

Q4

2019

Fourth quarter 2019

- Net sales amounted to SEK 51.1 million (82.5). PAYDAY accounted for SEK 50.8 million (20.4).
- EBITDA* amounted to SEK 26.8 million (-73.7).
- Depreciation, amortization and impairments totaled SEK 221.0 million (1428.6).
- Costs related to the reconstruction amounted to SEK 8.6 million.
- The loss before tax amounted to SEK -156.7 million (-1264.7).
- Basic and diluted earnings per share were -0.30 (-3.96 SEK).
- The Stockholm District Court approved the proposed composition arrangements in the reconstruction on 6 December 2019 and the ruling took legal effect on 27 December.

Full year 2019

- Net sales decreased by 20 percent to SEK 280.0 million (350.0). PAYDAY accounted for SEK 109.4 million (97.7).
- EBITDA* amounted to SEK -116.5 million (-10.3).
- Depreciation, amortization and impairments totaled SEK 387.9 million (1,567.5).
- Costs related to the reconstruction amounted to SEK 36.5 million for the full year.
- The loss before tax was SEK -452.4 million (-1,347.2).
- Basic and diluted earnings per share were SEK -1.22 (-4.20).
- Cash and cash equivalents at the end of the period amounted to SEK 82.8 million (69.3).

After the end of the period

- Starbreeze held an extraordinary general meeting on 13 January 2020. The EGM resolved to amend the terms of the company's outstanding convertible bond to extend the maturity of the bond to December 2024 and adjust the conversion price to SEK 2.25 per share.

KEY FIGURES	2019	2018	2019	2018
	Q4	Q4	JAN-DEC	JAN - DEC
SEKk				
Net sales	51,108	82,459	280,002	349,955
EBITDA*	26,829	-73,716	-116,457	-10,342
Profit (-loss) before tax	-156,735	-1,264,730	-452,424	-1,347,249
Earnings per share, SEK	-0.30	-3.96	-1.22	-4.20
Cash flow from operations	3,072	-19,669	56,084	49,905
Net sales per employee	370	133	1,239	552

* See page 22 for definitions of key figures.



About Starbreeze

Starbreeze is an independent developer, creator, publisher and distributor of games for PC and console with a global market focus and studios in Stockholm, Barcelona and Paris. Centered around the successful PAYDAY brand, Starbreeze develops games based on its own and others' brands, both internally and in collaboration with external game developers.

Starbreeze shares are listed on Nasdaq Stockholm under the tickers STAR A and STAR B with the ISIN codes SE0007158928 (Class A) and SE0005992831 (Class B).

More information: starbreeze.com

The CEO remarks on the report

FULL FOCUS ON PAYDAY

Successful completion of the reconstruction

On December 6, 2019 the reconstruction process came to a successful conclusion with composition agreements reached with all creditors. We are now fully focused on the core business – creating games, with PAYDAY front and center.

New DLC for PAYDAY2 generated higher than expected sales and player numbers

We released new material for PAYDAY 2 in October, which was enthusiastically received by our community, brought our concurrent players to the highest level in some time and generated high sales in the fourth quarter.

This is a good sign that confirms the interest in a future release of PAYDAY 3 and lays a stable foundation for continued efforts. Starbreeze will release additional updates to PAYDAY 2 in 2020. As of 3 January, sales will gain further momentum through the increase in Starbreeze's share of sales via Steam from 70 to 75 percent.

Constructive discussions concerning a publishing agreement for PAYDAY 3

We are engaged in ongoing discussions of a publishing agreement for PAYDAY 3 and intend to present one before the end of the first half of 2020. PAYDAY is the company's most important brand and we are seeking a good partner that can provide financial stability and possesses the marketing and distribution resources required to power the best possible launch and further development of the product.

Discussions concerning a publishing agreement for PAYDAY: *Crime War* are ongoing in parallel and we are optimistic that we will be able to present a publishing agreement before the end of the first half of 2020 here as well.

Focus on building a successful organization

Throughout the quarter, we maintained sharp focus on developing and strengthening the organization. Efforts to reduce total costs and create a more efficient organization adapted to the current situation were successful. Above all, I am proud that some former employees have chosen to come back to Starbreeze.

With a clearer organizational structure in which each developer assumes product ownership, we are creating continuity in a more cohesive organization with the ultimate goal of building better games.

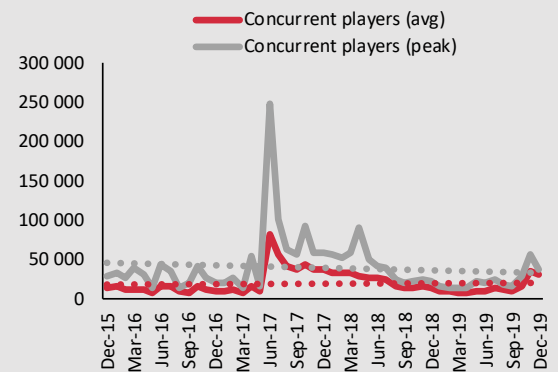
The company's ongoing expenses have been significantly reduced since the reconstruction began on 3 December 2018. This has been achieved by cutting costs and boosting efficiency in human resources and purchasing, as well as actions including subletting a third of the office space at company headquarters in Stockholm.

With a successful conclusion to the reconstruction, keener interest in PAYDAY 2, promising discussions regarding publishing agreements for PAYDAY 3 and PAYDAY: *Crime War* and a more efficient organization, we are optimistic about our future as a company that is once again creating games in high demand.

Mikael Nermark

Starbreeze CEO

PAYDAY 2



Source: steamcharts.com

At peak

56,582

Played PAYDAY 2 concurrently in Q4

SIGNIFICANT EVENTS DURING THE QUARTER

A summary of significant events during the quarter follows. Please visit Starbreeze.com for detailed information about events during the quarter.

Estimate of future cash flows and the reconstruction

By reason of the ongoing reconstruction efforts in October, the company issued an estimate of future cash flows from operations for the business. In the company's judgment, these cash flows will be positive, based on expected new publishing agreements for PAYDAY 3 and PAYDAY: Crime War in the first half of 2020 and the expected release of PAYDAY 3 in 2022–2023.

As part of the reconstruction, assets and employees attributable to the core business have been transferred to two new companies, New Starbreeze Publishing AB and New Starbreeze Studios AB. IP rights comprise the bulk of the assets and have been transferred to New Starbreeze Publishing AB. Cash flows for the Starbreeze Group will be generated in New Starbreeze Publishing AB.

In another aspect of the reconstruction process, one of the four major multinational accounting firms valued the company's assets. The valuation was the basis for the transfer of assets to the subsidiary New Starbreeze Publishing AB. These assets (mainly IP rights to PAYDAY) were valued at SEK 1,600 million. The corresponding assets were recognized on the consolidated balance sheet in the amount of SEK 341 million as of 30 September 2019.

Successful outcome of the reconstruction of Starbreeze

The Stockholm District Court approved the proposed composition arrangements in the reconstruction on 6 December 2019. Starbreeze, which had been in reconstruction since 3 December 2018, has thus successfully completed the process.

Starbreeze and Smilegate agree to extend the convertible bond to 2024 for an estimated surcharge of SEK 165 million. Both are subordinated and will be paid from available cash flow

As part of the reconstruction process for Starbreeze, the company has reached agreement with Smilegate on amended convertible bond terms and other dealings related to the Crossfire game project. The maturity of the convertible bond will be extended from February 2020 to December 2024 and subordinated to other debt. The surcharge to Starbreeze in exchange for these amendments is estimated at SEK 165 million and will be subordinated to other debts and carried for five years at zero (0) percent interest. As the agreement was conditional upon the approval of the EGM held in January 2020, the amended terms will not be reflected until the 2020 reporting.

The discontinuation of the partnership related to the Crossfire project entailed an impairment loss in the fourth quarter of 2019 of SEK 111 million, attributable to capitalized development costs. The impairment loss will have no effect on the company's liquidity.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

A summary of significant events after the end of the quarter follows. Please visit Starbreeze.com for detailed information about events during the quarter.

