

Q3

2017

KEY FIGURES	2017	2016	2017	2016	2016
SEKk	Q3	Q3	JAN - SEP	JAN - SEP	JAN - DEC
Net sales	77,726	102,707	257,694	246,098	345,463
EBITDA	-21,859	19,218	-59,875	42,431	81,220
Profit (-loss) before tax	-35,330	11,032	-108,333	23,562	57,091
Earnings per share, SEK	-0.11	0.08	-0.33	0.11	0.22
Cash flow from operations	59,575	36,962	23,246	-747	15,291
Net sales per employee	268	646	1,007	1,841	2,288

LEVELING UP STARBREEZE

CEO BO ANDERSSON KLINT REMARKS ON THE REPORT

Net sales for the third quarter reached SEK 77.7 million, an increase by 11 percent excluding non-recurring revenue last year. PAYDAY and Dead by Daylight generated revenues on par with the third quarter of 2016, even though the games are one year older. We are in an expansive phase with ongoing initiatives in all business areas, which will affect profitability in the short term. The aim of these initiatives is to level up Starbreeze and achieve revenues exceeding SEK 2 billion by 2020.

THIRD QUARTER 2017

- Net sales amounted to SEK 77.7 million (102.7 including non-recurring revenue of SEK 32.5 million).
- PAYDAY generated SEK 24.4 million (20.9) and Dead by Daylight accounted for SEK 47.3 million (49.2) of net sales.
- EBITDA amounted to SEK -21.9 million (19.2).
- The loss before tax was SEK -35.3 million (11.0).
- Basic and diluted earnings per share were SEK -0.11 (0.08).
- Listing on Nasdaq Stockholm Main Market
- Agreement signed to be lead partner to the new VR center in Dubai.
- New loan financing of SEK 150 million from Nordea.
- Agreements after the period included a new financing plan for StarVR Corp. and finalization of the acquisition of Dhruva Interactive.

JANUARY–SEPTEMBER 2017

- Net sales increased by 5 percent to SEK 257.7 million (246.1).
- PAYDAY generated SEK 99.9 million (124.5) and Dead by Daylight accounted for SEK 134.0 million (89.1).
- EBITDA amounted to SEK -59.9 million (42.4).
- The loss before tax was SEK -108.3 million (23.6).
- Basic and diluted earnings per share were SEK -0.33 (0.11).
- Cash and cash equivalents at the end of the period amounted to SEK 431.5 million (376.0).

ABOUT STARBREEZE

Starbreeze is an independent creator, publisher and distributor of high-quality entertainment products. With studios in Stockholm, Paris, Los Angeles, Barcelona, Brussels and India, we create games and virtual reality products of our own design and with licensed content. The hottest Starbreeze game titles include *PAYDAY 2*®, the VR-shooter *John Wick Chronicles* and the upcoming survival shooter, *OVERKILL's The Walking Dead*. Under its publishing initiative, Starbreeze has together with Canadian studio Behaviour Digital successfully launched horror thriller *Dead by Daylight*.

Starbreeze is creating truly immersive virtual reality (VR) experiences by integrating software and hardware in the company's StarVR® headset, produced in partnership with Acer. Together with wholly owned subsidiary Enterspace, Starbreeze further solidifies its presence in location-based entertainment. StarVR can additionally be found at IMAX VR Centers in Los Angeles and New York.

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

More information: starbreeze.com

Q3
2017

800,000

downloads of

DEAD BY DAYLIGHT

for console during the "Free 2 Play"
weekend in September.



LEVELING UP STARBREEZE

CEO Bo Andersson Klint remarks on the report:

This quarter marked an extraordinary event for Starbreeze: we moved lists to be traded on Nasdaq Main Market. Starbreeze, as one of northern Europe's first independent listed game studios has finally taken the big leap as the first AAA game developer on the main market. In and of itself, the listing is a quality stamp that gives us better access to Swedish and international capital markets and its institutional investors. This is a legacy the company has carried for 17 years and as the company turns 20 next year, we hope to continue to add shareholder value over the next decade and beyond.

11 PERCENT GROWTH

Net sales for the third quarter reached SEK 77.7 million, an increase by 11 percent excluding non-recurring revenue last year. PAYDAY and Dead by Daylight generated revenues on par with the third quarter of 2016, even though the games are one year older. Our Games as a Service is still delivering and generating revenue.

However, RAID: World War II has so far underperformed our expectations. We had expected a larger contribution from the game as of this quarter, although we knew it takes time and is riskier to build a new IP. We are working closely with the team at Lion Game Lion to improve and update the game according to our Games as a Service concept. We are looking at various components of the game and its market conditions and will be tweaking RAID: World War II over the next few months.

EXPANSIVE PHASE ENTAILS SHORT-TERM IMPACT ON PROFITABILITY

We are in an expansive phase of ongoing initiatives in all business areas. Compared to last year, we have significantly higher activity in our core business, with expanded teams in own game development and a higher number of publishing titles. Costs are increasing, but at a slower rate than last year, and have declined compared to last quarter.

Ongoing initiatives are having short-term impact on profitability and cash flow and we are reporting EBITDA of SEK -21,9 million for the third quarter, compared to SEK 19.2 million for Q3 2016. Cash flow from operating activities was strong, however, at SEK 59.6 million (37.0) for the quarter.

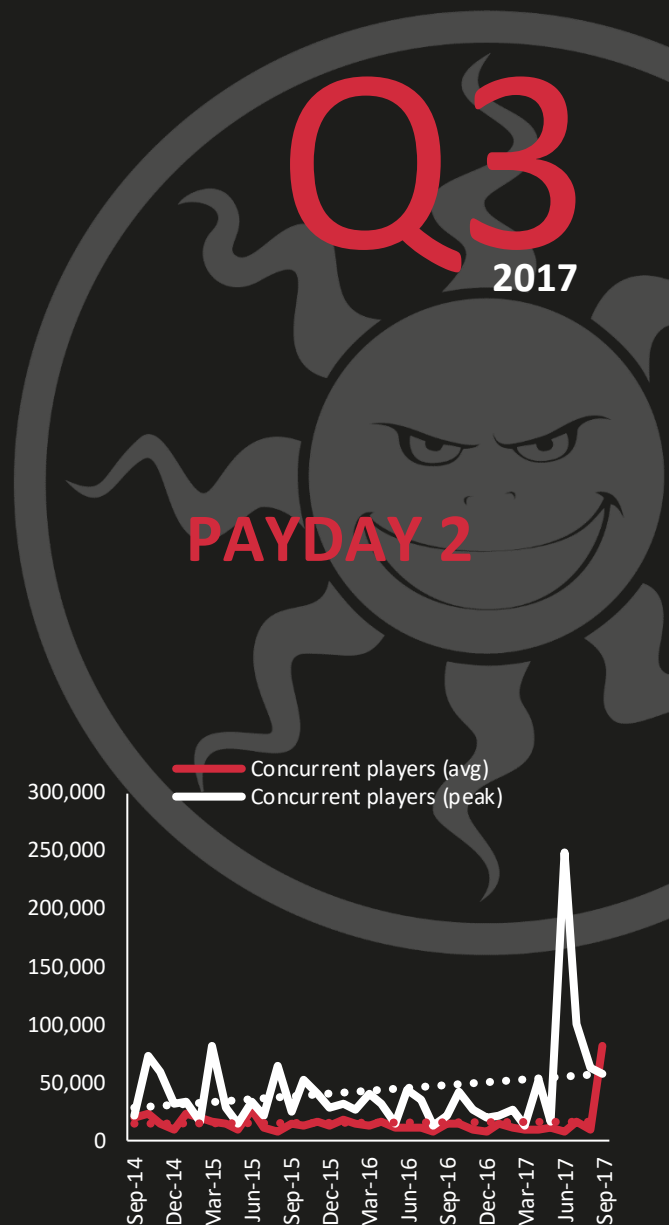
INITIATIVES ARE POWERING SUBSTANTIAL VALUE CREATION

We are investing in creating substantial value for our shareholders. In order to more clearly demonstrate our ambitions, we published new financial goals ahead of the listing on Nasdaq Stockholm. One of our targets is to achieve revenues of at least SEK 2 billion in 2020, not including PAYDAY 3. The majority of the revenues will be generated by our own game development. We also see tremendous growth potential in a continued expansion of the publishing game portfolio, new platforms like VR and new geographical markets.

