and its cash flows for the year in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the statement of comprehensive income and the balance sheet for the group.

Our opinions in this report on the annual accounts and consolidated financial statements are consistent with the contents of the additional report provided to the audit committee of the parent company and the Group, in accordance with Regulation (EU) No 537/2014, Article 11.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the parent company and the Group in accordance with the ethical requirements relevant to our audit of the financial statements in Sweden and we have fulfilled our other ethical responsibilities in accordance with these requirements. This means that, to the best of our knowledge and conviction, no prohibited services as referred to in Regulation (EU) No 537/2014, Article 5 (1) have been provided to the audited entity, its parent undertaking or its controlled undertakings within the European Union.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our approach to the audit

Direction and scope of the audit

Starbreeze is a global game company and a developer and publisher of PC and console games and VR products aimed at the global market. The company operates through subsidiaries in Sweden, the United States, Luxembourg, France, Spain, Belgium and India. We designed our audit by establishing the level of materiality and assessing the risk of material misstatements in the financial statements. We have examined the Swedish subsidiaries and material items in the foreign subsidiaries. We particularly considered the areas in which the CEO and the board of directors have made subjective judgments, such as key accounting estimates made on the basis of assumptions and forecasts concerning future events, which are by nature uncertain. As in all audits, we have also considered the risk that the board of directors and the CEO are disregarding internal control procedures and have, inter alia, considered whether there is evidence of systematic non-conformances that have given rise to a risk of material misstatement due to irregularities.

We adapted our audit to perform an appropriate examination to enable us to express an opinion on the financial statements as a whole, with consideration given to the Group's structure, accounting processes and internal reviews and the industry within which the Group operates.

Materiality

The scope and direction of the audit is influenced by our materiality assessment. An audit is designed to achieve reasonable assurance as to whether the financial statements contain any material misstatements. Misstatements may arise due to irregularities or error. Misstatements are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based upon professional judgment, we established certain quantitative materiality levels, including for overall financial reporting. Using these and qualitative deliberations, we established the direction and scope of the audit and the nature, timing and scope of our audit checks, and assessed the impact of misstatements, individually and in the aggregate, on the financial statements as a whole.

Key audit matters

Key audit matters are those matters which, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated financial statements for the relevant reporting period. These matters were addressed in the context of our audit of the annual accounts and financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
<p>Impairment testing of goodwill and other intangible assets and investments in subsidiaries</p> <p>Goodwill and other intangible assets including capitalized costs for game and technology development amounted to SEK 1,785 million as of 31 December 2017. The company tested for impairment during the year. Material assumptions in connection with the impairment test are specified in Note 21 to the annual report and include estimates of future cash flows. Due to the extent of the estimates, we have assessed impairment testing of goodwill and other intangible assets and investments in subsidiaries as a key audit matter.</p>	<p>We have read management's assessment of whether there is any need to impair goodwill and other intangible assets and investments in subsidiaries. We evaluated the company's process for preparing forecast cash flows and the mathematical accuracy of the models used. We have also assessed material assumptions used in impairment testing. We focused in particular on the sensitivity of the calculations. Finally, we assessed whether the disclosures provided in the notes to the annual report are consistent with the tests performed. We found that the company's method and assumptions were consistently applied.</p>
<p>Capitalized expenditure for game and technology development</p> <p>As evident in the annual report, Starbreeze invests material amounts in game and technology development. As specified in Note 21 to the annual report, SEK 382 million was capitalized in 2017 and in total, capitalized costs for game and technology development amount to SEK 643 million in the balance sheet. The assessment of capitalizability and measurement of capitalized costs for game and technology development is a key audit matter.</p>	<p>We have read the company's specification of development projects in progress that have been capitalized as intangible assets during the financial year. We have selected projects at random and tested whether capitalization of these costs was due and proper. In order to determine whether capitalized costs were directly attributable to the projects, we tested underlying costs against supporting information, on a random-selection basis. We found no non-conformances in this examination.</p>
<p>Measurement of earnouts</p> <p>As evident in the annual report, liabilities for earnouts amount to SEK 348 million. The amount corresponds to the present value of estimated future economic outflows. The amount of the payments will depend on factors including future sales and the present value calculation is affected by several assessments, including the point in time at which the criteria for payment of the earnings are met. Due to the extent of the estimates, we have assessed the measurement of earnouts as a key audit matter.</p>	<p>We have examined the company's measurements of earnouts. We have reconciled the calculations against agreements on earnouts and have assessed material assumptions used in calculating future economic outflows. We evaluated the company's process for preparing forecast cash flows and the mathematical accuracy of the models used. We found that the company's method and assumptions were consistently applied.</p>

Information other than the annual accounts and consolidated accounts and the auditor's report thereon

This document also contains information other than the annual accounts and consolidated accounts and is found on pages 1-62. The board of directors and the CEO are responsible for the other information.