Increased revenue split from Steam

Steam, Starbreeze's main digital distribution platform, normally applies a 70/30 revenue split after tax and returns to its partners. The platform owner Valve announced in 2018 that they had begun to apply a stepped approach by which games that meet certain sales criteria can qualify for an additional 5% or 10% in revenue sharing on top of the standard 70%. PAYDAY 2 and its DLC's met the first sales criterion on 3 January 2020 and as a result the game's future revenue split will give the company 75% from Steam.

Extraordinary General Meeting

An extraordinary general meeting was held on 13 January 2020. The EGM resolved in favor of the board's proposal to amend the terms of the company's outstanding convertible bond to extend the maturity of the bond to December 2024 and adjust the conversion price to SEK 2.25 per share.

SALES AND PROFIT

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

Fourth quarter 2019

Revenues

Net sales for the fourth quarter of 2019 amounted to SEK 51.1 million (82.5), of which PAYDAY accounted for SEK 50.8 million (20.4). Revenue derived from sales of PAYDAY on Steam and for console were SEK 21.9 million. Revenues of SEK 28.9 million previously recognized in the balance sheet to cover development costs for PAYDAY: Crime War were recognized in revenue as required under IFRS 15 as the company's commitments to Universal have expired.

Starbreeze had no revenue during the quarter for Overkill's The Walking Dead, which had sales of SEK 34.1 million in the comparison period. Starbreeze's Indian development studio Dhruva contributed income of SEK 11.3 million in the comparison period. Dhruva was sold in the second quarter of 2019.

Gross profit or loss

Direct costs amounted to SEK 225.5 million (1,503.9) and consist of costs related to game production and game development. Direct costs include depreciation, amortization and impairments of SEK 215.4 million (1,427.4). As communicated earlier, the Crossfire game was impaired during the quarter by SEK 111,3 million related to capitalized development costs. In addition, the value of StarVR was impaired by SEK 21.1 million and the value of the PresenZ technology was impaired by SEK 59.2 million during the quarter. Neither StarVR nor PresenZ are part of Starbreeze's core business. There were significant reductions in other direct costs, mainly employee benefits expenses, between the years.

Capitalized development costs reduced direct costs by SEK 14.5 million (34.0) and refer to PAYDAY: Crime War, PAYDAY 2 and PAYDAY 3.

The gross loss was SEK -174.4 million (-1,421.4).

Costs

Sales and marketing costs amounted to SEK 2.1 million (35.5) and refer mainly to employee benefits expense. The reduction is mainly attributable to lower employee benefits expense for marketing staff and to that there were no launch costs charged against profit.

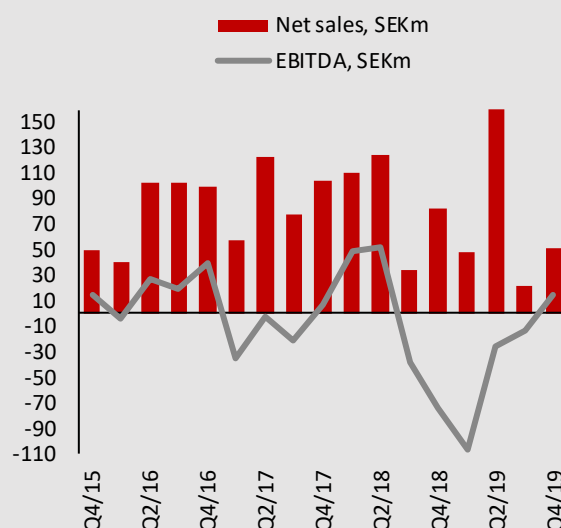
Administrative expenses amounted to SEK 24.5 million (42.1) and refer to items including office costs and payroll for employees who do not work in game production or marketing, as well as costs related to the reconstruction process. Reconstruction costs for the quarter amounted to SEK 8.6 million. Administrative expenses include amortization of SEK 5.6 million (1.2). Capitalized development costs reduced costs by SEK 10.4 million (7.1) and refer to PAYDAY: Crime War and PAYDAY 2 and PAYDAY 3.

Other operating revenue/operating expenses amounted to SEK 6.6 million (-3.3). A liability of SEK 11 million relating to the marketing contribution received was reversed in 2019. The item otherwise consists mainly of currency effects due to changes in the USD and EUR exchange rates against SEK.

Sales and profit

	2019	2018
SEKk	Q4	Q4
Net sales	51,108	82,459
EBITDA *	26,829	-73,716
Profit (-loss) before tax	-156,735	-1,264,730
Net profit (-loss) for the period	-98,279	-1,288,580
Earnings per share, SEK	-0.30	-3.96
Net sales growth, %	-38.0	-20.5
EBITDA margin, %	52.5	-89.4

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



Operating loss

EBITDA amounted to SEK 26.8 million (-73.7). This corresponds to an EBITDA margin of 52 percent (-89 percent).

Net financial income/expenses

Net financial income amounted to SEK 37.5 million (237.6). See the specification in the table at the right. Remeasurement of earnouts amounted to SEK 46.2 million (217.1). The remaining earnout related to Parallaxter was reversed during the quarter because the intangible asset was impaired to zero. The share of profit and loss in the joint venture StarVR Corporation amounted to SEK -1.0 million (-22.6). Net financial income was reduced during the quarter by interest on lease liabilities of SEK 0.4 million (0.0), which is an effect of the new IFRS 16 reporting standard.

Profit (-loss) before tax and net profit (-loss) for the period

The loss before tax and appropriations was SEK -156.7 million (-1,264.7) and the net loss for the period was SEK -98.3 million (-1,288.6).

Basic and diluted earnings per share were SEK -0.30 (-3.96).

Full year 2019

Revenues

Net sales increased by 20 percent to SEK 280.0 million (350.0), of which PAYDAY 2 accounted for SEK 109.4 million (97.7). Revenues for sales of PAYDAY on Steam and for console were SEK 66.9 million and coverage of development costs for PAYDAY: Crime War amounted to SEK 42.5 million. Sales include the sale of the publishing rights to Psychonauts 2, 10 Crowns and System Shock 3 for a total of SEK 140.8 million. External income of SEK 14.7 million (34.8) from Dhruva was also included during the year. The comparative figures include income of SEK 133.7 million from Dead by Daylight and SEK 34.1 million from Overkill's The Walking Dead.

Gross profit or loss

Direct costs amounted to SEK 661.5 million (1,733.9), including amortization, depreciation and impairments of SEK 364.8 million (1560.1).

The reduction in direct costs is mainly attributable to the cost-saving measures taken during the year within the framework of reconstruction. Development costs reduced profit for the year to a higher extent than in 2018, when such costs could be capitalized in the balance sheet to a greater extent. Total development costs have decreased compared to the preceding year.

The reduction in depreciation, amortization and impairments compared to the preceding year is due mainly to the large impairment losses on intangible assets taken in the fourth quarter of 2018.

Capitalized development costs reduced direct costs by SEK 51.0 million (252.6).

The gross loss was SEK -381.5 million (-1,383.9).

The gross loss includes the net realizable value of the sold publishing rights to System Shock 3, Psychonauts 2 and 10 Crowns at a cost of SEK 28.4 million.

Costs

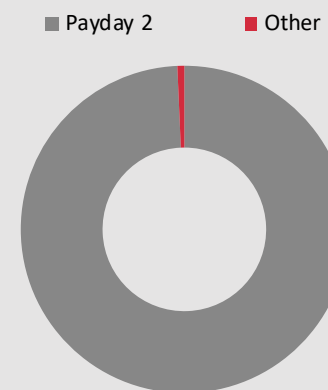
Sales and marketing costs amounted to SEK 12.0 million (91.4). The reduction is mainly attributable to lower employee benefits expense and to that there were no major projects launched.