We also expect significantly higher profitability because our business model is scalable in several dimensions, with rising revenues and a relatively constant cost base. Our target is to generate positive EBITDA for the fourth quarter of 2018 and for every subsequent quarter on an annual basis. Our targets reflect our current quest to level up Starbreeze.

FOCUS ON OWN GAME DEVELOPMENT

Although we greatly believe our Publishing arm as well as our initiatives in Virtual Reality will be fruitful and a powerful additive to our revenue mix, the



Source: steamcharts.com

At peak

99,900

played PAYDAY 2
concurrently in July

greater margins will in the medium term be found within our own development.

We will continue to develop games where the gameplay sets the stage for ongoing development and new updates for the lifetime of the game. Accordingly, our primary focus is to ensure that the organization has the capacity to develop major game titles while delivering a steady stream of new content that enhances previously released games to extend their lifetime. The plan is to have at least three parallel development teams and to optimize team staffing for ongoing game projects.

THE PUBLISHING BUSINESS IS WIDENING THE GAME PORTFOLIO

We will continue expanding the game portfolio in the Publishing business as we see positive effects from greater scalability through lower risk per game in the development phase and reduced use of internal resources per game. Greater scalability means that we are able to expand the portfolio to bring more games to the market in parallel and over time. With a broader portfolio of games produced by external teams, the risk factor will be mitigated if a project does not perform as we have initially wished.

We have several proven strong titles in our Publishing portfolio to look forward to, including notable IPs such as Psychonauts 2 and System Shock 3.

PARTNERING IN VR VENTURES

The questions we are asked most often about our VR ventures is why we – a game company – should engage in hardware production and how we can compete with other tech giants.

Starbreeze remains fully committed to its virtual reality expansion and the answer is twofold. One, we firmly believe virtual reality is one of the emerging techs that is here to stay and we aim to be one of the future key stakeholders in creating immersive experiences, now and in the future.

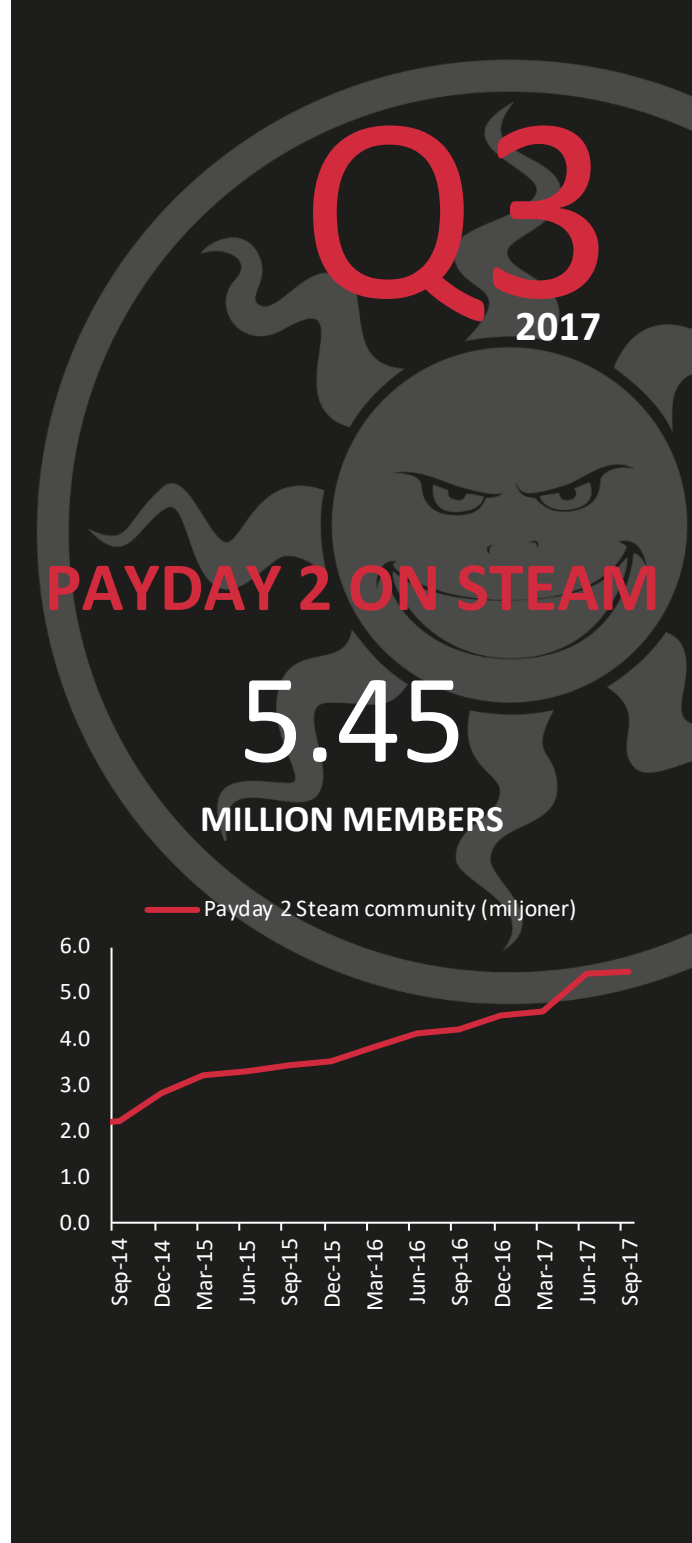
Secondly, we found that while the consumer market was alluring, the B2B market has great potential where we have an opportunity to take a strong position. Finding the right partner to bring the product to market has been key, and with our collaboration with Acer and through the creation of the StarVR joint venture, we're well positioned to take market share in the B2B space.

With the Dubai project getting closer to its launch, we'll be able to finally show the realization of what a 21st century theme park, all in VR, could be like. With 7,000 m² of total space and millions of people walking by the location every year, we're set to take virtual reality arcades to the next level. As lead supplier we will initially have seven experiences in the center.

We remain dedicated to our VR venture. We are looking to be smart about our investments and make sure we get maximum benefit from all of them. We have driven design and technical innovation within the framework of our VR partnership with Acer. The time is now right to gear up the investment in the joint venture company and get the headset onto the B2B market and into VR centers. This phase is capital intensive and Acer will be taking on a larger share of the financing and, accordingly, a larger stake in the joint venture.

With Acer as our strategic partner and with their financial muscle, we can focus our resources on our core business – *Content is still king!*

Bo Andersson Klint



SIGNIFICANT EVENTS DURING THE QUARTER

Q3

2017

LISTING ON NASDAQ STOCKHOLM

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.

NEW FINANCIAL TARGETS

The board of directors adopted new financial targets in conjunction with the listing on Nasdaq Stockholm. The aim is to achieve revenues of at least SEK 2 billion in 2020 and generate positive EBITDA for the fourth quarter of 2018 and for every subsequent quarter, on an annual basis.

AGREEMENT ON NEW VR CENTER IN DUBAI

Starbreeze signed a five-year partnership agreement on a new VR center in Dubai in August. Under the agreement, Starbreeze will be the lead partner to the VR center, providing operational experience, installation and content. The new VR center is being financed in part by a new loan from Nordea, guaranteed by the Swedish Export Credit Agency, and in part by the joint venture company StarVR Corp. Starbreeze will retain 20-25 percent of future net revenues from ticket sales at the VR center and, indirectly, a share of the revenues retained as owner of the joint venture.

NEW LOAN FINANCING

In addition to the project financing for the VR center in Dubai, Nordea granted a loan of SEK 150 million to Starbreeze on customary market terms, of which SEK 100 million had been drawn down by the end of the period.

RELEASE OF RAID AND ANTISPHERE

Starbreeze, Lion Game Lion and 505 Games jointly released the publishing title RAID: World War II for PC on 26 September. The title was released for PlayStation 4 and Xbox One after the end of the period. The initial response to the game was less enthusiastic than expected and measures have been taken to increase sales. A minimum guarantee of SEK 32.5 million, related to the console version of the game, was received during the third quarter of 2016.

