

Third quarter 2018

- Net sales amounted to SEK 33.9 million (77.7), of which PAYDAY accounted for SEK 20.9 million (24.4).
- EBITDA* amounted to SEK -37.9 million (-21.9).
- Depreciation and amortization totaled SEK 49.5 million (17.1).
- The loss before tax amounted to SEK -102.3 million (-35.3).
- Basic and diluted earnings per share were SEK -0.26 (-0.11).
- Decision to release the console version of OVERKILL's The Walking Dead in February 2019.
- Decision by extraordinary general meeting on 14 September to approve the amended terms and conditions of convertible instrument of SEK 75.5 million issued to Acer with a one-year repayment plan.
- Mobile game PAYDAY: Crime War in beta release.

The nine-month period 2018

- Net sales increased by 4 percent to SEK 267.5 million (257.7), of which PAYDAY accounted for SEK 77.3 million (99.9).
- EBITDA* amounted to SEK 63.4 million (-59.9).
- The loss before tax amounted to SEK -82.5 million (-108.3).
- Basic and diluted earnings per share were SEK -0.15 (-0.33).
- Cash and cash equivalents at the end of the period amounted to SEK 147.5 million (431.5).

After the end of the period

- Release of OVERKILL's The Walking Dead for PC on the Steam platform today, the 6th of November.
- Sebastian Ahlskog stepped down as CFO and Mika Reini was appointed Acting CFO.

KEY FIGURES	2018	2017	2018	2017	2017
SEKk	Q3	Q3	JAN-SEP	JAN-SEP	JAN - DEC
Net sales	33,882	77,726	267,496	257,694	361,447
EBITDA*	-37,868	-21,868	63,374	-59,893	-53,559
Profit (-loss) before tax	-102,310	-35,330	-82,519	-108,333	-176,185
Earnings per share, SEK	-0.26	-0.11	-0.15	-0.33	-0.55
Cash flow from operations	-57,219	59,575	72,637	23,246	-21,086
Net sales per employee	53	268	420	1,007	1,300

* See pages 21 and 22 and Note 6 concerning derivation of the key figure.

CEO Bo Andersson Klint remarks on the report:

As we previously communicated, the sale of the publishing rights to Dead by Daylight closed on 30 June. Consequently, revenues during the quarter were derived virtually exclusively from PAYDAY, resulting in negative earnings as we expected. But our target is to deliver positive EBITDA starting next quarter and thereafter on an annual basis. Today's the day of our biggest release since PAYDAY 2 more than five years ago. OVERKILL's The Walking Dead is an important release for Starbreeze and is obviously our main focus right now. The game is the first we are releasing of the eight major games we have invested in to establish Starbreeze as a major and successful game company that is in it for the long haul.



Q3

2018

About Starbreeze

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

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

More information: starbreeze.com

The CEO remarks on the report

THE STARTING SHOT FOR RELEASES OF OUR NEW GAME PORTFOLIO

OVERKILL's The Walking Dead released today

Today's the day of our biggest release since PAYDAY 2 more than five years ago. OVERKILL's The Walking Dead is an important release for Starbreeze and is obviously our main focus right now. Our expectations are high and the game received good and valuable feedback from the media and our community during the important beta phase.

The game's business model is the one we invented and know inside out: games as a service. That means we are releasing a base game that we intend to serve with new content for a long time coming.

Exactly like the cult-status TV show, we have made OVERKILL's The Walking Dead as a seasonal model, in which each season consists of multiple episodes. Gamers who buy the Standard Edition for EUR 49.99/USD 59.99 will receive not only all episodes in Season 1, they will also get Season 2, which starts at the end of the month and continues until June next year. The Deluxe Edition for EUR 67.99/USD 79.99 also includes bonus graphic material, an artbook and a soundtrack.

The author of the series, Robert Kirkman, is still involved in the production and we are looking forward to continuing our great work together. Our initial goal is to make sure Season 1 is outstanding and that we attract a big, strong and dedicated community.

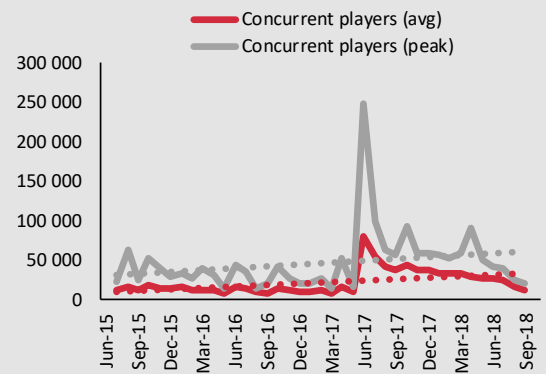
The first out in a series of new games

OVERKILL's The Walking Dead is the first we are releasing of the eight major games we have invested in to establish Starbreeze as a major and successful game company that is in it for the long haul. We have previously done very well with individual titles and have achieved high margins in game release quarters. Two years ago, we took a bigger bite and have since invested about SEK 900 million in building up a substantial game portfolio to generate more consistent revenue streams with good profitability.

It's time to show what we have been doing in the last few years. After OVERKILL's The Walking Dead, it's the mobile game PAYDAY: Crime War's turn. It received great reviews during the beta phase and is now in soft launch in three countries. Next in line is our children's game Geminose, which we are releasing exclusively for Nintendo Switch.

In addition to these games, we have five major game projects in development, all with the potential to make it to the top lists. Psychonauts 2 and System Shock 3 are both sequels to true classics produced by industry veterans who know how to make games from start to finish. Crossfire is a mega-hit in Asia and the world's most-played online game, which we are now developing internally at Starbreeze in an all-new co-op version adapted for the western market. And then there is 10 Crowns, a strategy game made by some of the creators behind the famous strategy series Civilization. Last but not least, we are working with PAYDAY 3, the sequel to our own success story. We have exciting plans for taking PAYDAY to the next level. With a focused portfolio of several major titles, we are transforming Starbreeze into a gaming house with a larger number of product lines.

PAYDAY 2



Source: steamcharts.com

At peak

38,734

played PAYDAY 2
concurrently in Q3

Target: Positive EBITDA from next quarter

As we previously communicated, the sale of the publishing rights to Dead by Daylight closed on 30 June. Consequently, revenues during the quarter were derived virtually exclusively from PAYDAY, resulting in negative earnings as we expected. But our target is to deliver positive EBITDA starting next quarter and thereafter on an annual basis.

Looking at the entire period of January to September, we are reporting positive EBITDA of SEK 63 million, an improvement by SEK 123 million over last year. The improvement is due mainly to the sale of publishing rights to Dead by Daylight, which was a very good deal for us in terms of profitability. The industry is also reacting to the deal and we are being approached more often by external studios with interesting game projects.

Marketing costs were higher during the quarter than last year because we are on the verge of the important release of OVERKILL's The Walking Dead and the campaign will peak in the fourth quarter when the launch happens. On the other side of the equation, we cut our overhead expenses by SEK 6 million during the quarter compared with 2017.

Lower investments in VR

Our investments in the VR Tech & Operations business area are decreasing as we will be moving our VR tech development team to the joint venture, StarVR Corporation, which will be taking over these expenses. This is a logical consequence to the joint venture's now independent status. Our CTO Emmanuel Marquez, who has headed up the technical development of the StarVR headset, has also moved to StarVR Corporation.

As a result of the move, Starbreeze will reduce its expenses by approximately SEK 15 million on an annual basis, with full effect starting in the fourth quarter of 2018. It is important to note that we are retaining our existing IP rights to the headset.

In parallel with this change, we are focusing resources in the VR content business to clarify the customer offering in location-based entertainment.

Rising towards the 2020 revenue target

The next two years are going to be intense, with the releases of the games we are now investing in and the continued development of more games along the way towards our target of generating revenue of more than SEK two billion in 2020.

Let's do this!