Administrative expenses amounted to SEK 109.6 million (115.7), including amortization and depreciation of SEK 23.1 million (5.7). The increase in amortization and depreciation is due mainly to the application of IFRS 16, which required amortization and depreciation of SEK 16.9

Specification of net financial income/expense

SEkk	2019	2018	2019	2018
	Q4	Q4	JAN-DEC	JAN - DEC
Remeasurement of earnouts	46,183	217,081	84,099	259,200
Interest on convertible bonds	-4,594	-4,483	-18,016	-21,445
Remeasurement of derivatives attributable to convertible bonds	-	16,427	42	8,150
Interest on loan to StarVR Corp.	-	32,773	-	28,467
Net profit (-loss) from StarVR Corp.	-1,043	-22,614	-1,462	-37,233
Interest on short-term investments	-	-669	-	47
Interest on bank overdraft facility	-1,053	-1,597	-4,138	-6,182
amortized loan	-	-	-5,000	-
Interest on lease liability	-438	-	-1,987	-
Interest on non-current liabilities according composition proposal	-1,767	-	-1,767	-
Other items	187	697	167	-448
Total	37,475	237,615	51,938	230,556

Distribution of net sales for the quarter between PAYDAY and Other



million. Capitalized development costs reduced administrative expenses by SEK 39.1 million (45.5). Reconstruction costs for 2019 amounted to SEK 36.5 million.

Other operating revenue/operating expenses amounted to SEK -1.2 million (13.3). The reduction is primarily attributable to capital losses of SEK 30.6 million resulting from the sales of the subsidiaries Dhruva and Nozon. Exchange differences are also included.

Operating profit (-loss)

EBITDA amounted to SEK -116.5 million (-10.3).

Net financial income

Net financial income amounted to SEK 51.9 million (230.6). See the specification in the table at the right on page 7.

Net financial income consisted largely of the remeasurement of earnouts of SEK 84.1 million (259.2) of which SEK 1.4 million (-3.9) in exchange losses. The earnout of SEK 4.5 million for Dhruva has been removed from the closing balance, as the subsidiary was sold in May 2019. Interest expense on convertible bonds amounted to SEK 18.0 million (21.4); the share in the loss of the joint venture company StarVR Corporation was SEK -1.5 million (-37.2) and remeasurement of derivatives attributable to the Smilegate bond amounted to SEK 0.0 million (8,2). The cost of borrowing including interest on short-term financing raised during the reconstruction amounted to SEK 5.0 million (0.0). Interest expense on the bank overdraft facility was SEK 4.1 million (6.2). See the specification in the table on the preceding page.

Profit (-loss) before tax and net profit (-loss) for the period

The loss before tax and appropriations was SEK -452.4 million (-1,347.2). The loss for the period amounted to SEK -396.9 million (-1,324,3).

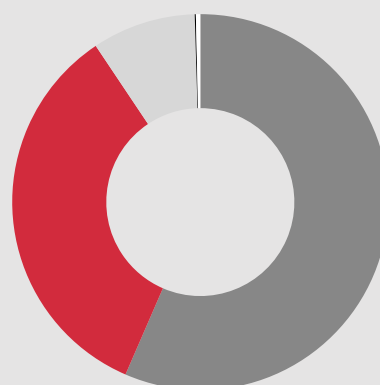
Basic and diluted earnings per share were SEK -1.22 (-4.20).

Segment reporting

Starbreeze operations are reported in the following segments: Starbreeze Games, Publishing, and VR Tech & Operations. See Note 5. Reporting is provided down to operating profit or loss, and assets and liabilities are not reported by segment.

Distribution of net sales for the quarter per category

■ License deals ■ Services ■ PC
■ Console ■ VR centers



STARBREEZE GAMES

Q4

2019

The Starbreeze Games business area consists of Starbreeze's own games portfolio. Revenues currently comprise sales revenue and royalties for the rights to PAYDAY.

Fourth quarter 2019

Net sales were SEK 50.8 million (66.3) and consist of sales of game products within the PAYDAY franchise of SEK 50.8 million (20.4). Revenues for sales of PAYDAY on Steam and for console were SEK 21.9 million. Revenue of SEK 28.9 million previously recognized on the balance sheet to cover development costs for PAYDAY: Crime War were recognized in revenue as required under IFRS 15 as the company's commitments to Universal have expired.

Starbreeze had no revenue during the quarter for Overkill's The Walking Dead, which had sales of SEK 34.1 million in the comparison period. The comparative figures for net sales included external income of SEK 11.3 million from Starbreeze's Indian studio Dhruva, which was sold in May 2019.

Direct costs amounted to SEK 119.8 million (662.3). The reduction in direct costs is mainly attributable to the cost-saving measures taken during the year.

Depreciation, amortization and impairments included in direct costs during the quarter amounted to SEK 116.3 (604.4) and consisted mainly of the impairment of the Crossfire game project of SEK 111,3 million.

Operating costs amounted to SEK 17.4 million (61.1). The decrease is due mainly to a trimmed marketing organization and lower marketing costs as there were no major game releases during the quarter or shortly thereafter.

The operating loss was SEK -86.4 million (-657.1).

Full year 2019

Net sales amounted to SEK 127.0 million (168.6), of which the PAYDAY franchise accounted for SEK 109.4 million (97.7). Revenues for sales of PAYDAY on Steam and for console were SEK 66.9 million and coverage of development costs for PAYDAY: Crime War amounted to SEK 42.5 million. External income of SEK 14.7 million (34.8) from Dhruva was also included.

Direct costs amounted to SEK 229.7 million (733.6). The reduction is attributable mainly to the cost-saving measures taken during the reconstruction process, where the focus was on the company's core business.

Operating costs amounted to SEK 75.6 million (111.8).

EBITDA amounted to SEK -178.2 million (-676.8).

After the end of the period

Revenues from sales of PAYDAY 2 via the Steam platform in January 2020 amounted to SEK 5.3 million (3.3).

	2019	2018	2019	2018
SEKk	Q4	Q4	JAN-DEC	JAN-DEC
Starbreeze Games				
Net sales	50,818	66,294	127,020	168,554
Direct costs	-119,837	-662,282	-229,682	-733,612
Gross profit (-loss)	-69,019	-595,988	-102,662	-565,058
Operating costs	-17,356	-61,112	-75,563	-111,769
Operating profit (-loss)	-86,375	-657,100	-178,225	-676,827

Profit and loss analysis

	2019	2018	2019
MSEK	Q4	Q4	Q3
Gross profit	-69.0	-657.1	-20.0
Change		588.1	-49.0
Analysis of changes			
Gross profit or loss, Payday		39.0	36.5
Whereof received development funding for Crimewar		28.9	28.9
Gross profit or loss, Dhruva		15.5	1.2
Impairment		458.0	-107.3
Crossfire		-111.3	-111.3
OTWD		374.1	-
Geminose		171.9	-
Cinemaware		-	4.0
Ovriga		23.3	4.0
Costs for OTWD (excl impairment)		19.2	3.9
Allocated direct costs		-0.5	2.6
Reduced operating costs (premises, marketing etc.)		35.4	1.2
Other		21.5	12.9
Total		588.1	-49

PUBLISHING

Q4

2019

The Publishing business area consists of Starbreeze's publishing operations with own games and games developed by third parties. The game projects Psychonauts 2 and 10 Crowns, which were sold during the second quarter, and the portfolio of published VR titles are included in the business area.

Fourth quarter 2019

Net sales amounted to SEK 0.3 million (2.4). Sales during the quarter consist mainly of revenue sharing for published game projects.

Direct costs amounted to SEK 23.1 million (81.4), including depreciation, amortization and impairments of intangible assets of SEK 22.6 million (65.5), which have now been fully impaired.

Operating costs amounted to SEK 2.5 million (1.5). Within the group, the amount refers mainly to allocated costs of rent and other office costs.

The operating loss was SEK -25.3 million (-80.6).

Full year 2019

Net sales amounted to SEK 146.5 million (135.1). The sale of publishing rights generated SEK 140.8 million, broken down as follows: Psychonauts 2, SEK 125.1 million, 10 Crowns SEK 12.0 million and System Shock 3, SEK 3.7 million.