Antisphere, the company's first minor Indielabs title, was released on Steam for PC in July. Consequent upon low sales for the PC version, Starbreeze decided not to invest further in the title's console release.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

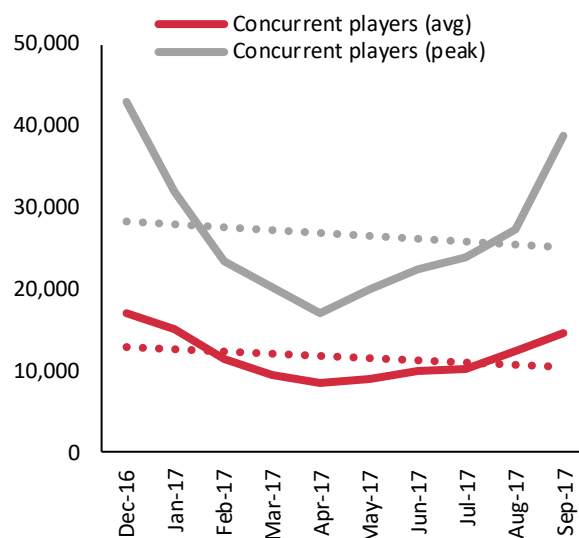
New financing plan for StarVR Corporation

After the end of the period, Starbreeze and Acer agreed on a new financing plan for the joint venture StarVR Corp, under which Starbreeze was released from its commitment to provide an additional USD 7.5 million, while Acer will provide a capital injection of SEK 5 million. Consequently, Starbreeze now owns a 33.3 percent interest in the company. Starbreeze continues to own the related IP and will support the continuous R&D of the VR headset.

Acquisition of Dhruva Interactive

Starbreeze and the owners of Indian production company Dhruva Interactive agreed in August to finalize the acquisition of 90.5 percent of the shares 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 worth USD 1.5 million. The agreement also contained a five-year earnout capped at USD 0.5 million.

At peak,
38,698
played
DEAD BY DAYLIGHT
concurrently during the quarter



SALES AND PROFIT

Q3

2017

The comparison period for profit and loss is the corresponding period in the preceding year.

SALES

Third quarter 2017

Net sales amounted to SEK 77.7 million (102.7). Of the total, PAYDAY generated SEK 24.4 million (20.9) and Dead by Daylight SEK 47.3 million (49.2). Adjusted for the minimum guarantee of SEK 32.5 million in royalties for the physical console version of RAID: World War II received during the third quarter of 2016, net sales increased by 11 percent.

Capitalized development costs for the quarter amounted to SEK 58.5 million (38.8). The increase was driven mainly by higher activity in the OVERKILL's The Walking Dead project and development of the StarVR headset.

Other operating revenue, consisting of currency effects, decreased to SEK 0.0 million (5.9).

Consolidated net sales, capitalized development costs and other operating revenue totaled SEK 136.2 million (147.4).

The nine-months period (January–September 2017)

Net sales increased by 5 percent to SEK 257.7 million (246.1). Of the total, PAYDAY generated SEK 99.9 million (124.5) and Dead by Daylight SEK 134.0 million (89.1). The growth is mainly attributed to the release of the console versions of Dead by Daylight in the second quarter of 2017. Starbreeze also received non-recurring revenue of SEK 22.0 million during the period for the sale of the game's physical console rights.

Capitalized development costs for the quarter amounted to SEK 164.9 million (101.8). The increase was driven mainly by higher activity in the OVERKILL's The Walking Dead project and development of the StarVR headset.

Other operating revenue, consisting of currency effects, decreased to SEK 0.0 million (9.7).

Consolidated net sales, capitalized development costs and other operating revenue totaled SEK 422.6 million (357.6).

COSTS AND PROFIT

Third quarter 2017

Other external expenses increased to SEK 99.7 million (79.0), including SEK 19.7 million (24.2) in royalties to partners in the Publishing business. Costs for purchased services related to game development increased to SEK 49.9 million (18.0). Costs for office and production space also increased to SEK 10.9 million (5.1) due to expansion of premises in Stockholm, Los Angeles and Redwood City.

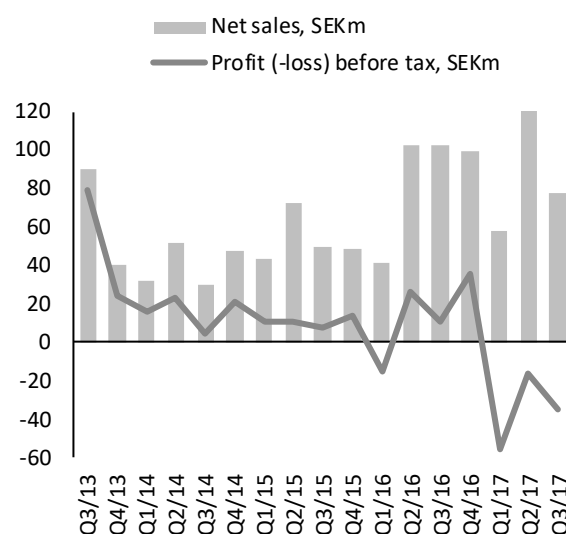
Employee benefits expense increased by 14 percent to SEK 54.1 million (47.5), driven mainly by acquisitions, but also staff additions in the Starbreeze Games business area in Stockholm.

Other operating expenses, consisting of currency effects, increased to SEK 4.2 million (1.6) due to depreciation in the dollar rate by -4 percent (+2 percent) against the Swedish krona.

Compared to Q3 2016, costs excluding royalties to partners increased by 39 percent, driven mainly by higher activity in the company's core business. Earnings were further impacted by costs that cannot be capitalized because the projects have not reached a sufficient percentage of completion.

SALES AND PROFIT

	2017	2016
SEKk	Q3	Q3
Net sales	77,726	102,707
EBITDA	-21,859	19,218
Profit (-loss) before tax	-35,330	11,032
Profit (-loss) after tax	-31,737	20,402
Earnings per share, SEK	-0.11	0.08
Exchange differences	-9,334	4,523
Net sales growth, %	-24.3	42.9
EBITDA margin, %	-16.1	13.0



EBITDA amounted to SEK -21.9 million (19.2). The loss before tax was SEK -35.3 million (11.0). The loss after tax was SEK -31.7 million (20.4).

Basic and diluted earnings per share were SEK -0.11 (0.08).

The nine-months period (January--September 2017)

Other external expenses increased to SEK 307.2 million (201.0), including SEK 65.0 million (36.3) in royalties to partners in the Publishing business. Costs for purchased services related to game development increased to SEK 112.1 million (77.3). Office costs increased to SEK 29.5 million (16.0) as a consequence of acquisitions and expansion of premises in Stockholm and elsewhere. Trade show costs increased to SEK 16.4 million (11.1).

Employee benefits expense increased to SEK 165.0 million (112.5), mainly as a consequence of acquisitions, but also staff additions in the Starbreeze Games business area in Stockholm.

Other operating expenses, consisting of currency effects, increased to SEK 10.3 million (1.6) due to depreciation in the dollar rate by -11 percent (+3 percent) against the Swedish krona.

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 -59.9 million (42.4). The loss before tax was SEK -108.3 million (23.6). The loss after tax was SEK -92.3 million (26.9).

Basic and diluted earnings per share were SEK -0.33 (0.11).

Q3

2017

DISTRIBUTION OF NET SALES FOR THE QUARTER

■ Dead by Daylight ■ Payday 2 ■ Other



DISTRIBUTION OF NET SALES FOR THE QUARTER

■ PC ■ Console



SEGMENT REPORTING

Q3

2017

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

STARBREEZE GAMES

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

Third quarter 2017

Net sales rose by 16 percent to SEK 24.4 million (21.0), with the Starbreeze-developed game PAYDAY 2 accounting for the lion's share. The increase consists mainly of console revenues of SEK 11.9 million (0.0) for PAYDAY, as the console game has earned in the advance of USD 5 million from 505 Games.

Development costs of SEK 34.4 million (20.7) were capitalized during the quarter, with the increase primarily driven by higher activity in the OVERKILL'S The Walking Dead project.

The operating loss was SEK -8.6 million (10.0). Operating expenses increased by SEK 33.9 million compared to the preceding year, mainly due to higher activity in the OVERKILL'S The Walking Dead project and the Crossfire production having entered a more intensive phase. Earnings were also affected by exchange losses of SEK -7.2 million (gain: 1.8 million).

The nine-months period (January--September 2017)

Net sales amounted to SEK 99.9 million (124.5), with PAYDAY 2 accounting for the majority. 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 88.0 million (54.3) were capitalized during the period and the increase was primarily driven by higher activity in the OVERKILL'S The Walking Dead project.

Operating profit was SEK 8.1 million (60.1). Operating expenses increased by SEK 56.1 million compared to the preceding year, mainly due to higher activity in the OVERKILL'S The Walking Dead project and the Crossfire production having entered a more intensive phase. Earnings were also affected by exchange losses of SEK -14.5 million (gain: 5.0 million).