Bo Andersson Klint

CEO Starbreeze

PAYDAY 2 on Steam

5.9

million members



SIGNIFICANT EVENTS DURING THE QUARTER

OTWD released for console in February

As previously communicated, the distributor 505 Games opted to re-release OVERKILL's The Walking Dead for PS4, PSN, Xbox One and Xbox Live globally in February 2019. 505 Games owns the publishing rights to the console version of OTWD.

Change of terms and conditions of Acer convertible approved

An extraordinary general meeting held 14 September 2018 resolved to approve an amendment of terms and conditions by which the convertible of SEK 75.5 million issued to Acer that matured 16 September 2018 will be extended by one year and repaid according to a one-year repayment plan. All principal terms and conditions are otherwise unchanged and Acer has the right to call for conversion of the debt to Class B shares at a price of SEK 17.61 per share.

Nozon launches plugin for PresenZ

Starbreeze's Belgian VFX studio launched its PresenZ technology for VR in September as a plugin for Chaos Group's V-Ray Next and Autodesk's 3ds Max® visualization software. As an example, the technology makes it possible for architects to display their drawings to scale in VR, enabling walk-arounds in various settings, or for filmmakers to let visitors explore their works in VR with no loss in the quality of existing footage.

Beta release of PAYDAY: Crime War

The beta version of the mobile game PAYDAY: Crime War was open to selected beta testers during the period of 10 September to 14 October. PAYDAY: Crime War is the first mobile version of PAYDAY and is a co-op PvP. A soft launch of the game began after the end of the period in three selected markets.

Significant events after the end of the period

Release of OVERKILL's The Walking Dead

OVERKILL's The Walking Dead is being released for PC on the Steam platform today, the 6th of November. The game had a beta phase in October when everyone who had pre-ordered the game was given the opportunity to test it before release and contribute feedback. The game is being released in a Standard Edition that includes Season 1 with 10 episodes and Season 2 with 9 episodes and will sell for EUR 49.99/USD 59.99. The Deluxe Edition costs EUR 67.99/USD 79.99 and includes Season 1, Season 2, bonus graphic material, an artbook and a sound-track.

Change in senior management

Sebastian Ahlskog decided to leave his position as CFO for a new position outside Starbreeze. A recruiting process has been initiated and Mika Reini is serving as Acting CFO until a permanent CFO has been appointed. Reini has solid experience in the games industry and was CFO of listed game company Remedy Entertainment for 17 years.

Exploring option to issue a senior secured note

After the end of the period, Starbreeze announced that the company is exploring the option to issue a senior secured note. The aim would be to diversify the company's capital provision and replace existing bank financing to ensure increased financial strength and flexibility.



SALES AND PROFIT

Q3

2018

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

Sales and direct costs

Third quarter 2018

As of the third quarter of 2018, *Dead by Daylight* is not included in the Starbreeze portfolio, which affects both revenue and costs. *Dead by Daylight* contributed revenue of SEK 47.3 million in the third quarter of 2017 while direct costs reduced profit by SEK 34.1 million.

Net sales for the third quarter of 2018 amounted to SEK 33.9 million (77.7), of which PAYDAY 2 accounted for SEK 20.9 million (24.4). Compared to the preceding year, Starbreeze has no revenues from *Dead by Daylight*. Starbreeze's Indian studio Dhruva contributed external income of SEK 8.8 million (0.0).

Direct costs amounted to SEK 78.9 million (79.3) and consisted of costs related to game production and game development. Compared to the preceding year, Starbreeze has no costs for *Dead by Daylight*. Direct costs include amortization, depreciation and impairments of SEK 47.8 million (15.5). The increase is attributable mainly to more game releases in 2018 compared to the preceding year and depreciation on VR parks. Employee benefits expense increased by SEK 7.2 million due to the acquisition of Dhruva.

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

The nine-month period (January–September 2018)

Net sales increased by 4 percent to SEK 267.5 million (257.7). Of the total, PAYDAY generated SEK 56.3 million (75.5) and *Dead by Daylight* accounted for SEK 133.5 million (86.7). External income of SEK 23.5 million (0.0) from Dhruva was also included.

Direct costs amounted to SEK 230.0 million (222.0), including amortization, depreciation and impairments of SEK 138.8 million (44.7). The increase compared to the preceding year is due mainly to a higher number of game releases and new VR parks.

Costs and profit or loss

Third quarter 2018

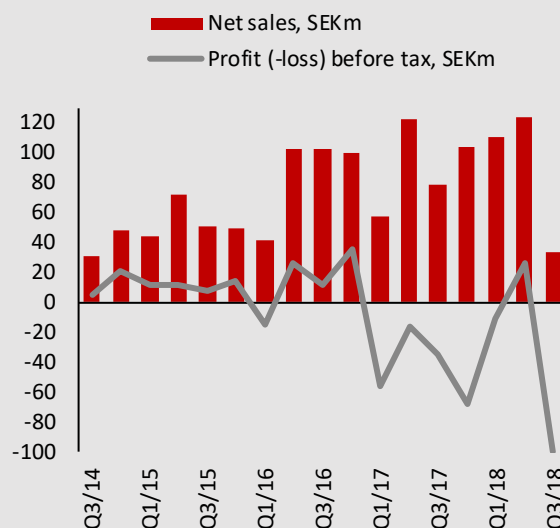
Sales and marketing costs amounted to SEK 20.8 million (6.0) and include, for example, trade show costs and employee benefits expense. The increase was driven mainly by increased marketing related to the release of *OVERKILL's The Walking Dead*.

Administrative expenses amounted to SEK 21.1 million (27.3) and refer to items including office costs and payroll for employees who do not work in game production or marketing. The item includes amortization of SEK 1.3 million (1.7). The decrease is primarily due to allocation of global production resources to game production, lower variable pay and the costs related to the IPO that reduced profit last year.

Sales and profit

	2018	2017
SEKk	Q3	Q3
Net sales	33,882	77,726
EBITDA *	-37,868	-21,868
Profit (-loss) before tax	-102,310	-35,330
Net profit (-loss) for the period	-85,051	-31,737
Earnings per share, SEK	-0.26	-0.11
Net sales growth, %	-56.4	-24.3
EBITDA margin, %	-111.8	-28.1

*See page 21-22 and Note 6 for the derivation of the key figure.



Other operating revenue/operating expenses, consisting mainly of currency effects, amounted to SEK -0.5 million (-4.2), due to appreciation of the dollar and euro rates against the Swedish krona.

EBITDA amounted to SEK -37.9 million (-21.9). The decrease in earnings was due to the ending of revenues from Dead by Daylight on 30 June when the sale of the publishing rights closed.

Net financial expense amounted to SEK -14.9 million (3.7). See the specification in the table at the right. The remeasurement of earnouts totaled SEK 2.4 million (15.5) after currency effects of SEK 3.7 million. The earnout for the acquisition of ePawn was remeasured during the third quarter of the preceding year, resulting in income of SEK 12.5 million. The share of profit and loss in the joint venture StarVR Corporation amounted to SEK -6.1 million (2.8). The change is due to increased activity within the joint venture. The majority of net financial income/expense for the quarter had no effect on cash flow.

The loss before tax amounted to SEK -102.3 million (-35.3). The loss for the quarter amounted to SEK -85.1 million (-31.7).

Basic and diluted earnings per share were SEK -0.26 (-0.11).

The nine-month period (January–September 2018)

Sales and marketing costs amounted to SEK 55.9 million (44.5). The increase was driven mainly by increased marketing related to the release of OVERKILL's The Walking Dead. The Group also invested SEK 21.2 million (0.0) in production of trailers for the forthcoming game and the cost was capitalized.

Administrative expenses amounted to SEK 73.6 million (89.4), including amortization and depreciation of SEK 4.4 million (3.8). The decrease is primarily due to allocation of global production resources to game production, lower variable pay and the costs related to the IPO that reduced profit last year.

Other operating revenue/operating expenses, consisting mainly of currency effects, amounted to SEK 16.5 million (-10.3), due to appreciation of the dollar and euro rates against the Swedish krona.

EBITDA amounted to SEK 63.4 million (-59.9). The earnings improvement was driven mainly by the sale of the publishing rights to Dead by Daylight.