Direct costs amounted to SEK 199.8 million (177.7). The increase is due primarily to the recognition of the carrying amounts for the above-mentioned sold publishing rights as costs.

Operating costs amounted to SEK 17.6 million (19.8).

The operating result decreased to SEK -70.8 million (-62.3) as a direct effect of the sale of Psychonauts 2, 10 Crowns and System Shock 3, which reduced profits by SEK 28.4 million. See Note 1 Accounting and measurement policies for further information about how these sales were accounted for.

SEKk	2019 Q4	2018 Q4	2019 JAN-DEC	2018 JAN-DEC
Publishing				
Net sales	273	2,399	146,494	135,145
Direct costs	-23,111	-81,438	-199,750	-177,702
Gross profit (-loss)	-22,838	-79,039	-53,256	-42,557
Operating costs	-2,497	-1,549	-17,563	-19,768
Operating profit (-loss)	-25,335	-80,588	-70,819	-62,325

OTHER

Other refers to the VR Tech & Operations business area, which consists of Starbreeze's virtual reality (VR) technology and software development and of group-wide costs and projects not attributable to the other business areas.

Fourth quarter 2019

Net sales for the period amounted to SEK 0.0 million (13.8).

Direct costs amounted to SEK 82.5 million (760.2) and refer primarily to impairments of the value of intangible assets of SEK 80.3 million (650,5 MSEK). See Note 9. Depreciation and amortization amounted to SEK 0.1 million (94.6). The reduction in depreciation and amortization is primarily due to that all assets related to the VR parks in Dubai and Stockholm were impaired to zero in the first quarter of 2019.

Operating costs amounted to SEK 0.0 million (18.2).

The operating loss was SEK -82.5 million (-764.7).

Full year 2019

Net sales for the period of SEK 6.5 million (46.3) refer primarily to revenues generated by the previously owned Belgian subsidiary Nozon and the VR parks in Dubai and Stockholm. Nozon was sold in June and the VR parks have been discontinued. The comparison period includes compensation for marketing of the StarVR headset and which is part of the previously communicated financial support of USD 11.5 million in total received for the build-up of the VR park in Dubai.

Direct costs amounted to SEK 232.1 million (822.6).

The operating loss was SEK -255.3 million (-838.7) and was negatively affected by a capital loss of SEK 21.3 million on the sale of Nozon. Impairment losses reduced profit by SEK 183.5 million (466).

Q4

2019

	2019	2018	2019	2018
SEkk	Q4	Q4	JAN-DEC	JAN-DEC
Other				
Net sales	17	13,766	6,488	46,256
Direct costs	-82,517	-760,189	-232,089	-822,589
Gross profit (-loss)	-82,500	-746,423	-225,601	-776,333
Operating costs	-	-18,233	-29,717	-62,319
Operating profit (-loss)	-82,500	-764,656	-255,318	-838,652

OTHER FINANCIAL INFORMATION

Cash flow and investments

The comparison figures refer to the corresponding period in the preceding year.

Fourth quarter 2019

Cash flow

Cash flow from operating activities amounted to SEK 3.1 million (-19.7). The improvement is due primarily to an improved EBITDA. Cash flow from (-used in) investing activities was SEK -34.3 million (-8.1). See also "Investments" below. Cash flow from (-used in) financing activities was SEK 1.0 million (-50.7). No new loans or other credits were raised during the period, which is the main reason for the large difference between the years. That there is a positive flow in spite of this is due to factors including movements in exchange rates.

Total cash flow for (-used in) the quarter was SEK -30.3 million (-78.4). Cash and cash equivalents at the end of the period amounted to SEK 82.8 million (69.3)

Investments

Consolidated investments in property, plant and equipment during the quarter amounted to SEK 0.0 million (1.0). In addition, investments in own game and technology development totaled SEK 28.3 million (43.2), where the decrease is related mainly to completion of the OVERKILL's The Walking Dead game project and the development of the StarVR headset in 2018 and that there have been no further investments in 2019. Investments in publishing projects amounted to SEK 0.0 million (37.3) and refer to exchange rate adjustments.

Full year 2019

Cash flow

Cash flow from operating activities amounted to SEK 56.1 million (49.9). Cash flow from (-used in) from investing activities was SEK -36.2 million (-559.2). See also the "Investments" section below. Cash flow from (-used in) financing activities was SEK -6.6 million (344.3). The negative change is due mainly to the new share issues executed in the comparison period.

Total cash flow for (-used in) the period was SEK 13.3 million (-165.0). Cash and cash equivalents at the end of the period amounted to SEK 82.8 million (69.3)

Investments

Consolidated investments in property, plant and equipment during the period amounted to SEK 2.1 million (92.1). Investments in own game and technology development totaled SEK 92.4 million (333.9), of which OVERKILL's The Walking Dead accounted for a large portion in the comparison period. Investments in publishing projects amounted to SEK 8.4 million (126.6).

Cash and cash equivalents at

31 December 2019

SEK
82.8
million

The comparison figures refer to the closing balance on 31 December 2018.

Non-current assets

Goodwill at the end of the period amounted to SEK 43.6 million (57.2). Goodwill is recognized using the exchange rate on the reporting date. Other intangible assets, which consist primarily of IP rights, amounted to SEK 240.2 million (356.1).

Capitalized costs for own game and technology development totaled SEK 81.5 million (170.9). The decrease is due mainly to the impairment of Crossfire.

The carrying amount of investments in publishing projects was SEK 4.1 million (188.0). The decrease is due to the Group's sale of the publishing rights to System Shock 3, Psychonauts 2 and 10 Crowns at a total carrying amount of SEK 169.2 million in the first half of 2019.

Amortizations and impairments of intangible assets amounted to SEK 326.9 million (1438.5) for the full year 2019.

Current assets

Trade and other receivables amounted to SEK 10.4 million (39.5). Pre-paid expenses and accrued income at the end of the period amounted to SEK 33.4 million (46.6). SEK 13.4 million (17.6) refers to the receivable for digital sales, mainly via Steam, PlayStation Store, Xbox Live and Switch.

Available-for-sale assets and liabilities

Available-for-sale assets amounted to SEK 1.1 million (78.2) at the reporting date and available-for-sale liabilities amounted to SEK 1.5 million. These refer to the subsidiary Parallaxter. The comparative figures include the subsidiary Dhruva which was sold in May 2019 and the now fully impaired IP rights to the Cinemaware library. The latter are no longer classified as available for sale.

Equity

Consolidated equity on the reporting date amounted to SEK 6.2 million (339.0) and the equity to assets ratio was 1.0 percent (31.3).

Non-current liabilities

Non-current liabilities amounted to SEK 184.2 million (159.3). See the table at the right. The portion of non-current liabilities expected to be paid within 12 months under the reconstruction plan has been reclassified to current liabilities.

Non-current liabilities to Nordea amounted to SEK 94.3m as of 31 December. The non-current portion of the lease liability recognized in accordance with IFRS was SEK 55.3m. Non-current liabilities include non-current trade payables in the amount of SEK 12.3m and a deferred tax liability of SEK 7.9m.

The liability for earnouts decreased to SEK 0.1 million (88.6). As the entire value of the PresenZ technology has been impaired to zero, the liability related to the earnout for the subsidiary Parallaxter has been reversed. The remaining amount refers to ePawn. The balance sheet item is measured at fair value and the change is recognized in net financial income and expense on the income statement (see page 7). As the subsidiary Dhruva has been sold, the liability for the earnouts related to this company also reduced debt during the year.

Current liabilities

Trade and other payables at the end of the period amounted to SEK 361.6 million (519.4), of which SEK 19.2 million (0.0) refers to current lease liabilities recognized in accordance with IFRS 16. The total includes the convertible bond issued to Smilegate of SEK 213.9 million, which will mature in February 2020. Following a resolution by the general meeting

The equity to assets ratio

was

1.0

percent as of 31 December 2019

held in January 2020, the bond has been extended to December 2024. The remainder of the item mainly comprises trade payables and the current portion of outstanding loans. Accrued expenses and deferred income at the end of the period amounted to SEK 38.5 million (63.9).