After the end of the period

Revenues from sales of PAYDAY 2 via the Steam platform in October 2017 amounted to SEK 6.6 million (16.3).

	2017	2016	2017	2016
SEKk	Q3	Q3	JAN - SEP	JAN - SEP
Starbreeze Games				
Net sales	24,431	21,011	99,908	124,511
Capitalized development costs	34,419	20,685	88,028	54,311
Other operating revenue	-	1,833	-	5,007
Total	58,850	43,529	187,936	183,829
Operating costs	-67,414	-33,515	-179,840	-123,770
Operating profit (-loss)	-8,564	10,014	8,096	60,059



PUBLISHING

Starbreeze publishes games developed by third parties in the Publishing business area. Revenues currently comprise mainly royalties for the rights to *Dead by Daylight*.

Third quarter 2017

Net sales amounted to SEK 50.5 million (81.7), of which *Dead by Daylight* accounted for SEK 47.3 million (49.2) and *RAID: World War II* for SEK 2.9 million (32.5). 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: World War II*, which should be considered in the context of comparison.

Development costs of SEK 9.9 million (10.7) were capitalized during the quarter, which refer to production costs for publishing titles.

The operating loss was SEK -1.4 million (33.4). Earnings were reduced by costs of SEK 19.7 million (24.2) in royalties to partners and costs of SEK 10.4 million for further development of *Dead by Daylight*. As the game has already been released, the costs of further development of *Dead by Daylight* are recognized as an expense. Earnings were also reduced by exchange losses of SEK -0.4 million (gain: 2.0 million) and amortization of intangible assets of SEK 6.4 million (2.2).

The nine-months period (January–September 2017)

Net sales amounted to SEK 145.3 million (121.6), of which *Dead by Daylight* accounted for SEK 134.0 million (89.1) and *RAID: World War II* for SEK 2.9 million (32.5). The growth is primarily attributable to 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. *John Wick: Chronicles* accounted for SEK 8.0 million (0.0). Development costs of SEK 25.1 million (24.5) were capitalized during the period.

The operating loss was SEK -11.1 million (49.0). Earnings were reduced by costs of SEK 65.0 million (36.3) in royalties to partners and costs of SEK 27.8 million for further development of *Dead by Daylight* and the VR game, *The Mummy*. Earnings were also reduced by exchange losses of SEK -5.3 million (gain: 3.3 million) and amortization of intangible assets of SEK 22.7 million (3.0).

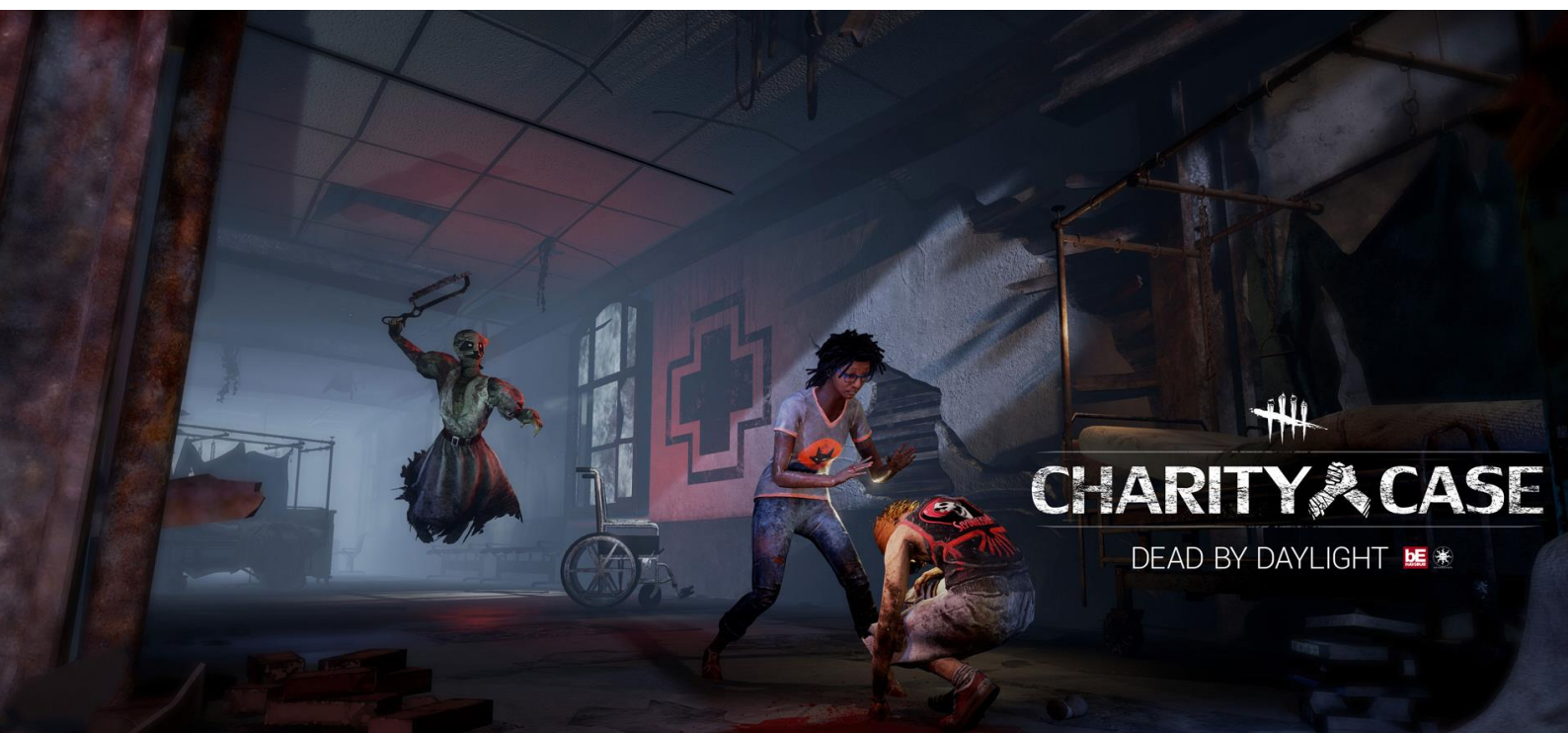
After the end of the period

Revenues in October 2017 from sales of *Dead by Daylight* via the Steam platform amounted to SEK 15.2 million (17.8), and from sales of *RAID: World War II* of SEK 0.5 million (0.0).

Q3

2017

	2017	2016	2017	2016
SEKk	Q3	Q3	JAN - SEP	JAN - SEP
Publishing				
Net sales	50,455	81,695	145,276	121,565
Capitalized development costs	9,854	10,719	25,064	24,474
Other operating revenue	-	2,017	-	3,324
Total	60,309	94,431	170,340	149,362
Operating costs	-61,783	-60,997	-181,476	-100,374
Operating profit (-loss)	-1,474	33,434	-11,136	48,988



VR TECH & OPERATIONS

The VR Tech & Operations business area consists of virtual reality (VR) technology and software development by Starbreeze, including the development of the StarVR headset and the VR movie format Presenz. Revenues and costs for VR centers are also included as of the third quarter. Profit or loss from the joint venture with Acer, StarVR Corp, are reported as financial income or expense and thus not included in operating profit or loss.

Q3

2017

Third quarter 2017

Net sales, which will comprise license revenues from the various technologies and revenues generated by VR centers, amounted to SEK 0.0 million (0.0), as these have not yet reached full commercialization or have not yet opened.

Development costs of SEK 14.2 million (7.2) were capitalized during the quarter. The increase was driven mainly by the build-up of VR centers in Stockholm and Dubai and higher activity in the development of the StarVR headset. Other operating revenue, consisting of currency effects, amounted to SEK 0.0 million (1.3). The operating loss was SEK -9.0 million (-7.0).

The nine-months period (January–September 2017)

Net sales amounted to SEK 0.0 million (0.0). Development costs of SEK 51.8 million (22.7) were capitalized during the period. The increase was driven mainly by the build-up of VR centers in Stockholm and Dubai and higher activity in the development of the StarVR headset. Other operating revenue, consisting of currency effects, amounted to SEK 0 million (2.5). The operating loss was SEK -5.6 million (-24.0).