Net financial expense amounted to SEK -7.1 million (0.1). See the specification in the table at the right. The remeasurement of earnouts totaled SEK 42.1 million (26.1) after currency effects of SEK -14.1 million. The increase is due primarily to remeasurement of the earnout from the acquisition of Enterspace, which resulted in income of SEK 51.2 million during the period. The share of profit and loss in the joint venture StarVR Corporation amounted to SEK -14.6 million (-3.5). The change is due to increased activity within the joint venture. The majority of net financial income/expense for the quarter had no effect on cash flow.

The loss before tax amounted to SEK -82.5 million (-108.3). The loss for the period amounted to SEK -47.8 million (-92.3).

Basic and diluted earnings per share were SEK -0.15 (-0.33).

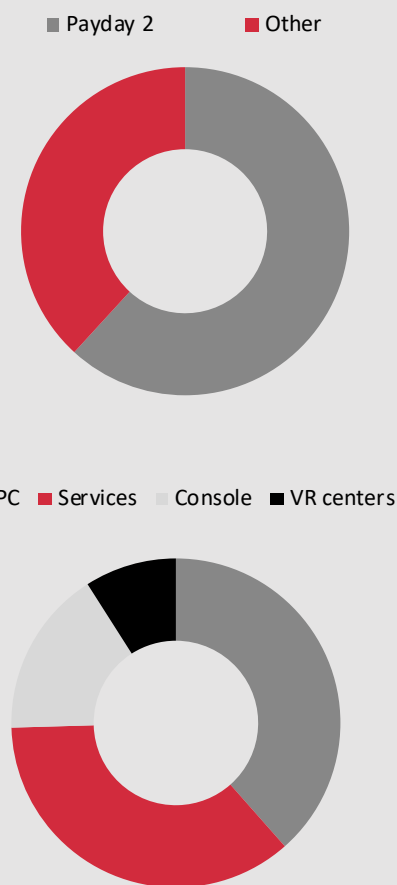
Segment reporting

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

Specification of net financial income/expense

	2018	2017	2018	2017
SEkk	Q3	Q3	JAN-SEP	JAN-SEP
Remeasurement of earnouts	2,415	15,489	42,119	26,052
Interest on convertible bonds	-5,676	-5,522	-16,962	-16,101
Remeasurement of derivatives attributable to convertible bonds	-4,374	-3,696	-8,277	-5,237
Interest on loan to StarVR Corp.	502	-	-4,306	-
Net profit (-loss) from StarVR Corp.	-6,102	-2,785	-14,619	-3,451
Interest on short-term investments	-88	215	716	-992
Interest on bank overdraft facility	-1,345	-	-4,585	-
Other items	-246	-16	-1,145	-165
Total	-14,914	3,685	-7,059	106

Distribution of net sales for the quarter



STARBREEZE GAMES

Q3

2018

The Starbreeze Games business area consists of Starbreeze's own games portfolio. Revenues currently comprise sales revenue and royalties for the rights to PAYDAY. The business area also includes the recently released OVERKILL's The Walking Dead and the ongoing Crossfire game project. Costs and revenues arising from game production within the Indian production company Dhruva are included as of 22 December 2017.

Third quarter 2018

Net sales amounted to SEK 30.7 million (24.4) and were generated mainly by PAYDAY, developed by Starbreeze. Digital sales of PAYDAY 2 Switch contributed SEK 1.0 million (0.0). Compared to the preceding year, revenues for PAYDAY 2 on Steam increased by 19 percent. Net sales include external income of SEK 8.8 million (0.0) from Starbreeze's Indian studio, Dhruva.

Direct costs amounted to SEK 21.8 million (18.7). The increase was driven mainly by additional production costs within Dhruva and increased amortization costs, mainly for PAYDAY Switch and VR experiences developed by Starbreeze. Capitalized development costs, which were formerly reported on a separate line on the income statement classified by the nature of costs, are recognized in the income statement classified by the function of costs as a deduction against direct costs.

Operating costs amounted to SEK 27.0 million (17.6). The operating loss was SEK -18.1 million (-11.8). The reduction in profit was driven mainly by increased marketing related to the release of OVERKILL's The Walking Dead and currency effects.

The nine-month period (January–September 2018)

Net sales amounted to SEK 102.3 million (99.9), of which PAYDAY, developed by Starbreeze, accounted for SEK 77.3 million (99.9). External income of SEK 23.5 million (0.0) from Dhruva was also included.

Direct costs amounted to SEK 71.3 million (60.0), including production costs within Dhruva of SEK 31.7 million (0.0).

Operating costs amounted to SEK 50.7 million (46.7). The operating loss was SEK -19.7 million (-6.7).

After the end of the period

Revenues from sales of PAYDAY 2 via the Steam platform in October 2018 amounted to SEK 5.2 million (6.6).

	2018	2017	2018	2017
SEKk	Q3	Q3	JAN–SEP	JAN–SEP
Starbreeze Games				
Net sales	30,704	24,431	102,260	99,908
Direct costs	-21,787	-18,688	-71,330	-59,975
Gross profit	8,917	5,743	30,930	39,933
Operating costs	-27,012	-17,554	-50,657	-46,676
Operating profit (-loss)	-18,095	-11,811	-19,727	-6,743



PUBLISHING

The Publishing business area consists of Starbreeze's publishing operations with games developed by third parties. The ongoing game projects Psychonauts 2, System Shock 3, 10 Crowns and the portfolio of published VR titles are included in the business area.

The Dead by Daylight deal was closed in the second quarter and the publishing rights were transferred to Behaviour. As of the third quarter of 2018, Dead by Daylight is not included in the Starbreeze portfolio, which affects both revenue and costs. Dead by Daylight contributed revenue of SEK 47.3 million in the third quarter of 2017, while earnings were reduced by direct costs of SEK 34.1 million.

Third quarter 2018

Net sales amounted to SEK -4.1 million (50.5). The negative sales figure is explained by amendment of the contract between Starbreeze and StarVR pertaining to the VR title *The Mummy* that was made during the quarter and resulted in the crediting of income of SEK 5.5 million from 2017. Compared to the preceding year, Starbreeze has no revenues from *Dead by Daylight*.

Direct costs amounted to SEK 28.7 million (41.0). The item includes depreciation, amortization and impairments of SEK 25.1 million (8.6), the majority of which consists of amortizations of the released titles RAID: World War II (RAID) and released VR titles. Compared to the preceding year, Starbreeze has no costs for *Dead by Daylight*.

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

The operating loss was SEK -37.4 million (2.2).

The nine-month period (January–September 2018)

Net sales amounted to SEK 132.7 million (145.3). *Dead by Daylight* accounted for SEK 133.7 million (134.0) of net sales, including consideration of SEK 42.8 million paid by Behaviour for the rights to *Dead By Daylight*.

Direct costs amounted to SEK 96.3 million (111.1). The item includes depreciation, amortization and impairments of SEK 80.2 million (24.3), the majority of which consists of amortizations of the released titles RAID: World War II (RAID) and released VR titles, as well as first-quarter impairments of two minor publishing projects in the amount of SEK 6.3 million.

The operating loss was SEK 18.3 million (-1.7).

Q3

2018

	2018	2017	2018	2017
SEKk	Q3	Q3	JAN-SEP	JAN-SEP
Publishing				
Net sales	-4,088	50,455	132,746	145,276
Direct costs	-28,722	-40,999	-96,264	-111,078
Gross profit	-32,810	9,456	36,482	34,198
Operating costs	-4,619	-7,284	-18,219	-35,939
Operating profit (-loss)	-37,429	2,172	18,263	-1,741



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 parks are also included as of the third quarter of 2017. Profit or loss from the joint venture, StarVR Corporation, is recognized as financial income or expense and thus not included in operating profit or loss.

Third quarter 2018

Net sales in the business area consist of licensing revenues from various technologies and revenues from VR parks.