Leases

IFRS Leases has been applied since 1 January 2019. IFRS 15 Leases replaces the earlier IAS 17 Leases standard. Starbreeze has elected to implement the standard according to the modified transition approach by which identified leases have not been retroactively restated, meaning that there has been no effect on the comparative figures for periods preceding 2019.

There were no leases accounted for according to IAS 17 Leases as of 1 January 2018.

Upon adaptation of accounting to IFRS, the Group has reported an asset class called "Right-of-Use buildings." The opening balance for both the asset and current and non-current liabilities was SEK 111.5 million upon initial recognition in the first quarter. The Group had a closing balance for right-of-use assets at the reporting date of SEK 63.8 million. A non-current receivable of SEK 5.7 million and a current receivable of SEK 3.1 million have been recognized in accordance with the standard regarding subleases. On the liability side, the Group has recognized a non-current liability of SEK 55.3 million and a current liability of SEK 19.2 million. The value of right-of-use assets declined by SEK 16.9 million as a direct consequence of depreciation taken during the year. Net financial income was reduced by SEK 2.0 million. The deposit paid for the premises in Stockholm have been reported as a non-current financial asset on the balance sheet. No lease payments had been paid in advance as of the end of the year.

Starbreeze has applied the incremental borrowing rate per country as the discount rate for discounting future lease payments. The incremental borrowing rate is based on the lessee's financial strength, country and the term of the relevant lease.

The interim report for the parent company has been prepared in accordance with the Swedish Annual Accounts Act (SFS 1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The interim report for the parent company has been prepared using the same accounting policies and calculation methods applied in the 2018 annual report (Note 1, pages 30–36) except that the parent company applies the exception permitted under RFR2 and reports all lease obligations as operating leases.

Parent company

The group's business was conducted during the year in the parent company Starbreeze AB (publ) and the following subsidiaries: Dhruva Infotech Ltd, Starbreeze Production AB, Starbreeze Studio 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, Starbreeze Middle East FZE and Starbreeze Paris SAS, New Starbreeze Studios AB, New Starbreeze Publishing AB, Nozon, Parallaxter and Enterspace AB. Dhruva Infotech Ltd and Nozon were sold in the second quarter of 2019.

The parent company's net sales during the quarter amounted to SEK 12.6 million (12.7). Sales refer primarily to allocation of management fees.

The loss before tax was SEK 9.0 million (-1,000.0) and the loss after tax was SEK 9.0 million (-1,032.9).

Cash and cash equivalents at the end of the period amounted to SEK 12.0 million (8.0) and parent company equity was SEK 581.1 million (529.5).

Non-current liabilities increased to SEK 306.1 million (88.6). The increase is mainly due to recognition of intragroup liabilities as non-current in accordance with the reconstruction plan. Acer converted its loan during the year. The liability for earnouts amounts to SEK 0.1 million (88.6).

Employees

The number of employees at the end of the period was 127 (604), of whom 112 men and 15 women. The reduction in the number of employees is attributable primarily to the sale of Dhruva and the restructuring of the company. The average number of full-time employees for the quarter was 138 (622). The average age was 34 (32).

The share

The Starbreeze share has been listed on Nasdaq Stockholm since 2 October 2017 and is in the Small Cap segment. The shares are traded under the tickers STAR A, ISIN code SE 007158928, and STAR B, SE0005992831. The closing price on 30 December 2019 was SEK 1.85 for the Class A share, compared to SEK 1.23 on 30 December 2018, and SEK 1.86 for the Class B share, compared to SEK 0.82. At the end of the quarter, total market capitalization was approximately SEK 612.1 million, compared to approximately SEK 289 million in the preceding year.

Share capital

Share capital at the end of the period amounted to SEK 6,587 thousand (6,506 thousand at 31 December 2018) distributed among 329,367,849 shares (325,295,554), of which 53,001,992 Class A shares (53,397,677) and 276,365,857 Class B shares (271,897,552).

Equity increased by SEK 71.7 million and the number of Class B shares increased by 4,072,295 in the second quarter of 2019 when Acer exercised its convertibles. During the quarter, 340,085 Class A shares were converted to Class B shares.

Shareholders

Starbreeze had 30,556 shareholders (28,907 at 30 December 2018) at the end of the period. A list of the company's largest shareholders is updated monthly on the company's website at starbreeze.com under Investors.

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

Employee key data

	2019	2018
	Q4	Q4
Employees	127	604
Men	112	533
Women	15	71
Net profit (-loss) per employee	-3158 SEkk	-2133 SEkk

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Employees at Starbreeze

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 acquisitions 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 2018 in the Report of the Board of Directors on page 54, 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.

Starbreeze exited reconstruction in December 2019 and in January 2020 the outstanding convertible bond was extended to December 2024. That notwithstanding, there is risk that the company will not have sufficient secured funds to guarantee continued operations for the next 12 months. Without additional financing, liquidity injections from divestitures or new distribution deals, the company expects a liquidity shortfall in the second quarter of 2020.

In the opinion of the board of directors, Starbreeze will be able to close a publishing agreement for PAYDAY 3 and PAYDAY: Crime War during the first half of 2020 and thereby secure the company's financing.

Related party transactions

There were no related party transactions during the period other than payment of salaries and other compensation and intragroup transactions.

Auditor's review

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

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: or mail: Box 7731, 103 95 Stockholm, Sweden

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

Stockholm, 11 February 2019

Torgny Hellström

Chairman of the Board

Directors

Kerstin Sundberg

Hyung Nam Kim (Harold Kim)

Tobias Sjögren

Jan Benjaminson

Stefano Salbe

Financial calendar

Annual Report 2019	7 April 2020
Interim report Q1 2020.....	17 May 2020
Interim report Q2 2020	18 August 2020
Interim report Q3 2020	10 November 2020
Year-end report 2020.....	16 February 2021

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 11 February 2020 at 08:00 CET.

Consolidated statement of comprehensive income

SEKk	NOTE	2019	2018	2019	2018
		Q4	Q4	JAN-DEC	JAN - DEC
Net sales	5, 6	51,108	82,459	280,002	349,955
Direct costs	7, 9	-225,464	-1,503,909	-661,520	-1,733,903
Gross profit (-loss)		-174,356	-1,421,450	-381,518	-1,383,948
Selling and marketing costs		-2,050	-35,487	-12,048	-91,397
Administrative expenses		-24,453	-42,098	-109,609	-115,722
Other revenue		10,191	-3,310	19,221	13,262
Other expenses		-3,542	-	-20,408	-
Operating profit (-loss)		-194,210	-1,502,345	-504,362	-1,577,805
Financial income		46,757	252,982	93,571	295,817
Financial expenses	8	-8,239	7,247	-40,171	-28,028
Share in profit or loss of holdings accounted for using the equity method		-1,043	-22,614	-1,462	-37,233
Profit (-loss) before tax		-156,735	-1,264,730	-452,424	-1,347,249
Income tax		58,456	-23,850	51,325	10,897
Net profit (-loss) for the period		-98,279	-1,288,580	-401,099	-1,336,352
<i>Other comprehensive income that may subsequently be reclassified to profit and loss</i>					
Impairment of unlisted shares		-	-11,501	-	-11,501
Exchange differences		1,030	-38,230	4,162	23,526
Total comprehensive income for the period		-97,249	-1,338,311	-396,937	-1,324,327
Total comprehensive income for the period attributable to:					
Owners of the parent		-97,249	-1,338,680	-397,087	-1,324,992
Non-controlling interests		-	369	150	665
<i>Earnings per share attributable to owners of the parent during the period (SEK):</i>					
- Basic		-0.30	-3.96	-1.22	-4.20
- Diluted		-0.30	-3.96	-1.22	-4.20