OTHER

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

Third quarter 2017

Net sales amounted to SEK 2.8 million (0.0) and consist primarily of the Group's VFX business. Development costs of SEK 0.0 million (0.2) were capitalized during the quarter. Other operating revenue, consisting of currency effects, amounted to SEK 0.0 million (0.8). The operating loss was SEK -20.0 million (-25.1).

The nine-months period (January–September 2017)

Net sales amounted to SEK 12.5 million (0.0). Development costs of SEK 0.0 million (0.3) were capitalized during the period. Other operating revenue, consisting of currency effects, amounted to SEK 0.0 million (-1.2). The operating loss was SEK -99.8 million (-60.4). Earnings were reduced by non-recurring acquisition costs, listing costs and consultancy costs.

	2017	2016	2017	2016
SEKk	Q3	Q3	JAN - SEP	JAN - SEP
VR Tech & Operations				
Net sales	-	-	-	-
Capitalized development costs	14,188	7,167	51,840	22,701
Other operating revenue	-	1,264	-	2,501
Total	14,188	8,431	51,840	25,201
Operating costs	-23,156	-15,395	-57,435	-49,247
Operating profit (-loss)	-8,968	-6,964	-5,595	-24,046

	2017	2016	2017	2016
SEKk	Q3	Q3	JAN - SEP	JAN - SEP
Other				
Net sales	2,840	-	12,510	22
Capitalized development costs	-	226	-	303
Other operating revenue	-	761	-	-1,162
Total	2,840	987	12,510	-837
Operating costs	-22,849	-26,052	-112,314	-59,513
Operating profit (-loss)	-20,009	-25,065	-99,804	-60,351



OTHER FINANCIAL INFORMATION

Q3

2017

The comparison period for cash flow is the corresponding period in the preceding year. The comparison period for balance sheet items is the balance on 31 December 2016.

FINANCIAL POSITION

Goodwill at the end of the period amounted to SEK 462.2 million (404.5). Goodwill is recognized using the exchange rate on the reporting date. The acquisition of Enterspace increased this item in the balance sheet by SEK 68.8 million as of acquisition date. The preliminary acquisition analysis for Starbreeze Paris (formerly ePawn) was completed, which 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 576.7 million (594.7).

Capitalized development costs increased by SEK 278.5 million to SEK 582.3 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 186.0 million (71.7), which are posted directly to the balance sheet and are therefore not included in capitalized development costs on the income statement, are also included but do not affect cash flow.

Intangible assets were amortized by SEK 37.7 million (14.1) during the nine-months period. Trade and other receivables amounted to SEK 14.1 million (25.6). Prepaid expenses and accrued income at the end of the quarter amounted to SEK 107.2 million (56.2), of which SEK 58.4 million (35.1) related to receivables for digital sales, primarily via Steam, PlayStation Store and Xbox Live.

Deferred tax assets relating to outstanding loss carryforwards in the parent company Starbreeze AB amounted to SEK 20.1 million (5.3) at the end of the quarter. Deferred tax assets relating to outstanding loss carryforwards in foreign subsidiaries amounted to SEK 28.8 million (12.1). In the Swedish subsidiaries, deferred tax assets relating to loss carryforwards amounted to SEK 40.2 million (13.4). The increase is due to the Group having reported a loss.

Consolidated equity on the reporting date amounted to SEK 1,318.4 million (1,370.2) and the equity to assets ratio was 54.9 percent (63.8).

Non-current liabilities for earnouts increased to SEK 327.9 million (307.1). The balance sheet item relates to earnouts for completed company acquisitions, primarily Nozon and Parallaxter. The acquisition of Enterspace increased this item in the balance sheet by SEK 46.8 million. During the period, there was a reduction of the liability of SEK 17.1 million for the earnout for ePawn.

Trade and other payables at the end of the quarter amounted to SEK 126.8 million (42.0), of which SEK 41.6 million relates to development advances for OVERKILL's The Walking Dead. Accrued expenses and deferred income at the end of the quarter amounted to SEK 88.0 million (45.0). The increase was driven primarily by the recently acquired company Enterspace and refers mainly to the build-up of the VR center in Dubai. The revenue share liability for Dead by Daylight increased from SEK 13.1 million to SEK 16.1 million due to increased sales.

CASH FLOW

Third quarter 2017

Cash and cash equivalents at the beginning of the quarter amounted to SEK 384.2 million (328.4).

CASH AND CASH EQUIVALENTS

431.5 MILLION



Cash flow from operating activities amounted to SEK 59.6 million (37.0). The improvement was achieved through more efficient management of the Group's working capital. Cash flow from (-used in) investing activities was SEK -133.5 million (-60.8). See also the "Investments" section below. Cash flow from financing activities was SEK 121.2 million (70.1). The increase arises from an operating loan from Nordea that increased cash reserves by SEK 100.0 million.

Total cash flow for the quarter was SEK 47.2 million (46.3). Cash and cash equivalents at the end of the period amounted to SEK 431.5 million (376.0)

The nine-months period (January–September 2017)

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 23.2 million (-0.7). Cash flow from (-used in) investing activities was SEK -401.0 million (-170.8). Cash flow from financing activities was SEK 143.2 million (463.6).

Total cash flow for (-used in) the period was SEK -234.6 million (292.0). Cash and cash equivalents at the end of the period amounted to SEK 431.5 million (376.0)

INVESTMENTS

During the second quarter, the Group's investments in property, plant and equipment amounted to SEK 15.2 million (3.3), investments in the form of capitalized expenditure for game development amounted to SEK 112.3 million (38.9) and investments through corporate acquisitions amounted to SEK 0.0 million (0.0).

During the nine-months period, the Group's investments in property, plant and equipment amounted to SEK 44.4 million (6.1), investments in the form of capitalized expenditure for game development amounted to SEK 295.8 million (128.0) and investments through corporate acquisitions amounted to SEK +0.3 million (-12.5). Investment in other non-current financial assets increased to SEK 61.1 million (8.9), including SEK 37.5 million in the joint venture company StarVR Corp. and SEK 21.8 million in loan receivables, primarily in Enterspace AB and an American start-up company.

PARENT COMPANY

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

The parent company's net sales for the third quarter of 2017 amounted to SEK 23.2 million (0.5). Sales refer primarily to allocation of management fees. The loss before tax for the same period was SEK -11.7 million (-5.2) and the loss after tax was SEK -9.3 million (-3.9).

The parent company's net sales for the nine-months period amounted to SEK 47.1 million (65.2). The loss before tax for the same period was SEK -69.0 million (-7.0) and the loss after tax was SEK -54.1 million (-5.7). Cash and cash equivalents at the end of the period amounted to SEK 204.9 million (540.1) and parent company equity was SEK 1,205.4 million (1,222.0).

Investments in subsidiaries increased by SEK 446.8 million to SEK 1,136.9 million (690.1), with the increase consisting mainly of shareholder contributions to subsidiaries of SEK 254.7 million, the acquisition of Enterspace of SEK 66.8 million and the internal purchase of Starbreeze IP Lux II. Investments in joint ventures increased by SEK 37.5 million to SEK 46.0 million (8.5) through a capital injection to StarVR Corp. Non-current liabilities consisting of convertible bonds and earnouts increased by SEK 41.9 million to SEK 607.1 million (565.2), primarily due to the acquisition of Enterspace, where the earnout was valued at SEK 46.8 million as of the reporting date.

CASH FLOW FROM OPERATING ACTIVITIES:

61.2 MILLION



EMPLOYEES

Starbreeze had 303 (176) employees at the end of the period, of whom 258 men and 45 women. The increase is mainly due to completed acquisitions, but is also a consequence of staff additions in game development in Stockholm. The average number of full-time employees for the quarter was 290 (159). The average age was 34 (33).

THE SHARE

The Starbreeze share has been listed in the Mid Cap segment on 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 period, the closing price was SEK 11.10 (23.30) for the class A share and SEK 11.35 (23.20) for the class B share. Total market capitalization amounted to SEK 3,187 million (5,997).

SHARE CAPITAL

At the end of the period, share capital was SEK 5,640 thousand (5,165) distributed among 282,017,858 shares (258,256,576), of which 55,971,982 class A shares (57,465,828) and 226,045,876 class B shares (220,790,748).

During the period, the number of class B shares increased by 1,071,203 through a non-cash issue in connection with the acquisition of Enterspace and issuance of 4,066,935 class B shares through exercise of warrants. Of the exercised warrants, 2,000,000 class B shares related to the settlement of a hedge for employee stock options, which increased consolidated equity by SEK 30.9 million.