Net sales for the period of SEK 3.7 million (0.0) refer primarily to revenue generated by ticket sales at the VR parks in Dubai and Stockholm of SEK 2.2 million (0.0). Net sales also include income of SEK 1.6 million from StarVR Corporation in compensation for marketing of the StarVR headset and which is part of the previously communicated financial support of USD 8.0 million in total received for the build-up of the VR park in Dubai.

Direct costs amounted to SEK 17.0 million (0.0), including amortizations of SEK 10.0 million (0.0), mainly on investments in the VR parks.

Capitalized development costs, which were formerly reported on a separate line on the income statement classified by the nature of costs, are recognized in the income statement classified by the function of costs as a deduction against direct costs. Starting in October 2018, Starbreeze will be billing the majority of development costs for the StarVR headset to the joint venture StarVR Corporation during a transition period, which will reduce capitalized development costs. The VR technology development team will soon be transferred to the joint venture StarVR Corporation, which will then take over the related expenses. As a result of the move, Starbreeze will reduce its expenses by approximately SEK 15 million on an annual basis, with full effect from the fourth quarter of 2018.

The operating loss was SEK -23.1 million (-6.7).

The nine-month period (January–September 2018)

Net sales for the period of SEK 24.1 million (0.0) refer primarily to income from StarVR Corporation of SEK 16.2 million in compensation for marketing of the StarVR headset. Ticket sales at the VR parks in Dubai and Stockholm contributed revenues of SEK 5.8 million (0.0) during the period.

Direct costs amounted to SEK 29.5 million (0.0). Operating costs amounted to SEK 30.8 million (14.9). The increase was driven primarily by marketing costs related to the VR parks in Dubai and Stockholm and costs related to SIGGRAPH and the IFA expo.

The operating loss was SEK -36.2 million (-14.9).

Q3

2018

	2018	2017	2018	2017
SEKk	Q3	Q3	JAN-SEP	JAN-SEP
VR Tech & Operations				
Net sales	3,749	-	24,075	-
Direct costs	-17,042	-	-29,503	-
Gross profit	-13,293	-	-5,428	-
Operating costs	-9,799	-6,677	-30,813	-14,909
Operating profit (-loss)	-23,092	-6,677	-36,241	-14,909



OTHER

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

Third quarter 2018

Net sales amounted to SEK 3.5 million (2.8) and were generated mainly by the Group's Belgian VFX business, Nozon.

Direct costs decreased to SEK 11.4 million (19.6). The decrease is due mainly to lower costs for the Valhalla engine of SEK 2.1 million, compared to SEK 6.5 million in the preceding year.

Operating costs amounted to SEK 0.9 million (5.9). The reduction is due mainly to a positive currency effect and lower trade show and administrative expenses. Profit in the third quarter of the preceding year was also reduced by the costs of the IPO.

The operating loss was SEK -8.8 million (-22.7).

The nine-month period (January–September 2018)

Net sales amounted to SEK 8.4 million (12.5) and were generated mainly by the Group's Belgian VFX business, Nozon.

Direct costs decreased to SEK 32.9 million (50.9). The decrease is due mainly to lower costs for the Valhalla engine of SEK 6.3 million, compared to SEK 23.5 million in the preceding year.

Operating costs amounted to SEK 13.3 million (46.6). The decrease is due mainly to sales and marketing costs of SEK 0.4 million, compared to SEK 23.9 million in the preceding year, when profit was reduced by trade show costs. Trade show costs during the period were reported in the Starbreeze Games segment and referred to OVERKILL's The Walking Dead.

The operating loss was SEK -37.8 million (-85.0).

Q3

2018

	2018	2017	2018	2017
SEKk	Q3	Q3	JAN–SEP	JAN–SEP
Other				
Net sales	3,517	2,840	8,415	12,510
Direct costs	-11,388	-19,600	-32,897	-50,913
Gross profit	-7,871	-16,760	-24,482	-38,404
Operating costs	-909	-5,939	-13,273	-46,642
Operating profit (-loss)	-8,780	-22,699	-37,755	-85,046

OTHER FINANCIAL INFORMATION

Q3
2018

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

Financial position

Non-current assets

Goodwill at the end of the period amounted to SEK 560.7 million (545.0). Goodwill is recognized using the exchange rate on the reporting date. The increase was driven by currency effects. Other intangible assets, which consist primarily acquired IP, such as PresenZ, the Valhalla engine, Geminose and the buy-back of PAYDAY, amounted to SEK 591.9 million (597.5).

Capitalized game and technology development costs increased by SEK 265.2 million to SEK 720.4 million (455.2) 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 increased by SEK 32.8 million to SEK 220.3 million (187.5).

Intangible assets were amortized during the period by SEK 108.1 million (37.7), including an impairment of SEK 6.3 million taken in the first quarter on two publishing projects. Trade and other receivables amounted to SEK 35.4 million (27.8).

Deferred tax assets relating to outstanding loss carryforwards in the parent company Starbreeze AB amounted to SEK 32.6 million (23.1) at the end of the period. Deferred tax assets relating to outstanding loss carryforwards in foreign subsidiaries amounted to SEK 51.8 million (37.8). In the Swedish subsidiaries, deferred tax assets relating to loss carryforwards amounted to SEK 92.3 million (47.3). The increase is due to the Group having reported a loss. The total deferred tax asset amounted to SEK 176.7 million (108.2).

Current assets

Prepaid expenses and accrued income at the end of the period amounted to SEK 57.4 million (125.3). The decrease is related mainly to the VR park in Dubai. SEK 12.4 million (10.0) refers to receivables due for digital sales, mainly via Steam, PlayStation Store, Xbox Live and Switch. Short-term investments increased to SEK 75.0 million (0.0). The increase was driven by that SEK 75.0 million of the Group's cash and cash equivalents are deposited in an account for which withdrawals are limited in time by more than three months and the company therefore has judged that the funds cannot be classified as cash and cash equivalents.

Equity

Consolidated equity on the reporting date amounted to SEK 1,677.1 million (1,282.4) and the equity to assets ratio was 59.5 percent (52.1).

Non-current liabilities

Non-current liabilities for earnouts decreased by SEK 42.2 million to SEK 305.7 million (347.9). The balance sheet item relates to earnouts for completed company acquisitions, primarily Nozon and Parallaxter. The item is measured at fair value and the change is recognized in net financial income and expense on the income statement (see page 7). The decrease is associated primarily to the remeasurement of the earnout related to the acquisition of Enterspace.

**The equity to
assets ratio was**

60

percent as of 30 September 2018

Other non-current liabilities increased to SEK 511.7 million (466.6). The majority of the balance sheet item consists of a bank overdraft facility of SEK 127.2 million (141.0) and the convertible bonds issued to Acer, of SEK 75.5 million (71.5), and to Smilegate, of SEK 231.8 million (213.2). SEK 33.9 million (31.6) refers to the portion of the marketing contribution from StarVR Corporation classified as a loan. The Group also has a loan from Nordea of SEK 30.0 million that was categorized as an overdraft facility of SEK 36.7 million as of 31 December 2017 and which was converted to a loan during the year.

Current liabilities

Trade and other payables at the end of the period amounted to SEK 96.7 million (122.4), of which SEK 41.6 million relates to 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 57.2 million (70.6).

Cash flow

Third quarter 2018

Cash and cash equivalents at the beginning of the quarter amounted to SEK 269.6 million (384.2).

Cash flow from (-used in) operating activities amounted to SEK -57.2 million (72.6). The decline is related to the change in working capital, primarily the reduction in current liabilities. Cash flow from (-used in) from investing activities was SEK -124.5 million (-133.5). See also the "Investments" section below. Cash flow from financing activities was SEK 61.6 million (121.2) and refers primarily to changes in the bank overdraft facility.