Consolidated statement of financial position

SEKk	NOTE	2019-12-31	2018-12-31
ASSETS			
<i>Intangible assets</i>			
Goodwill		43 601	57 169
Other non-current assets		240 221	356 071
Capitalized development cost for own games and technology development		81 518	170 919
Investments in publishing projects		4 056	187 970
<i>Financial assets</i>			
Financial assets	11	6 258	10 348
Investments in joint ventures	8	3 195	4 656
Non-current lease receivable		5 716	-
Deferred tax assets		-	326
<i>Property, plant and equipment</i>			
VR facilities, IT equipment and other equipment	11	12 850	60 499
Right-of-Use asset-Buildings		63 764	-
Total non-current assets		461 179	847 958
<i>Current assets</i>			
Inventories	11		44
Trades and other receivables		10 391	39 536
Non-current lease receivable		3 106	-
Prepaid expenses and accrued income		33 425	46 599
Cash and cash equivalents		82 787	69 289
Total current assets		129 709	155 468
Assets held for sale	11	1 084	78 204
Total assets held for sale		1 084	78 204
TOTAL ASSETS		591 972	1 081 630
EQUITY AND LIABILITIES			
<i>Equity attributable to owners of the parent</i>			
Share capital		6 587	6 506
Other contributed capital		1 711 334	1 639 516
Reserves		21 400	17 098
Retained earnings including net profit or loss for the period		-1 733 163	-1 326 061
Non-controlling interests		-	1 947
Total equity		6 158	339 006
<i>Non-current liabilities</i>			
Non-current liabilities, earnouts	3	62	88 586
Deferred tax liability		7 853	56 269
Non-current lease liability		55 272	-
Other non-current liabilities		121 009	14 459
Total non-current liabilities		184 196	159 314
<i>Current liabilities</i>			
Trade and other payables	11	342 468	519 421
Current lease liability		19 181	-
Accrued expenses and deferred income		38 506	63 889
Total current liabilities		400 155	583 310
Liabilities held for sale		1 463	-
Total liabilities held for sale		1 463	-
TOTAL EQUITY AND LIABILITIES		591 972	1 081 630

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 2019	6,506	1,639,516	17,098	-1,326,061	337,059	1,947	339,006
Adjustment in opening balance 2018			140	-429	-289	-	-289
Adjusted opening balance at 1 January 2018			17,238	-1,326,490	336,770	1,947	338,717
Net profit (-loss) for the period	-	-	-	-401,249	-401,249	150	-401,099
Other comprehensive income for the period							
Impairment of unlisted shares	-	-	-	-	-	-2,123	-2,123
Translation differences	-	-	4,162	-	4,162	26	4,188
Total comprehensive income	6,506	1,639,516	21,400	-1,727,739	-60,317	-	-60,317
Transactions with shareholders:							
New issue through exercise of convertible bonds	81	71,632	-	-	71,713	-	71,713
Shareholders' contributions from composition proposal	-	186	-	-	-	-	-
Issue cost recognized in equity	-	-	-	-5,424	-5,424	-	-5,424
Total contribution from and value transfers to shareholders, recognized directly in equity	81	71,818	-	-5,424	66,475	-	66,475
Balance at 31 December 2019	6,587	1,711,334	21,400	-1,733,163	6,158	-	6,158
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	-	-	-	-1,337,017	-1,337,017	665	-1,336,352
Other comprehensive income for the period							
Impairment of unlisted shares	-	-	-11,501	-	-11,501	-	-11,501
Translation differences	-	-	23,526	-	23,526	-36	23,490
Total comprehensive income	5,661	1,243,573	17,098	-1,309,269	-42,937	973	-41,964
Transactions with shareholders:							
New issue through exercise of stock options	26	7,365	-	-	7,391	-	7,391
Minority share of shareholder contributions to subsidiaries	-	-974	-	-	-974	974	-
Vested employee stock options	-	44	-	-	44	-	44
Sales of equity instruments	-	279	-	-	279	-	279
Tax effect on sale of equity instruments	-	-66	-	-	-66	-	-66
New issue	819	389,295	-	-	390,114	-	390,114
Issue costs recognized in equity	-	-	-	-21,522	-21,522	-	-21,522
Deferred tax effect of issue costs recognized in equity	-	-	-	4,730	4,730	-	4,730
Total contribution from and value transfers to shareholders, recognized directly in equity	845	395,943	-	-16,792	379,996	974	380,970
Balance at 31 December 2018	6,506	1,639,516	17,098	-1,326,061	337,059	1,947	339,006
					2019		2018
CHANGE IN NUMBER OF OUTSTANDING SHARES					JAN-DEC		JAN - DEC
Number of shares at the beginning of the period					325,295,554		283,037,940
Subscription of shares through exercise of options					-		1,327,836
New subscription of shares through exercise of convertibles					4,072,295		
New issue					-		40,929,778
Total shares outstanding at the end of the period					329,367,849		325,295,554

Consolidated statement of cash flows

SEKk	NOTE	2019	2018	2019	2018
		Q4	Q4	JAN-DEC	JAN - DEC
<i>Operating activities</i>					
Cash flow from operations		-194,210	-1,502,345	-504,362	-1,577,805
Adjustment for non-cash items	4	225,446	1,435,442	586,897	1,570,700
Interest paid		-7,947	-7,097	-20,011	-14,441
Interest received		709	-763	834	-
Income taxes paid		-	8,656	-	-473
Cash flow from (-used in) operating activities		23,998	-66,107	63,358	-22,019
<i>Cash flow from changes in working capital</i>					
Increase (+)/decrease (-) in operating liabilities		-98,784	5,183	-48,106	63,110
Cash flow from (-used in) operating activities		77,858	41,255	40,832	8,814
Cash flow from (-used in) operating activities		3,072	-19,669	56,084	49,905
<i>Investing activities</i>					
Purchase of property, plant and equipment		-	-985	-2,092	-92,071
Sold non-current assets		217	-	217	-
Divested subsidiaries		-	-	67,502	-
Investments in other financial assets		-6,205	-1,639	-1,067	-6,607
Investments in own games and technology		-28,340	-43,162	-92,412	-333,947
Investments in publishing projects		-	-37,331	-8,387	-126,599
Increase (-) / decrease (+) in short-term investments		-	75,000	-	-
Cash flow from (-used in) investing activities		-34,328	-8,117	-36,239	-559,224
<i>Financing activities</i>					
New issue		-	-	-	390,114
Costs related to new issues		-	-	-	-16,879
Payments for stock options		-	-	-	7,304
Increase in non-current liabilities		2,185	27,971	3,556	159,476
Repayment of loans		-1,214	-78,632	-10,132	-195,681
Cash flow from financing activities		971	-50,661	-6,576	344,334
		-	-	-	-
Cash flow for (-used in) the period		-30,285	-78,447	13,269	-164,984
Cash and cash equivalents at the beginning of the period		113,192	147,488	69,289	233,757
Exchange difference in cash and cash equivalents		-120	248	229	516
Cash and cash equivalents at the end of the period		82,787	69,289	82,787	69,289

Key data, Group

	2019	2018	2019	2018
	Q4	Q4	JAN-DEC	JAN - DEC
Net sales, SEKk	51,108	82,459	280,002	349,955
EBITDA, SEKk	26,829	-73,716	-116,457	-10,342
EBIT, SEKk	-194,210	-1,502,345	-504,362	-1,577,805
Profit (-loss) before tax, SEKk	-156,735	-1,264,730	-452,424	-1,347,249
Profit (-loss) after tax, SEKk	-98,279	-1,288,580	-401,099	-1,336,352
EBITDA margin, %	52.5	-89.4	-41.6	-3.0
EBIT margin, %	-380.0	-1,821.9	-180.1	-450.9
Profit margin, %	-306.7	-1,533.8	-161.6	-385.0
Equity to assets ratio, %	1.0	31.3	1.0	31.3
Closing price of A share for the period, SEK	1.85	1.23	1.85	1.23
Closing price of B share for the period, SEK	1.86	0.82	1.86	0.82
Basic earnings per share, SEK	-0.30	-3.96	-1.22	-4.20
Diluted earnings per share, SEK	-0.30	-3.96	-1.22	-4.20
Number of shares at end of period before dilution	329,367,849	325,295,554	329,367,849	325,295,554
Number of shares at end of period after dilution	329,367,849	347,871,874	329,367,849	345,864,665
Average number of shares before dilution	329,367,849	325,295,554	328,349,775	317,956,811
Average number of shares after dilution	329,367,849	325,295,554	328,349,775	317,956,811
Average number of employees	138	622	226	634
Number of employees at the end of the period	127	604	127	604