SHAREHOLDERS

Starbreeze had 27,107 shareholders (26,419) at the end of the period. A list of the company's ten largest shareholders is updated monthly on the company's website at starbreeze.com.

NOMINATION COMMITTEE AND 2018 ANNUAL GENERAL MEETING

The nomination committee leading up to the 2018 AGM was announced on 15 September. The committee members are: Åsa Nisell, appointed by Swedbank Robur Fonder; Olof Jonasson, appointed by Första AP-fonden; and Chairman of the Board Michael Hjorth, appointed by Indian Nation. Åsa Nisell was appointed chair of the nomination committee.

The 2018 AGM will be held in Stockholm on 9 May 2018 at 16:00 CET.

ACCOUNTING AND MEASUREMENT POLICIES

This interim report has been prepared in accordance IAS 34, Interim Financial Reporting. The accounting policies and calculation methods are the same as those applied in the Annual Report 2016. As of the second quarter of 2017, Starbreeze reports by operating segment. See the Segment Reporting section.

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

Impact of forthcoming standards

IFRS 15: The analysis in the Annual Report 2016 is unchanged. Starbreeze will quantify the effects of this in the year-end report for 2017. IFRS 9: The Group has begun an analysis. Once this is completed the impact will be reported.

RISKS AND UNCERTAINTIES

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

EMPLOYEE KEY DATA

	2017	2016
	Q3	Q3
Employees	303	176
Men	258	453
Women	45	23
Net profit (-loss) per employee	-105 SEKk	116 SEKk

303

EMPLOYEES AT STARBREEZE

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

The largest risks and uncertainties are low revenues in connection with game releases and project delays. These and other risks such as copyright infringements, loss of key people and exchange rate fluctuations are described in the Starbreeze Annual Report 2016 in the Report of the Board of Directors on page 57, and in Note 3. Furthermore, the value of certain assets and liabilities is based on expected outcomes. Consequently, these items must be regularly remeasured and thus may affect future profit and loss.

Based upon the sales trend for PAYDAY 2 and Dead by Daylight, the release of new games and the capital contributed by Smilegate, Acer, Första AP-fonden (a Swedish national pension fund) and others in 2016, as well as the loan financing taken up during the third quarter of 2017, 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.

RELATED-PARTY TRANSACTIONS

There were no transactions with related parties during the period.

AUDITOR'S REVIEW

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

INVESTOR RELATIONS

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

FOR FURTHER INFORMATION

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

The Board of Directors and CEO certify that this report provides a true and fair overview of the operations, financial position and results of the parent company and the Group and describes the significant risks and uncertainties faced by the parent company and the companies included in the Group.

Stockholm, 16 November 2017

Michael Hjorth
Chairman

Directors

Ulrika Hagdahl Hyung Nam Kim (Harold Kim)

Matias Myllyrinne Eva Redhe

Bo Andersson Klint
CEO

Starbreeze AB is required to disclose this information under the EU Market Abuse Regulation and the Securities Market Act. The information was provided by the above contact persons for publication on 16 November 2017 at 08:00 CET.



Q3
2017

FINANCIAL CALENDAR

YEAR-END REPORT 2017

15 February 2018

ANNUAL REPORT 2017

12 April 2018

INTERIM REPORT Q1 2018

9 May 2018

INTERIM REPORT Q2 2018

21 August 2018

INTERIM REPORT Q3 2018

6 November 2018

YEAR-END REPORT 2018

5 February 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEKk	2017	2016	2017	2016	2016
	Q3	Q3	JAN - SEP	JAN - SEP	JAN - DEC
Net sales	77,726	102,707	257,694	246,098	345,463
Capitalized development costs	58,462	38,797	164,932	101,789	154,450
Other operating revenue	-	5,875	-	9,670	23,132
Total	136,188	147,379	422,626	357,557	523,045
Other external expenses	-99,735	-79,003	-307,219	-201,006	-292,106
Employee benefits expense	-54,098	-47,512	-165,012	-112,475	-148,517
Amortization of intangible assets	-12,405	-6,402	-37,713	-14,144	-20,600
Depreciation of property, plant and equipment	-4,751	-1,397	-10,851	-3,635	-4,166
Other operating expenses	-4,214	-1,645	-10,270	-1,645	-1,202
Operating profit (-loss)	-39,015	11,419	-108,439	24,652	56,454
Financial income	16,149	3,826	25,929	11,878	17,511
Financial expenses	-9,679	-4,182	-22,372	-12,936	-18,196
Share of profit or loss after tax from associates	-2,785	-31	-3,451	-31	131
Profit (-loss) before tax	-35,330	11,032	-108,333	23,562	55,900
Income tax	3,593	9,370	16,043	3,326	1,191
Net profit (-loss) for the period	-31,737	20,402	-92,290	26,888	57,091
<i>Other comprehensive income that may subsequently be reclassified to profit and loss</i>					
Exchange differences	-9,334	4,523	-13,124	5,960	-4,375
Total comprehensive income for the period	-41,071	24,925	-105,414	32,848	52,716

As there are no non-controlling interests in the Group, net profit (-loss) and total comprehensive income are attributable entirely to owners of the parent.

Earnings per share attributable to owners of the parent during the period (SEK):

- Basic	-0.11	0.08	-0.33	0.11	0.22
- Diluted	-0.11	0.08	-0.33	0.11	0.22

CONSOLIDATED BALANCE SHEET

SEKk	NOTE	2017/09/30	2016/09/30	2016/12/31
ASSETS				
<i>Intangible assets</i>				
Goodwill		462,206	144,573	404,530
Other non-current assets		576,717	483,864	594,728
Capitalized expenditure for games and technology development		582,286	237,112	303,763
<i>Financial assets</i>				
Financial assets		36,979	30,324	31,971
Investments in joint ventures	6	42,638	8,507	8,638
Deferred tax assets		89,102	28,914	30,712
<i>Property, plant and equipment</i>				
Computers and other equipment		58,541	19,845	23,458
Total non-current assets		1,848,469	953,139	1,397,800
<i>Current assets</i>				
Inventories		-	2	2
Trades and other receivables		14,103	30,296	25,576
Prepaid expenses and accrued income		107,224	30,841	56,183
Cash and cash equivalents		431,452	375,967	669,380
Total current assets		552,779	437,106	751,141
TOTAL ASSETS		2,401,248	1,390,245	2,148,941
EQUITY AND LIABILITIES				
<i>Equity attributable to owners of the parent</i>				
Share capital		5,640	5,165	5,538
Other contributed capital		1,231,388	761,176	1,175,563
Reserves		-9,453	14,006	3,671
Retained earnings including net profit for the period		90,788	155,248	185,451
Total equity		1,318,363	935,595	1,370,223
<i>Non-current liabilities</i>				
Non-current liabilities, earnouts		327,879	40,978	307,099
Deferred tax liability		154,353	73,964	119,134
Other non-current liabilities		385,889	256,164	265,535
Total non-current liabilities		868,121	371,106	691,768
<i>Current liabilities</i>				
Trade and other payables		126,754	31,358	41,990
Accrued expenses and deferred income		88,010	52,186	44,960
Total current liabilities		214,764	83,544	86,950
TOTAL EQUITY AND LIABILITIES		2,401,248	1,390,245	2,148,941