Total cash flow for (-used in) the quarter was SEK -120.1 million (47.2). The decline is related mainly to reduced borrowing of both long-term loans and current liabilities. Cash and cash equivalents at the end of the period amounted to SEK 147.5 million (431.5)

Investments

Consolidated investments in property, plant and equipment during the quarter amounted to SEK 1.2 million (15.2). The decrease is related to investments in VR parks made in the preceding year. In addition, investments in own game and technology development totaled SEK 97.7 million (59.3), with the increase related mainly to the OVERKILL's The Walking Dead game project. Investments in publishing projects amounted to SEK 29.3 million (53.1).

The nine-month period 2018

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

Cash flow from (-used in) operating activities amounted to SEK 72.6 million (23.2). The increase is due to an improvement in working capital efficiency during the period and improved operating profit. Cash flow from (-used in) from investing activities was SEK -554.2 million (-401.0). See also the "Investments" section below. Cash flow from financing activities was SEK 395.1 million (143.2). The change is due mainly to the new issues executed during the period totaling SEK 390.1 million (0.0).

Total cash flow for (-used in) the period was SEK -86.5 million (-234.6). Cash and cash equivalents at the end of the period amounted to SEK 147.5 million (431.5)

Investments

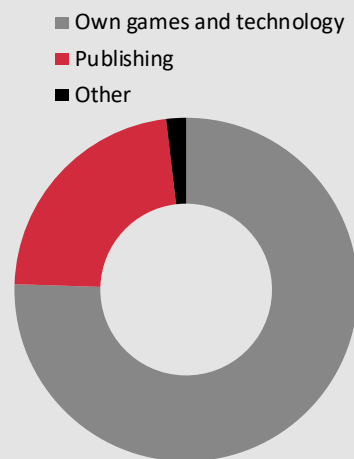
Consolidated investments in property, plant and equipment during the period amounted to SEK 91.1 million (44.4), of which SEK 68.4 million refers to the build-up of the VR park in Dubai. Investments in own game

Cash and cash equivalents

at 30 September 2018

148
SEKm

Distribution of investments during the quarter



and technology development totaled SEK 290.8 million (165.7). Investments in publishing projects amounted to SEK 92.3 million (130.1). Short-term investments amounted to SEK 75.0 million (0.0) and refer to cash and cash equivalents deposited into an account for which withdrawals are limited in time by more than three months and the company therefore has judged that the funds must be classified as a short-term investment and not as cash and cash equivalents.

Parent company

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

The parent company's net sales during the quarter amounted to SEK 12.9 million (23.2). Sales refer primarily to allocation of management fees. The loss before tax was SEK -20.0 million (-11.7) and the loss after tax was SEK -16.7 million (-9.3).

The parent company's net sales for the period of January–September 2018 amounted to SEK 42.6 million (47.1). Sales refer primarily to allocation of management fees. The loss before tax was SEK -40.0 million (-69.0) and the loss after tax was SEK -30.5 million (-54.1).

Cash and cash equivalents at the end of the period amounted to SEK 95.4 million (204.9) and parent company equity was SEK 1,562.2 million (1,212.5).

Non-current liabilities consisting of convertible loans and earnouts decreased to SEK 613.0 million (632.8).

Employees

The number of employees at the end of the period amounted to 639 (303), of whom 561 men and 78 women. The increase is mainly due to the acquisition of the Indian production company Dhruva, but is also a consequence of staff additions in game development in Stockholm. The average number of full-time employees for the quarter amounted to 643 (290). The average age was 32 (34).

The share

The Starbreeze share has been listed in the Mid Cap segment of Nasdaq Stockholm since 2 October 2017. The shares are traded under the tickers STAR A, ISIN code SE 007158928, and STAR B, SE0005992831. The closing price on 28 September 2018 was SEK 8.51 for the Class A share, compared to SEK 11.10 on 29 September 2017, and SEK 8.95 for the Class B share, compared to SEK 11.35. At the end of the quarter, total market capitalization was approximately SEK 2,886 million, compared to approximately SEK 3,187 million in the preceding year.

Share capital

Comparative figures refer to 30 September 2017. Share capital at the end of the period amounted to SEK 6,506 thousand (5,640) distributed among 325,295,554 shares (282,017,858), of which 54,025,862 Class A shares (55,971,982) and 271,269,692 Class B shares (226,045,876). The number of Class B shares increased by 3,126,765 and the number of Class A shares decreased correspondingly due to the company's conversion program.

Shareholders

Starbreeze had 28,907 shareholders (27,107 at 30 September 2017) at the end of the period. A list of the company's ten largest shareholders is

Employee key data

	2018	2017
	Q3	Q3
Employees	639	303
Men	561	258
Women	78	45
Net profit (-loss) per employee	-133 TSEK	-105 TSEK

639

Employees at Starbreeze

updated monthly on the company's website at starbreeze.com under Investors.

Nomination committee and annual general meeting

The nomination committee leading up to the 2019 AGM was announced on 8 October. The committee members are Peter Sponbergs, appointed by Varvtre AB; Åsa Nisell, appointed by Swedbank Robur Fonder; Ossian Ekdahl, appointed by Första AP-fonden; and Michael Hjorth, who is also chairman of the board, appointed by Indian Nation. Åsa Nisell was appointed chair of the nomination committee.

The 2019 AGM will be held in Stockholm on Tuesday, 7 May 2019 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 2017, other than that the Group began applying IFRS 15 and IFRS 9 as of 1 January 2018. The transition has had no impact on the financial statements with respect to either opening balances or going forward. As of the first quarter of 2018, Starbreeze applies an income statement classified by function.

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

Impact of forthcoming standards

IFRS 16 Leases

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

Risks and uncertainties

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

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

The largest risks and uncertainties are low revenues in connection with game releases and project delays. These and other risks such as copyright infringements, loss of key people and exchange rate fluctuations are described in Starbreeze's Annual Report 2017 in the Report of the Board of Directors on page 64, and in Note 3. Furthermore, the value

of certain assets and liabilities is based on expected outcomes. Consequently, these items must be regularly remeasured and thus may affect future profit and loss.

The board of directors estimates that current and available financing is sufficient to operate the business for at least the next 12 months. The company's board and management continuously evaluate the Group's long-term capital requirements and financing options.

Related party transactions

In connection with 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 was then 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 nine-month period. The company also received a marketing contribution of SEK 8.3 million during the period from the joint venture company StarVR Corporation. This amount has been recognized as a liability on the balance sheet. There were no non-customary related party transactions during the period other than the transactions disclosed in the report above.

Investor relations

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

For further information

Bo Andersson Klint, CEO

+46 (0) 8-209 208

bo.anderssonklint@starbreeze.com

Sebastian Ahlskog, CFO

+46 (0) 8 209 208

sebastian.ahlskog@starbreeze.com

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

Stockholm, 6 November 2018

Michael Hjorth

Chairman

Directors

Ulrika Hagdahl

Hyung Nam Kim (Harold Kim)

Matias Myllyrinne

Åsa Wirén

Kristofer Arwin

Bo Andersson Klint

CEO

Financial calendar

Year-end report 2018	5 February 2019
Annual Report 2018	5 April 2019
AGM 2019	7 May 2019
Interim report Q1 2019	7 May 2019
Interim report Q2 2019	20 August 2019
Interim report Q3 2019	5 November 2019
Year-end report 2019	4 February 2020

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 6 November 2018 at 08:00 CET.