Our opinion on the annual accounts and consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts and consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts and consolidated financial statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors and the CEO

The board of directors and the CEO are responsible for the preparation of the annual accounts and consolidated financial statements and for their fair presentation in accordance with the Annual Accounts Act and, in respect of the consolidated financial statements, in accordance with IFRSs as adopted by the EU and the Annual Accounts Act. The board of directors and the CEO are also responsible for such internal control as management determines is necessary to enable the preparation of annual accounts and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and the consolidated financial statements, the board of directors and the CEO are responsible for assessing the company's and the Group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern assumption is, however, not applied if the board of directors and the CEO intend to liquidate the company or to cease

operations, or have no realistic alternative but to do so.

The duties of the board audit committee include monitoring the company's financial reporting, which shall not affect the duties and tasks of the board of directors otherwise.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could be reasonably expected to influence the financial decisions of users taken on the basis of these annual accounts and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment

and maintain professional scepticism throughout the audit. We also:

- > Identify and assess the risks of material misstatement of the annual accounts and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. . The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- > Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- > Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors and the CEO.
- > Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the annual accounts and consolidated financial statements. based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion on the annual accounts and consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- > Evaluate the overall presentation, structure and content of the annual accounts and consolidated financial statements, including the disclosures, and whether the annual accounts and consolidated financial statements represent the underlying transactions

and events in a manner that achieves fair presentation.

- > Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit. We also communicate significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We must also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Opinions

In addition to our audit of the annual accounts and consolidated financial statements, we have conducted an audit of the management of Starbreeze AB (publ) by the board of directors and CEO in 2017 and the proposal on disposition of the company's profit or loss.

We recommend to the annual meeting of shareholders that the profit be disposed in accordance with the proposal in the statutory administration report and that directors and the CEO be discharged from liability for the financial year.

Basis for opinion

We conducted the audit in accordance with generally accepted auditing

standards in Sweden. Our responsibilities under these standards are further described in the *Auditor's responsibilities* section of our report. We are independent of the parent company and the Group in accordance with the ethical requirements relevant to our audit of the financial statements in Sweden and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the board of directors and the CEO

The board of directors is responsible for the proposed disposition of the company's profit or loss. In connection with a proposed dividend, this involves, among else, assessment of whether the dividend is justifiable with consideration given to the demands with respect to the size of equity in the parent company and the group imposed by the nature, scope and risks associated with operations and the Group's consolidation requirements, liquidity and financial position in general.

The board of directors is responsible for the company's organization and for management of the company's affairs. Among else, this includes regular assessment of the company's and the group's financial position and ensuring that the company's organization is structured in such a manner that accounting, management of funds and the company's financial affairs in general are monitored in a satisfactory manner. The CEO shall attend to the day-to-day management of the company pursuant to guidelines and instructions issued by the board of directors and, among else, take the measures necessary to ensure that the company's accounting records are prepared and maintained pursuant to law and that management of funds is conducted in a sound manner.

Auditor's responsibilities

Our objective regarding the audit of management, and thus our opinion concerning discharge of liability, is to obtain audit evidence sufficient to assess, with reasonable assurance, whether any director or the CEO in any material respect has:

- > Undertaken any action or committed a negligent breach that may result in liability to the company.

> In any other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective regarding audit of the proposed disposition of the company's profit or loss, and thus our opinion on the proposal, is to assess with reasonable assurance whether the proposal is consistent with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect measures or negligence that might result in liability to the company or that a proposed disposition of the company's profit or loss is not consistent with the Companies Act.

As part of an audit in accordance with generally accepted auditing practices in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The audit of management and the proposed disposition of the company's profit or loss is based primarily on the audit of the accounting records. Any additional audit measures taken are based on our professional judgment, proceeding from risk and materiality. This means that we focus our audit on such actions, areas and circumstances that are material to the business and where departures and breaches would have significant impact on the company's situation. We review and examine decisions taken, bases for decision, actions taken and other circumstances relevant to our opinion on discharge of liability. As a basis for our opinion on the board of directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed statutory auditor for Starbreeze AB (publ) by the general meeting held 11 May 2017 and has been the company's statutory auditor since 25 September 2000.

Stockholm, 12 April 2018

Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg

Authorized Public Accountant