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKk	Share capital	Other contributed capital	Reserves	Retained earnings	Total equity
Balance at 1 January 2017	5,538	1,175,563	3,671	185,451	1,370,223
Net profit (-loss) for the period	-	-	-	-92,290	-92,290
Other comprehensive income for the period					
Exchange differences	-	-	-13,124	-	-13,124
Total comprehensive income	5,538	1,175,563	-9,453	93,161	1,264,809
Transactions with shareholders:					
New issue through exercise of stock options	81	21,685	-	-	21,766
Vested employee stock options	-	556	-	-	556
Sales of equity instruments	-	21,288	-	-	21,288
Tax effect on sale of equity instruments	-	-4,683	-	-	-4,683
Non-cash issue in progress	21	16,979	-	-	17,000
Issue cost recognized in equity	-	-	-	-3,041	-3,041
Deferred tax effect of issue cost recognized in equity	-	-	-	668	668
Total contribution from and value transfers to shareholders, recognized directly in equity	102	55,825	-	-2,373	53,554
Balance at 30 September 2017	5,640	1,231,388	-9,453	90,788	1,318,363
<hr/>					
Balance at 1 January 2016	4,607	257,352	8,046	128,360	398,365
Net profit for the period	-	-	-	26,888	26,888
Other comprehensive income for the period					
Exchange differences	-	-	5,960	-	5,960
Total comprehensive income	4,607	257,352	14,006	155,248	431,213
Transactions with shareholders:					
New issue through exercise of stock options	97	46,765	-	-	46,862
Non-registered share capital	50	-	-	-	50
Non-issued shares	-	1,782	-	-	1,782
Vested employee stock options	-	1,152	-	-	1,152
Issue of convertible	-	38,093	-	-	38,093
New issue	192	130,926	-	-	131,118
Non-cash issue	219	285,106	-	-	285,325
Issue expenses	-	-	-	-	-
Total contribution from and value transfers to shareholders, recognized directly in equity	558	503,824	-	-	504,382
Balance at 30 September 2017	5,165	761,176	14,006	155,248	935,595
<hr/>					
			2017	2016	2016
CHANGE IN NUMBER OF OUTSTANDING SHARES			Q1-Q3	Q1-Q3	JAN - DEC
Number of shares at the beginning of the period			276,879,720	230,361,091	230,361,091
Non-cash issue			1,071,203		1,138,385
Subscription of shares through exercise of options			4,066,935	5,529,130	6,560,898
New issue				22,366,355	38,819,346
Total shares outstanding at the end of the period			282,017,858	258,256,576	276,879,720

CONSOLIDATED STATEMENT OF CASH FLOWS

SEKk	NOTE	2017	2016	2017	2016	2016
		Q3	Q3	JAN - SEP	JAN - SEP	JAN - DEC
<i>Operating activities</i>						
Cash flow from operations	3	71,465	25,878	34,518	-5,399	8,868
Interest paid		-11,166	-2,156	-3,007	-2,630	-2,682
Interest received		-	4	-	14	5,410
Income taxes paid		-724	13,236	-8,265	7,268	3,695
Cash flow from (-used in) operating activities		59,575	36,962	23,246	-747	15,291
<i>Investing activities</i>						
Purchase of property, plant and equipment		-15,202	-3,345	-44,449	-6,081	-9,449
Investments in subsidiaries		-	-	345	-12,457	-60,412
Purchase of intangible assets		894	-10,029	-	-15,354	-15,354
Investments in other financial assets		-6,864	-8,507	-61,065	-8,929	-9,668
Investments in capitalized expenditure for games development		-112,340	-38,897	-295,823	-128,014	-194,871
Cash flow from (-used in) investing activities		-133,512	-60,778	-400,992	-170,835	-289,754
<i>Financing activities</i>						
New issue		-	-	-	171,324	554,906
Payments for stock options		19,703	5,184	43,073	7,328	14,128
Increase in non-current liabilities		100,547	64,893	100,547	284,945	284,945
Repayment of loans		900	-	-459	-	-516
Cash flow from financing activities		121,150	70,077	143,161	463,597	853,463
Cash flow for (-used in) the period		47,213	46,261	-234,585	292,015	579,000
Cash and cash equivalents at the beginning of the period		384,249	328,356	669,380	85,354	85,354
Exchange difference in cash and cash equivalents		-10	1,350	-3,343	-1,402	5,026
Cash and cash equivalents at the end of the period		431,452	375,967	431,452	375,967	669,380

KEY FIGURES, GROUP

	2017	2016	2017	2016	2016
	Q3	Q3	JAN - SEP	JAN - SEP	JAN - DEC
Net sales, SEKk	77,726	102,707	257,694	246,098	345,463
EBITDA, SEKk	-21,859	19,218	-59,875	42,431	81,220
EBIT, SEKk	-39,015	11,419	-108,439	24,652	56,454
Profit (-loss) before tax, SEKk	-35,330	11,032	-108,333	23,562	55,900
Profit (-loss) after tax, SEKk	-31,737	20,402	-92,290	26,888	57,091
EBITDA margin, %	-16.1	13.0	-14.2	11.9	15.5
EBIT margin, %	-28.6	7.7	-25.7	6.9	10.8
Profit margin, %	-25.9	7.5	-25.6	6.6	10.7
Equity to assets ratio, %	54.9	67.3	54.9	67.3	63.8
Closing price of A share for the period, SEK	11.10	23.30	11.10	23.30	19.20
Closing price of B share for the period, SEK	11.35	23.20	11.35	23.20	19.30
Basic earnings per share, SEK	-0.11	0.08	-0.33	0.11	0.22
Diluted earnings per share, SEK	-0.11	0.08	-0.33	0.11	0.22
Number of shares at end of period before dilution	282,017,858	258,256,576	282,017,858	258,256,576	276,879,720
Number of shares at end of period after dilution	305,387,141	286,911,079	305,387,141	286,911,079	304,352,451
Average number of shares before dilution	282,017,858	258,256,576	279,291,468	248,365,898	255,276,469
Average number of shares after dilution	282,667,711	261,579,196	280,008,327	250,914,146	257,234,798
Average number of employees	290	159	256	134	151
Number of employees at the end of the period	303	176	303	176	212

KEY DATA, GROUP

EBITDA

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

EBIT

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

EBITDA margin

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

EBIT margin

EBIT 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.

Equity to assets ratio

Equity as a percentage of total assets.

Earnings per share

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

Equity

Recognized equity including 78 percent of untaxed reserves.

Reconciliation of Alternative Performance Measures

	2017	2016	2017	2016	2016
	Q3	Q3	JAN - SEP	JAN - SEP	JAN - DEC
<i>EBITDA</i>					
Operating profit (-loss), SEKk	-39,015	11,419	-108,439	24,652	56,454
Less: Amortization of intangible assets, SEKk	12,405	6,402	37,713	14,144	20,600
Less: Depreciation of property, plant and equipment, SEKk	4,751	1,397	10,851	3,635	4,166
EBITDA	-21,859	19,218	-59,875	42,431	81,220
<i>EBITDA margin, %</i>					
EBITDA, SEKk	-21,859	19,218	-59,875	42,431	81,220
Sum of net sales, capitalized development costs and other operating revenue	136,188	147,379	422,626	357,557	523,045
EBITDA margin, %	-16.1	13.0	-14.2	11.9	15.5
<i>EBIT margin, %</i>					
Operating profit (-loss), SEKk	-39,015	11,419	-108,439	24,652	56,454
Sum of net sales, capitalized development costs and other operating revenue	136,188	147,379	422,626	357,557	523,045
EBIT margin, %	-28.6	7.7	-25.7	6.9	10.8
<i>Profit margin, %</i>					
Profit (-loss) before tax, SEKk	-35,330	11,032	-108,333	23,562	55,900
Sum of net sales, capitalized development costs and other operating revenue	136,188	147,379	422,626	357,557	523,045
Profit margin, %	-25.9	7.5	-25.6	6.6	10.7
<i>Equity to assets ratio, %</i>					
Total equity	1,318,363	935,595	1,318,363	935,595	1,370,223
Total equity and liabilities, SEKk	2,401,248	1,390,245	2,401,248	1,390,245	2,148,941
Equity to assets ratio, %	54.9	67.3	54.9	67.3	63.8

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

PARENT COMPANY INCOME STATEMENT

	2017	2016	2017	2016	2016
SEKk	Q3	Q3	JAN - SEP	JAN - SEP	JAN - DEC
Net sales	23,204	461	47,064	65,205	101,935
Other operating revenue	-522	3,377		6,640	13,905
Total sales	22,682	3,838	47,064	71,845	115,840
Other external expenses	-11,820	-8,745	-56,580	-85,965	-97,970
Employee benefit expense	-10,582	-12,011	-35,953	-30,239	-35,498
Depreciation of property, plant and equipment	-192	-178	-551	-522	-703
Other operating expenses	-3,997	-	-3,997	-	-
Operating profit (-loss)	-3,909	-17,096	-50,017	-44,881	-18,331
Other financial income	1,415	13,334	2,420	14,878	13,870
Financial expenses	-9,219	-12,175	-21,373	-12,573	-17,794
Profit (-loss) after net financial income	-11,713	-15,937	-68,970	-42,576	-22,255
Appropriations		10,709		35,530	30,247
Profit (-loss) before tax	-11,713	-5,228	-68,970	-7,046	7,992
Income tax	2,416	1,336	14,870	1,335	-1
Net profit (-loss) for the period	-9,297	-3,892	-54,100	-5,711	7,991