Consolidated statement of comprehensive income

SEKk	NOTE	2018	2017	2018	2017	2017
		Q3	Q3	JAN-SEP	JAN-SEP	JAN - DEC
Net sales	5	33,882	77,726	267,496	257,694	361,447
Direct costs		-78,939	-79,287	-229,994	-221,966	-332,807
		-	-	-	-	-
Gross profit		-45,057	-1,561	37,502	35,728	28,640
Selling and marketing costs		-20,811	-5,959	-55,910	-44,540	-59,480
Administrative expenses		-21,062	-27,281	-73,624	-89,357	-119,469
Other revenue		-466	-	16,572	-	-
Other expenses		-	-4,214	-	-10,270	-1,150
		-	-	-	-	-
Operating profit (-loss)	6	-87,396	-39,015	-75,460	-108,439	-151,459
Financial income		2,326	16,149	42,835	25,929	10,105
Financial expenses		-11,138	-9,679	-35,275	-22,372	-30,631
Share in profit or loss of holdings accounted for using the equity method		-6,102	-2,785	-14,619	-3,451	-4,200
Profit (-loss) before tax		-102,310	-35,330	-82,519	-108,333	-176,185
Income tax		17,259	3,593	34,747	16,043	20,855
Net profit (-loss) for the period		-85,051	-31,737	-47,772	-92,290	-155,330
<i>Other comprehensive income that may subsequently be reclassified to profit and loss</i>						
Exchange differences		25,306	-9,334	61,756	-13,124	1,402
Total comprehensive income for the period		-59,745	-41,071	13,984	-105,414	-153,928
Total comprehensive income for the period attributable to:						
Owners of the parent		-60,046	-41,071	13,688	-105,414	-154,022
Non-controlling interests		301	-	296	-	94
<i>Earnings per share attributable to owners of the parent during the period (SEK):</i>						
- Basic		-0.26	-0.11	-0.15	-0.33	-0.55
- Diluted		-0.26	-0.11	-0.15	-0.33	-0.55

Consolidated balance sheet

SEKk	NOTE	2018/09/30	2017/09/30	2017/12/31
ASSETS				
<i>Intangible assets</i>				
Goodwill		560,738	462,206	544,971
Other non-current assets		591,937	576,717	597,467
Capitalized expenditure for own games and technology development		720,428	397,855	455,239
Investments in publishing projects		220,335	184,431	187,528
<i>Financial assets</i>				
Financial assets		43,179	36,979	38,156
Investments in joint ventures	7	27,271	42,638	41,890
Deferred tax assets		176,657	89,102	108,153
<i>Property, plant and equipment</i>				
VR facilities, IT equipment and other equipment		160,728	58,541	98,901
Total non-current assets		2,501,273	1,848,469	2,072,305
<i>Current assets</i>				
Inventories		55		22
Trades and other receivables		35,340	14,103	27,821
Prepaid expenses and accrued income		57,414	107,224	125,259
Current investments		75,000	-	-
Cash and cash equivalents		147,488	431,452	233,757
Total current assets		315,297	552,779	386,859
TOTAL ASSETS		2,816,570	2,401,248	2,459,164
EQUITY AND LIABILITIES				
<i>Equity attributable to owners of the parent</i>				
Share capital		6,506	5,640	5,661
Other contributed capital		1,639,419	1,231,388	1,243,573
Reserves		66,829	-9,453	5,073
Retained earnings including net profit or loss for the period		-37,132	90,788	27,748
Non-controlling interests		1,483	-	344
Total equity		1,677,105	1,318,363	1,282,399
<i>Non-current liabilities</i>				
Non-current liabilities, earnouts		305,742	327,879	347,862
Deferred tax liability		167,837	154,353	169,346
Other non-current liabilities		511,719	385,889	466,557
Total non-current liabilities		985,298	868,121	983,765
<i>Current liabilities</i>				
Trade and other payables		96,742	126,754	122,396
Accrued expenses and deferred income		57,240	88,010	70,604
Total current liabilities		154,167	214,764	193,000
TOTAL EQUITY AND LIABILITIES		2,816,570	2,401,248	2,459,164

Consolidated statement of changes in equity

SEKk	Share capital	Other contributed capital	Reserves	Retained earnings	Total	Non controlling interest	Total equity
Balance at 1 January 2018	5,661	1,243,573	5,073	27,748	1,282,055	344	1,282,399
Net profit (-loss) for the period	-	-	-	-48,068	-48,068	296	-47,772
Other comprehensive income for the period							
Exchange differences	-	-	61,756	-	61,756	-104	61,652
Total comprehensive income	5,661	1,243,573	66,829	-20,320	1,295,743	536	1,296,279
Transactions with shareholders:							
New issue through exercise of stock options	26	7,234	-	-	7,260	-	7,260
Minority share of shareholder contributions to subsidiaries	-	-947	-	-	-947	947	-
Vested employee stock options	-	44	-	-	44	-	44
Sales of equity instruments	-	282	-	-	282	-	282
Tax effect on sale of equity instruments	-	-62	-	-	-62	-	-62
New issue	819	389,295	-	-	390,114	-	390,114
Issue cost recognized in equity	-	-	-	-21,522	-21,522	-	-21,522
Deferred tax effect of issue cost recognized in equity	-	-	-	4,710	4,710	-	4,710
Total contribution from and value transfers to shareholders, recognized directly in equity	845	395,846		-16,812	379,879	947	380,826
Balance at 30 September 2018	6,506	1,639,419	66,829	-37,132	1,675,622	1,483	1,677,105
Balance at 1 January 2017	5,538	1,175,563	3,671	185,451	1,370,223	-	1,370,223
Net profit (-loss) for the period	-	-	-	-92,290	-92,290	-	-92,290
Other comprehensive income for the period							
Exchange differences	-	-	-13,124	-	-13,124	-	-13,124
Total comprehensive income	5,538	1,175,563	-9,453	93,161	1,264,809	-	1,264,809
Transactions with shareholders:							
New issue through exercise of stock options	81	21,685	-	-	21,766	-	21,766
Vested employee stock options	-	556	-	-	556	-	556
Sales 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 in progress	21	16,979	-	-	17,000	-	17,000
Issue costs recognized in equity	-	-	-	-3,041	-3,041	-	-3,041
Deferred tax effect of issue costs recognized in equity	-	-	-	668	668	-	668
Total contribution from and value transfers to shareholders, recognized directly in equity	102	55,825		-2,373	53,554	-	53,554
Balance at 30 September 2018	5,640	1,231,388	-9,453	90,788	1,318,363	-	1,318,363
						2018	2017
CHANGE IN NUMBER OF OUTSTANDING SHARES						JAN-SEP	JAN-SEP
Number of shares at the beginning of the period						283,037,940	276,879,720
Non-cash issue						-	1,071,203
Subscription of shares through exercise of options						1,327,836	4,066,935
New issue						40,929,778	-
Total shares outstanding at the end of the period						325,295,554	282,017,858
							2017
							JAN - DEC
							276,879,720
							2,078,781
							4,079,439
							283,037,940

Consolidated statement of cash flows

SEKk	NOTE	2018	2017	2018	2017	2017
		Q3	Q3	JAN-SEP	JAN-SEP	JAN - DEC
<i>Operating activities</i>						
Cash flow from operations	3	-53,639	71,465	88,347	34,518	-11,167
Interest paid		-1,846	-11,166	-7,344	-3,007	-5,325
Interest received		110	-	763	-	9
Income taxes paid		-1,844	-724	-9,129	-8,265	-4,603
Cash flow from (-used in) operating activities		-57,219	59,575	72,637	23,246	-21,086
<i>Investing activities</i>						
Purchase of property, plant and equipment		-1,236	-15,202	-91,086	-44,449	-87,338
Investments in subsidiaries, less acquired cash and cash equivalents		-	-	-	345	-59,076
Purchase of intangible assets		-	894	-	-	-
Investments in other financial assets		3,655	-6,864	-4,968	-61,065	-61,590
Investments in own games and technology		-97,661	-59,272	-290,785	-165,743	-231,934
Investments in publishing projects		-29,277	-53,068	-92,330	-130,080	-180,169
Increase (-) / decrease (+) in short-term investments		-	-	-75,000	-	-
Cash flow from (-used in) investing activities		-124,519	-133,512	-554,169	-400,992	-620,107
<i>Financing activities</i>						
New issue		-	-	390,114	-	-
Payments for stock options		-	19,703	7,304	43,073	43,073
Increase in non-current liabilities		66,029	100,547	131,505	100,547	169,209
Repayment of loans		-6,426	900	-117,049	-459	-3,369
Cash flow from financing activities		61,603	121,150	395,062	143,161	208,913
Cash flow for (-used in) the period		-120,084	47,213	-86,470	-234,585	-432,280
Cash and cash equivalents at the beginning of the period		269,555	384,249	233,757	669,380	669,380
Exchange difference in cash and cash equivalents		-1,983	-10	201	-3,343	-3,343
Cash and cash equivalents at the end of the period		147,488	431,452	147,488	431,452	233,757