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

	2019	2018	2019	2018
	Q4	Q4	JAN-DEC	JAN - DEC
<i>EBITDA</i>				
Operating profit (-loss), SEKk	-194,210	-1,502,345	-504,362	-1,577,805
Less: Amortization of intangible assets, SEKk	213,727	1,330,376	326,860	1,438,469
Less: Depreciation of property, plant and equipment, SEKk	7,312	98,253	61,045	128,994
EBITDA	26,829	-73,716	-116,457	-10,342
<i>EBITDA margin, %</i>				
EBITDA, SEKk	26,829	-73,716	-116,457	-10,342
Net sales, SEKk	51,108	82,459	280,002	349,955
EBITDA margin, %	52.5	-89.4	-41.6	-3.0
<i>EBIT margin, %</i>				
Operating profit (-loss), SEKk	-194,210	-1,502,345	-504,362	-1,577,805
Net sales, SEKk	51,108	82,459	280,002	349,955
EBIT margin, %	-380.0	-1821.9	-180.1	-450.9
<i>Profit margin, %</i>				
Profit (-loss) before tax, SEKk	-156,735	-1,264,730	-452,424	-1,347,249
Net sales, SEKk	51,108	82,459	280,002	349,955
Profit margin, %	-306.7	-1533.8	-161.6	-385.0
<i>Equity to assets ratio, %</i>				
Total equity	6,158	339,006	6,158	339,006
Total equity and liabilities, SEKk	591,972	1,081,630	591,972	1,081,630
Equity to assets ratio, %	1.0	31.3	1.0	31.5

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*

	2019	2018	2019	2018
SEKk	Q4	Q4	JAN-DEC	JAN - DEC
Net sales	12,628	12,731	58,990	55,304
Other operating revenue	-5,775	396	25,037	9,277
Total sales	6,853	13,127	84,027	64,581
Other external expenses	-13,513	-13,357	-59,586	-41,891
Employee benefit expense	-11,901	-14,505	-38,574	-53,835
Depreciation of property, plant and equipment	-47	-100	-217	-579
Other operating expenses	-7,078	-	-7,078	-
Operating profit (-loss)	-25,686	-14,835	-21,428	-31,724
Profit from holdings in group companies	-213,512	-978,508	-224,439	-978,508
Other financial income	96,611	25,886	98,039	28,338
Financial expenses	-35,832	-37,535	-54,260	-63,077
Profit (-loss) after net financial income/expense	-178,420	-1,004,992	-202,089	-1,044,971
Appropriations	187,394	5,007	187,394	5,007
Profit (-loss) before tax	8,974	-999,985	-14,695	-1,039,964
Income tax	-	-32,869	-	-23,433
Net profit (-loss) for the period	8,974	-1,032,854	-14,695	-1,063,397

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

*Rev 2: please note that the Parent company income statement has been updated from the originally published version to reflect the correct Q4 numbers.

Parent company balance sheet

SEKk	2019/12/31	2018/12/31
ASSETS		
<i>Non-current assets</i>		
<i>Property, plant and equipment</i>		
Computers and other equipment	421	587
<i>Financial assets</i>		
Investments in group companies	295,806	514,595
Deferred tax assets	-	-
Investments in associates	4,656	4,656
Other financial assets	585	585
Total non-current assets	301,468	520,423
<i>Current assets</i>		
Trade and other receivables	-	5,853
Receivables from group companies	1,080,277	387,141
Prepaid expenses and accrued income	837	950
Cash and cash equivalents	12,009	8,002
Total current assets	1,093,123	401,946
TOTAL ASSETS	1,394,591	922,369
EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	6,587	6,506
Share premium reserve	1,649,033	1,577,401
Retained earnings	-1,059,812	9,007
Net profit (-loss) for the period	-14,695	-1,063,397
Total equity	581,112	529,517
<i>Provisions</i>		
Other provisions	31,230	-
Total provisions	31,230	-
<i>Non-current liabilities</i>		
Non-current liabilities to group companies	305,865	-
Other non-current liabilities	260	88,586
Total non-current liabilities	306,125	88,586
<i>Current liabilities</i>		
Trade payables	221,988	7,849
Liabilities to group companies	239,012	4,860
Other liabilities	4,094	275,405
Accrued expenses and deferred income	11,029	16,152
Total current liabilities	476,124	304,266
TOTAL EQUITY AND LIABILITIES	1,394,591	922,369

NOTES

Note 1: 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 2018, other than that the Group began applying and IFRS 16 Leases as of 1 January 2019. The Group has chosen to report the transition to the new standard using the modified retrospective approach and not to restate comparative figures, as permitted under the relief rule. The size of the right-of-use asset has been measured as corresponding to the size of the lease liability on the transition date. Advance lease payments, if any, are recognized by reducing the lease liability by a corresponding amount. There were no advance lease payments as of 1 January 2019 or 31 December 2019.

A marginal borrowing rate has been determined for each country. Leases where the term is less than 12 months or that will end within 12 months of the transition date are classified as short-term leases and are thus not included in the recognized liabilities or rights to control the use of assets. In addition, a right to control the use of an asset (with a cost below USD 5,000) has been classified as a low-value lease and is not included in the recognized liabilities or rights to control the use of assets.

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.

The sale of the publishing rights to System Shock 3 and Psychonauts 2 was arranged so that Starbreeze will recover its investment over time. In accordance with IFRS reporting rules, the Group has initially recognized a loss on the deal, as IFRS 15 does not permit recognition of future royalties in revenue even if these are directly connected to the sale of the publishing rights; instead, the carrying amount of the sold asset must be immediately expensed. In future periods, only revenues related to these transactions will be recognized, as all costs have thus been absorbed.

Costs for ongoing updates of completed games and DLC are recognized as direct costs and are not capitalized. A new assessment of whether development costs for DLC can be capitalized was carried out during the quarter.

Note 2: 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	12/31/2019	12/31/2018
Pledged assets	6,594	165,956

Note 3: Financial instruments

Financial instruments measured at fair value

SEKk	12/31/2019	12/31/2018	Level
<i>Assets at fair value through comprehensive income</i>			
Financial assets, shares in Cmune	-	-	2
<i>Financial assets at fair value through profit or loss</i>			
Investments in convertible loans	-	-	2
<i>Financial liabilities at fair value through profit or loss</i>			
Earnouts	62	88,662	3
Convertible loans	-	42	2

Conditional earnout related to acquisition

Opening balance at 1 January 2019	88,662
Exchange rate differences	1,434
Remeasurement of liability	-85,548
Divested subsidiary	-4,486
Closing balance at 31 December 2019	62

Note 4: Cash flow from operations

	Q4	Q4	JAN-DEC	JAN - DEC
SEKk	2019	2018	2019	2018
<i>Adjustments for non-cash items</i>				
-Amortization of intangible assets	472	1,330,247	33,019	1,438,469
-Depreciation of property, plant and equipment	2,867	98,253	30,135	128,994
-Impairment of intangible assets	213,255	-	293,841	-
-Impairment of tangible assets	4,445	0	30,910	0
-Other unrealized exchange losses	4,407	6,942	-1,782	3,237
-Cost of sold assets	0	-	170,175	-
-Capital loss, divested subsidiaries	0	-	30,599	-
	225,446	1,435,442	586,897	1,570,700