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

PARENT COMPANY BALANCE SHEET

SEKk	2017/09/30	2016/09/30	2016/12/31
ASSETS			
<i>Non-current assets</i>			
<i>Intangible assets</i>			
Other non-current assets	3,160	-	-
<i>Tangible assets</i>			
Computers and other equipment	1,191	1,352	1,265
Investments in group companies	1,136,930	249,457	690,126
Deferred tax assets	20,122	6,588	5,252
Investments in associates	45,958	8,507	8,507
Total non-current assets	1,207,361	265,904	705,150
<i>Current assets</i>			
Trade receivables			
Receivables from group companies	713,084	759,570	761,308
Other receivables	651	12,382	549
Prepaid expenses and accrued income	1,102	753	1,295
Cash and cash equivalents	204,916	231,211	540,118
<i>Total current assets</i>	<i>919,753</i>	<i>1,003,916</i>	<i>1,303,270</i>
TOTAL ASSETS	2,127,114	1,269,820	2,008,420
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	5,640	5,165	5,538
Fair value reserve	328	2,519	2,054
Share premium reserve	1,168,616	715,079	1,129,465
Retained earnings	84,934	76,945	76,945
Net profit (-loss) for the period	-54,100	-5,711	7,991
Total equity	1,205,418	793,997	1,221,993
<i>Untaxed reserves</i>			
Accumulated excess depreciation	16	16	16
Total untaxed reserves	16	16	16
<i>Non-current liabilities</i>			
<i>Other non-current liabilities</i>	607,080	291,993	565,179
Total non-current liabilities	607,080	291,993	565,179
<i>Current liabilities</i>			
Trade payables	2,709	1,454	3,391
Liabilities to group companies	293,612	163,645	195,499
Other liabilities	4,518	2,680	6,664
Accrued expenses and deferred income	13,761	16,035	15,678
Total current liabilities	314,600	183,814	221,232
TOTAL EQUITY AND LIABILITIES	2,127,114	1,269,820	2,008,420

NOTES

NOTE 1: PLEDGED ASSETS

Consolidated pledged assets and contingent liabilities

Consolidated pledged assets refer to rent guarantees and pledged shares in subsidiaries related to loans from Nordea amounting to SEK 483.9 million (0).

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NOTE 2: FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

SEKk	30/09/2017	31/12/2016	Level
<i>Assets classified as available for sale</i>			
Financial assets, shares in Cmunne	11,502	11,502	2
<i>Financial assets at fair value through profit or loss</i>			
Investments in convertible loans	15,406	14,183	2
<i>Financial liabilities</i>			
Earnouts	327,879	307,099	3
Convertible loans	23,934	16,857	2

There has been no material change in liabilities measured at level 3 of the fair value hierarchy (conditional earnouts) during the period. The increase in conditional earnouts refers mainly to the acquisition of Enterspace. These are measured as described in the 2016 Annual Report. Information concerning fair value

estimates and how they are calculated based on the respective level in the fair value hierarchy and disclosure of how the fair value of financial liabilities (earnouts) was calculated at level 3 of the fair value hierarchy is provided in the 2016 Annual Report.

NOTE 3: CASH FLOW FROM OPERATIONS

CASH FLOW FROM OPERATIONS

SEKk	2017 Q3	2016 Q3	2017 JAN-JUN	2016 JAN-JUN	2016 JAN-DEC
Operating profit (-loss)	-39,015	11,419	-108,439	24,652	56,454
<i>Adjustments for non-cash items</i>					
-Amortization of intangible assets	12,405	6,402	37,713	14,144	20,600
-Depreciation of property, plant and equipment	4,751	1,397	10,851	3,635	4,166
-Net financial income (-expense)	0	0	0	0	0
-Unrealized exchange rate differences	-446	-7,710	-2,320	2,809	19,332
<i>Adjustments for:</i>					
Increase (-) decrease (+) of current receivables	20,756	4,582	-19,273	-14,599	-49,337
Increase (+) decrease (-) of current liabilities	73,014	9,788	115,986	-36,039	-42,347
Cash flow from operations	71,465	25,878	34,518	-5,399	8,868

NOTE 4: SEGMENT REPORTING, GROUP

SEKk	2017	2016	2017	2016
	Q3	Q3	JAN - SEP	JAN - SEP
Starbreeze Games				
Net sales	24,431	21,011	99,908	124,511
Capitalized development costs	34,419	20,685	88,028	54,311
Other operating revenue	-	1,833	-	5,007
Total	58,850	43,529	187,936	183,829
Operating costs	-67,414	-33,515	-179,840	-123,770
Operating profit (-loss)	-8,564	10,014	8,096	60,059
Publishing				
Net sales	50,455	81,695	145,276	121,565
Capitalized development costs	9,854	10,719	25,064	24,474
Other operating revenue	-	2,017	-	3,324
Total	60,309	94,431	170,340	149,362
Operating costs	-61,783	-60,997	-181,476	-100,374
Operating profit (-loss)	-1,474	33,434	-11,136	48,988
VR Tech & Operations				
Net sales	-	-	-	-
Capitalized development costs	14,188	7,167	51,840	22,701
Other operating revenue	-	1,264	-	2,501
Total	14,188	8,431	51,840	25,201
Operating costs	-23,156	-15,395	-57,435	-49,247
Operating profit (-loss)	-8,968	-6,964	-5,595	-24,046
Other				
Net sales	2,840	-	12,510	22
Capitalized development costs	-	226	-	303
Other operating revenue	-	761	-	-1,162
Total	2,840	987	12,510	-837
Operating costs	-22,849	-26,052	-112,314	-59,513
Operating profit (-loss)	-20,009	-25,065	-99,804	-60,351
Total				
Net sales	77,726	102,706	257,694	246,098
Capitalized development costs	58,461	38,797	164,932	101,789
Other operating revenue	-	5,875	-	9,669
Total	136,187	147,378	422,626	357,556
Operating costs	-175,202	-135,959	-531,065	-332,904
Operating profit (-loss)	-39,015	11,419	-108,439	24,652

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

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

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

Starbreeze Games	-8,564	10,014	8,096	60,059
Publishing	-1,474	33,434	-11,136	48,988
VR Tech & Operations	-8,968	-6,964	-5,595	-24,046
Other	-20,009	-25,065	-99,804	-60,351
Total	-39,015	11,419	-108,439	24,652
Net financial income (-expense)	3,685	-387	106	-1,090
Profit (-loss) before tax	-35,330	11,032	-108,333	23,562

NOTE 5: 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, 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 earnout 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.

If Enterspace had been acquired on 1 January 2017, the company would have contributed a revenue stream of SEK 9.3 million and a loss after tax of SEK -3.0 million. The recognized goodwill for this acquisition is not expected to be tax deductible.

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." Information on the preliminary value of acquired net assets and goodwill in Enterspace as of acquisition date, SEKk:

Total consideration:	
Cash consideration	3,000
Shares in Starbreeze AB (publ)	17,000
Earnout	46,831
Fair value of assets acquired as below	-5,762
Excess value of intangible assets	3,762
Goodwill	68,831

<i>Assets and liabilities included in the acquisition</i>	
Intangible assets/capitalized development costs	10,406
Other assets	4,728
Cash and cash equivalents	3,344
Deferred tax	-828
Liabilities	-23,412
Identifiable net assets acquired	-5,762

NOTE 6: JOINT VENTURE

Joint Venture

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 for the StarVR HMD (Head-Mounted Display). Under the terms of the joint venture, Starbreeze owns and controls IP rights related to StarVR, while Acer manufactures the product. Research and development and reference design work for the 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. Acer is responsible for production costs. 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.

SEKk	30/09/2017
<i>Reconciliation of net carrying amount:</i>	
Opening balance of net assets 1 January	17,276
Net profit for the period	-1,286
Exchange differences	-5,796
Capital injection	75,082
Closing balance net assets	85,276
Group's share in %	50%
Group's share in KSEK	42,638
Net carrying amount	42,638

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 the portion of these amounts allocated to Starbreeze. The reconciliation of the portion allocated to Starbreeze is shown above.

SEKk	30/09/2017
<i>Balance sheet in summary:</i>	
Current assets	86,278
Non-current assets	1,704
Current liabilities	2,706
Net assets	85,276
<i>Income statement in summary:</i>	
Sales	5,226
Net profit (-loss) for the period	-1,286
Total comprehensive income for the period	-1,286

This is a translation of the Swedish version of the Interim Report. In case of any discrepancies between this version and the Swedish, the Swedish version shall prevail.