Key data, Group

	2018	2017	2018	2017	2017
	Q3	Q3	JAN-SEP	JAN-SEP	JAN - DEC
Net sales, SEKk	33,882	77,726	267,496	257,694	361,447
EBITDA, SEKk	-37,868	-21,868	63,374	-59,893	-53,559
EBIT, SEKk	-87,396	-39,015	-75,460	-108,439	-151,459
Profit (-loss) before tax, SEKk	-102,310	-35,330	-82,519	-108,333	-176,185
Profit (-loss) after tax, SEKk	-85,051	-31,737	-47,772	-92,290	-155,330
EBITDA margin, %	-111.8	-28.1	23.7	-23.2	-14.8
EBIT margin, %	-257.9	-50.2	-28.2	-42.1	-41.9
Profit margin, %	-302.0	-45.5	-30.8	-42.0	-48.7
Equity to assets ratio, %	59.5	54.9	59.5	54.9	52.1
Closing price of A share for the period, SEK	8.51	11.10	8.51	11.10	8.15
Closing price of B share for the period, SEK	8.95	11.35	8.95	11.35	8.40
Basic earnings per share, SEK	-0.26	-0.11	-0.15	-0.33	-0.55
Diluted earnings per share, SEK	-0.26	-0.11	-0.15	-0.33	-0.55
Number of shares at end of period before dilution	325,295,554	282,017,858	325,295,554	282,017,858	283,037,940
Number of shares at end of period after dilution	347,871,874	305,387,141	347,871,874	305,387,141	306,443,723
Average number of shares before dilution	325,295,554	282,017,858	315,510,563	279,291,468	280,309,967
Average number of shares after dilution	325,295,554	282,667,711	315,510,563	280,008,327	280,309,967
Average number of employees	643	290	637	256	278
Number of employees at the end of the period	639	303	639	303	650

Key data, Group

EBITDA

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

EBIT

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

EBITDA margin

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

EBIT margin

Operating profit or loss as a percentage of net sales.

Profit margin

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

Equity to assets ratio

Equity as a percentage of total assets.

Earnings per share

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

Equity

Recognized equity including 78 percent of untaxed reserves.

Reconciliation of Alternative Performance Measures

	2018	2017	2018	2017	2017
	Q3	Q3	JAN-SEP	JAN-SEP	JAN - DEC
<i>EBITDA</i>					
Operating profit (-loss), SEKk	-87,396	-39,015	-75,460	-108,439	-151,459
Less: Amortization of intangible assets, SEKk	37,432	12,405	108,093	37,713	82,294
Less: Depreciation of property, plant and equipment, SEKk	12,096	4,742	30,741	10,833	15,606
EBITDA	-37,868	-21,868	63,374	-59,893	-53,559
<i>EBITDA margin, %</i>					
EBITDA, SEKk	-37,868	-21,868	63,374	-59,893	-53,559
Net sales, SEKk	33,882	77,726	267,496	257,694	361,447
EBITDA margin, %	-111.8	-28.1	23.7	-23.2	-14.8
<i>EBIT margin, %</i>					
Operating profit (-loss), SEKk	-87,396	-39,015	-75,460	-108,439	-151,459
Net sales, SEKk	33,882	77,726	267,496	257,694	361,447
EBIT margin, %	-257.9	-50.2	-28.2	-42.1	-41.9
<i>Profit margin, %</i>					
Profit (-loss) before tax, SEKk	-102,310	-35,330	-82,519	-108,333	-176,185
Net sales, SEKk	33,882	77,726	267,496	257,694	361,447
Profit margin, %	-302.0	-45.5	-30.8	-42.0	-48.7
<i>Equity to assets ratio, %</i>					
Total equity	1,677,105	1,318,363	1,677,105	1,318,363	1,282,399
Total equity and liabilities, SEKk	2,816,570	2,401,248	2,816,570	2,401,248	2,459,164
Equity to assets ratio, %	59.5	54.9	59.5	54.9	52.1

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

Parent company income statement

	2018	2017	2018	2017	2017
SEKk	Q3	Q3	JAN-SEP	JAN-SEP	JAN - DEC
Net sales	12,893	23,204	42,573	47,064	63,217
Other operating revenue	-2,206	-522	8,881		1,752
Total sales	10,687	22,682	51,454	47,064	64,969
Other external expenses	-9,345	-11,820	-28,534	-56,580	-68,230
Employee benefit expense	-11,821	-10,582	-39,330	-35,953	-45,534
Depreciation of property, plant and equipment	-152	-192	-479	-551	-757
Other operating expenses	-	-3,997	-	-3,997	-
Operating profit (-loss)	-10,631	-3,909	-16,889	-50,017	-49,552
Other financial income	776	1,415	2,452	2,420	4,130
Financial expenses	-10,099	-9,219	-25,542	-21,373	-29,202
Profit (-loss) after net financial income/expense	-19,954	-11,713	-39,979	-68,970	-74,624
Appropriations	-	-	-	-	-
Profit (-loss) before tax	-19,954	-11,713	-39,979	-68,970	-74,624
Income tax	3,285	2,416	9,436	14,870	17,875
Net profit (-loss) for the period	-16,669	-9,297	-30,543	-54,100	-56,749

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

Parent company balance sheet

SEKk	2018/09/30	2017/09/30	2017/12/31
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Other non-current assets	-	3,160	-
<i>Tangible assets</i>			
Computers and other equipment	687	1,191	1,109
<i>Financial assets</i>			
Investments in group companies	1,432,897	1,136,930	1,281,195
Deferred tax assets	32,562	20,122	23,126
Investments in associates	45,958	45,958	45,958
Other financial assets	585	-	562
Total non-current assets	1,512,689	1,207,361	1,351,950
Current assets			
Trade and other receivables	294	-	23
Receivables from group companies	872,406	713,084	724,234
Other receivables	-	651	1,771
Prepaid expenses and accrued income	1,468	1,102	7,087
Cash and cash equivalents	95,390	204,916	75,353
Total current assets	969,558	919,753	808,468
TOTAL ASSETS	2,482,247	2,127,114	2,160,418
EQUITY AND LIABILITIES			
Equity			
Share capital	6,506	5,640	5,661
Fair value reserve	-	328	328
Share premium reserve	1,577,271	1,168,616	1,180,697
Retained earnings	9,013	84,934	82,562
Net profit (-loss) for the period	-30,543	-54,100	-56,749
Total equity	1,562,247	1,205,418	1,212,499
Untaxed reserves			
Accumulated excess depreciation	16	16	16
Total untaxed reserves	16	16	16
Non-current liabilities			
Other non-current liabilities	613,046	607,080	632,832
Total non-current liabilities	613,046	607,080	632,832
Current liabilities			
Trade payables	1,382	2,709	6,829
Liabilities to group companies	295,454	293,612	294,581
Other liabilities	-876	4,518	4,439
Accrued expenses and deferred income	10,978	13,761	9,222
Total current liabilities	306,938	314,600	315,071
TOTAL EQUITY AND LIABILITIES	2,482,247	2,127,114	2,160,418

NOTES

Note 1: Pledged assets

Consolidated pledged assets and contingent liabilities

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

SEKk	9/30/2018	9/30/2017	12/31/2017
Pledged assets	298,046	492,896	507,879
Contingent liabilities	-	-	-

Note 2: Financial instruments

Financial instruments measured at fair value

SEKk	9/30/2018	9/30/2017	12/31/2017	Level
<i>Assets at fair value through comprehensive income</i>				
Financial assets, shares in Cmune	11,502	11,502	11,502	2
<i>Financial assets at fair value through profit or loss</i>				
Investments in convertible loans	17,553	15,406	15,641	2
<i>Financial liabilities at fair value through profit or loss</i>				
Earnouts	305,742	327,879	347,862	3
Convertible loans	33,515	23,934	25,537	2

There has been no material change in liabilities measured at level 3 of the fair value hierarchy (conditional earnouts) during the period. The decrease in conditional earnouts refers mainly to the acquisition of Enterspace. These are measured as described in the 2017 Annual Report. Information concerning fair value

estimates and how they are calculated based on the respective level in the fair value hierarchy and disclosure of how the fair value of financial liabilities (earnouts) was calculated at level 3 of the fair value hierarchy is provided in the 2017 Annual Report.

Note 3: Cash flow from operations

SEKk	Q3 2018	Q3 2017	JAN-SEP 2018	JAN-SEP 2017	JAN - DEC 2017
Operating profit (-loss)	-87,396	-39,015	-75,460	-108,439	-151,459
<i>Adjustments for non-cash items</i>					
-Amortization of intangible assets	37,561	12,405	108,222	37,713	82,294
-Depreciation of property, plant and equipment	12,096	4,751	30,741	10,851	15,642
-Other unrealized exchange losses	1,551	-446	-3,705	-2,320	-2,508
<i>Adjustments for:</i>					
Increase (-) / decrease (+) of current receivables	2,917	20,756	60,990	-19,273	-45,458
Increase (+) / decrease (-) of current liabilities	-20,368	73,014	-32,441	115,986	90,322
Cash flow from operations	-53,639	71,465	88,347	34,518	-11,167

Note 4: Segment reporting, Group

	2018	2017	2018	2017	2017
SEKk	Q3	Q3	JAN-SEP	JAN-SEP	JAN - DEC
Starbreeze Games					
Net sales	30,704	24,431	102,260	99,908	122,074
Direct costs	-21,787	-18,688	-71,330	-59,975	-65,971
Gross profit	8,917	5,743	30,930	39,933	56,103
Operating costs	-27,012	-17,554	-50,657	-46,676	-56,653
Operating profit (-loss)	-18,095	-11,811	-19,727	-6,743	-550
Publishing					
Net sales	-4,088	50,455	132,746	145,276	219,925
Direct costs	-28,722	-40,999	-96,264	-111,078	-199,691
Gross profit	-32,810	9,456	36,482	34,198	20,234
Operating costs	-4,619	-7,284	-18,219	-35,939	-62,699
Operating profit (-loss)	-37,429	2,172	18,263	-1,741	-42,465
VR Tech & Operations					
Net sales	3,749	-	24,075	-	3,883
Direct costs	-17,042	-	-29,503	-	-
Gross profit	-13,293	-	-5,428	-	3,883
Operating costs	-9,799	-6,677	-30,813	-14,909	-4,294
Operating profit (-loss)	-23,092	-6,677	-36,241	-14,909	-411
Other					
Net sales	3,517	2,840	8,415	12,510	15,565
Direct costs	-11,388	-19,600	-32,897	-50,913	-67,145
Gross profit	-7,871	-16,760	-24,482	-38,404	-51,580
Operating costs	-909	-5,939	-13,273	-46,642	-56,453
Operating profit (-loss)	-8,780	-22,699	-37,755	-85,046	-108,033
Total					
Net sales	33,882	77,726	267,496	257,694	361,447
Direct costs	-78,939	-79,287	-229,994	-221,966	-332,807
Gross profit	-45,057	-1,561	37,502	35,728	28,640
Operating costs	-42,339	-37,454	-112,962	-144,167	-180,099
Operating profit (-loss)	-87,396	-39,015	-75,460	-108,439	-151,459

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

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

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

Starbreeze Games	-18,095	-11,811	-19,727	-6,743	-550
Publishing	-37,429	2,172	18,263	-1,741	-42,465
VR Tech & Operations	-23,092	-6,677	-36,241	-14,909	-411
Other	-8,780	-22,699	-37,755	-85,046	-108,033
Total	-87,396	-39,015	-75,460	-108,439	-151,459
Net financial income (-expense)	-14,914	3,685	-7,059	106	-24,726
Profit (-loss) before tax	-102,310	-35,330	-82,519	-108,333	-176,185

Note 5: Net sales by category

SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	14,696	81	-	-	14,777
Console, Digital	5,677	149	-	-	5,826
Console, Retail	483	-	-	-	483
VR centers	321	975	2,169	-	3,465
Services	8,751	-	1,580	3,517	13,848
License deals	746	-5,293	-	-	-4,547
Other	30	-	-	-	30
Total net sales	30,704	-4,088	3,749	3,517	33,882

SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	47,994	48,854	-	-	96,848
Console, Digital	27,101	43,099	-	-	70,200
Console, Retail	1,927	-	-	-	1,927
VR centers	885	1,556	5,803	-	8,244
Services	23,531	-	16,230	8,415	48,176
License deals	792	39,237	-	-	40,029
Other	30	-	2,042	-	2,072
Total net sales	102,260	132,746	24,075	8,415	267,496

Note 6: Consolidated depreciation and amortization by function

SEKk	2018 Q3	2017 Q3	2018 JAN-SEP	2017 JAN-SEP	2017 JAN-DEC
Depreciation of property, plant and equipment					
Direct costs	10,319	3,432	24,660	7,347	5,622
Selling and marketing costs	475	-	1,632	-	-
Administrative expenses	1,302	1,310	4,449	3,486	9,984
Total depreciation of property, plant and equipment	12,096	4,742	30,741	10,833	15,606
Amortization of intangible assets					
Direct costs	37,432	12,055	108,093	37,363	82,294
Selling and marketing costs	-	-	-	-	-
Administrative expenses	-	350	-	350	-
Total amortization of intangible assets	37,432	12,405	108,093	37,713	82,294
Total depreciation and amortization	49,528	17,147	138,834	48,546	97,900

Note 7: Joint venture

StarVR Corporation

The company's joint venture with Acer, StarVR Corporation, is a sales and marketing company for the StarVR One headset. The company manages sales and marketing, primarily to the B2B market, as well as support and aftermarket support. Starbreeze owns the intellectual property, such as patents, source code and brands related to StarVR, while Acer is responsible for manufacturing the product. R&D and reference design work for the StarVR headset is carried out jointly by Starbreeze and Acer. StarVR Corporation bears all costs for selling and marketing the StarVR headset. Starbreeze was responsible for R&D-related costs until September 2018, but these costs have now been transferred to StarVR Corporation. Production costs will be paid by Acer, which is also an exclusive supplier to StarVR Corporation.

StarVR Corporation has been listed on the Taipei Exchange Emerging Markets board since 23 March 2018. Based on the closing price on 5 November 2018, the market value of StarVR Corporation was SEK 941 million.

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	9/30/2018
<i>Reconciliation of net carrying amount:</i>	
Balance of net assets at 1 January	126,938
Net profit (-loss) for the period	-52,648
Exchange differences	8,348
Capital injection	-
Closing balance net assets	82,638
Group's share	33%
Group's share in SEKk	27,271
Net carrying amount	27,271

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

SEKk	9/30/2018
<i>Balance sheet in summary:</i>	
Current assets	20,972
Non-current assets	81,833
Current liabilities	18,201
Net assets	82,638
<i>Income statement in summary:</i>	
Sales	2,925
Net profit (-loss) for the period	-52,646
Total comprehensive income for the period	-52,648

AUDITOR'S REVIEW REPORT

Starbreeze AB (publ), corporate reg. no. 556551-8932

Introduction

We have reviewed the summarized interim financial information (the interim report) for Starbreeze AB (publ) as of 30 September 2018 and the nine-month period then ended. The directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

Focus and scope of review

We conducted our review in accordance with International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review differs from and is substantially less in scope than an audit conducted in accordance with ISA and generally accepted auditing practices otherwise and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion expressed based on a review therefore does not provide the same level of assurance as an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information was not prepared, with regard to the group, in accordance with IAS 34 and the Annual Accounts Act and, with regard to the parent company, in accordance with the Annual Accounts Act.

Stockholm, 6 November 2018

Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg

Authorized Public Accountant



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