Note 5: Segment reporting, Group

SEKk	2019	2018	2019	2018
	Q4	Q4	JAN-DEC	JAN - DEC
Starbreeze Games				
Net sales	50,818	66,294	127,020	168,554
Direct costs	-119,837	-662,282	-229,682	-733,612
Gross profit (-loss)	-69,019	-595,988	-102,662	-565,058
Operating costs	-17,356	-61,112	-75,563	-111,769
Operating profit (-loss)	-86,375	-657,100	-178,225	-676,827
Publishing				
Net sales	273	2,399	146,494	135,145
Direct costs	-23,111	-81,438	-199,750	-177,702
Gross profit (-loss)	-22,838	-79,039	-53,256	-42,557
Operating costs	-2,497	-1,549	-17,563	-19,768
Operating profit (-loss)	-25,335	-80,588	-70,819	-62,325
VR Tech & Operations				
Net sales	8	9,579	2,236	33,654
Direct costs	-81,347	-570,479	-219,745	-599,982
Gross profit (-loss)	-81,339	-560,900	-217,509	-566,328
Operating costs	-	-14,727	-7,198	-45,540
Operating profit (-loss)	-81,339	-575,627	-224,707	-611,868
Other				
Net sales	9	4,187	4,252	12,602
Direct costs	-1,170	-189,710	-12,344	-222,607
Gross profit (-loss)	-1,161	-185,523	-8,092	-210,005
Operating costs	-	-3,506	-22,519	-16,779
Operating profit (-loss)	-1,161	-189,029	-30,611	-226,784
Total				
Net sales	51,108	82,459	280,002	349,955
Direct costs	-225,465	-1,503,909	-661,521	-1,733,903
Gross profit (-loss)	-174,357	-1,421,450	-381,519	-1,383,948
Operating costs	-19,853	-80,894	-122,843	-193,856
Operating profit (-loss)	-194,210	-1,502,344	-504,362	-1,577,804

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	-86,375	-657,100	-178,225	-676,827
Publishing	-25,335	-80,588	-70,819	-62,325
VR Tech & Operations	-81,339	-575,627	-224,707	-611,868
Other	-1,161	-189,029	-30,611	-226,784
Total	-194,210	-1,502,344	-504,362	-1,577,804
Net financial income (-expense)	37,474	237,614	51,937	230,556
Profit (-loss) before tax	-156,736	-1,264,730	-452,425	-1,347,248

Note 6: Net sales by category

SEKk Q4 2019	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	17,336	87	-	-	17,423
Consoles, Digital	4,131	25	-	-	4,156
Consoles, Retail	395	-	-	-	395
VR parks	25	161	7	-	193
Services	40	-	-	9	49
Licensing	28,868	-	1	-	28,869
Total net sales	50,818	273	8	9	51,108

SEKk JAN-SEP 2019	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	54,251	626	-	-	54,877
Consoles, Digital	12,173	193	-	-	12,366
Consoles, Retail	2,503	-	-	-	2,503
VR parks	678	1,799	1,070	-	3,547
Services	14,725	-	738	4,252	19,715
Licensing	42,499	143,876	428	-	186,803
Other	191	-	-	-	191
Total net sales	127,020	146,494	2,236	4,252	280,002

Note 7: Consolidated depreciation and amortization by function

SEKk	2019 Q4	2018 Q4	2019 JAN-DEC	2018 JAN-DEC
Depreciation and impairment of property, plant and equipment				
Direct costs	1,746	96,984	38,217	121,644
Selling and marketing costs	9	68	28	1,700
Administrative expenses	5,557	1,201	22,800	5,650
Total depreciation and impairment of property, plant and equipment	7,312	98,253	61,045	128,994
Amortization and impairment of intangible assets				
Direct costs	213,660	1,330,376	326,606	1,438,469
Administrative expenses	67	-	254	-
Total amortization and impairment of intangible assets	213,727	1,330,376	326,860	1,438,469
Total depreciation and amortization and impairment	221,039	1,428,629	387,905	1,567,463

Note 8: Joint venture company 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 been transferred to StarVR Corporation. Production costs will be paid by Acer, which is also an exclusive supplier to StarVR Corporation.

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	12/31/2019
<i>Reconciliation of net carrying amount:</i>	
Balance of net assets at 1 January	14,110
Net profit (-loss) for the period	-4,808
Exchange differences	379
Closing balance net assets	9,681
Group's share	33%
Group's share in SEKk	3,195
Net carrying amount	3,195

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	12/31/2019
<i>Balance sheet in summary:</i>	
Current assets	14,532
Non-current assets	2,105
Current liabilities	6,956
Net assets	9,681
<i>Statement of comprehensive income in summary:</i>	
Sales	2,459
Net profit (-loss) for the period	-4,808
Total comprehensive income for the period	-4,808

Note 9: Impairments

Effective 31 March 2019, the Group decided to recognize an impairment loss on the non-current assets in the VR parks in Dubai and in Stockholm at Sveavägen 14. Both of these VR parks are now discontinued. As of 30 September, the value of PresenZ technology and StarVR was impaired by a total of SEK 76.7 million, along with the IP rights to Cinemaware, as these games have not generated any revenue and are not expected to do so. It has also proven that sale of the asset is not possible. PresenZ and StarVR were impaired to zero during the quarter.

Impairments by asset class, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Other non-current assets	-	3,869	101,651	-	105,520
Capitalized development cost for own games and technology developme	111,327	-	55,394	-	166,721
Investments in publishing projects	-	21,600	-	-	21,600
VR facilities, IT equipment and other equipment	-	-	26,465	4,445	30,910
Total	111,327	25,469	183,510	4,445	324,751

Impairments in profit and loss and other comprehensive income for the period, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Direct costs	111,327	25,469	183,510	-	320,306
Other comprehensive income	-	-	-	4,445	4,445
Total net sales	111,327	25,469	183,510	4,445	324,751

Note 10: Divested subsidiaries

Net assets at date of sale of the companies

The shares in Dhruva Infotech Private Ltd and Nozon sprl were sold during the period. The transactions resulted in a capital loss for the Group of SEK 30.6 million in total. The net assets in the subsidiaries at the sale date, the consolidated losses on the sales and the effect of the transactions on cash flow are shown in the table below.

	Dhruva Infotech Private Limited	Nozon sprl
Net assets disposed	17 May 2019	30 June 2019
Goodwill	60,326	15,562
Other non-current assets	735	218
Financial assets	4,602	1,978
Fixed assets	3,607	5,295
Trades and other receivables	20,488	13,090
Prepaid expenses and accrued income	1,954	340
Cash and cash equivalents	229	-
Total asset	91,941	36,483
Other non-current liabilities	2,098	862
Other current interest-bearing liabilities	-	5,109
Trade and other payables	5,391	8,762
Accrued expenses and deferred income	867	-
Total liabilities	8,356	14,733
Net assets disposed	83,585	21,750
Net result incl amortization of intercompany receivables	-9,303	-21,296
Selling price	74,282	454
Liquid funds in in divested operations	-229	-
Claims on the tax authority	-7,305	-
TOTAL CASH FLOW IMPACT	66,748	454

Income statements for the sold subsidiaries

The effects of the sales on the income statements of both companies are shown on the table below.

SEKk	2019	2018	2019	2018
	Q4	Q4	JAN-DEC	JAN - DEC
Net sales	-	15,488	18,795	47,433
Direct costs	-	-59,792	-28,992	-110,161
Gross profit (-loss)	-	-44,304	-10,197	-62,728
Administrative expenses	-	-	-520	-
Other revenue	-	-33	375	485
Other expenses	-	-1,883	-50	-1,883
	-	-	-	-
Operating profit (-loss)	-	-46,220	-10,392	-64,126
Financial income	-	17,773	-	19,801
Financial expenses	-	-34,155	-131	-654
Profit (-loss) before tax	-	-62,602	-10,523	-44,979
Income tax	-	-1,803,221	651	-1,948
Net profit (-loss) for the period	-	-1,865,823	-9,872	-46,927
<i>Profit (-loss) including sales expenses</i>	-	-	-30,599	-
Profit (-loss) for the period	-	-1,865,823	-40,471	-46,927
Total comprehensive income for the period attributable to:				
Owners of the parent	-	1,830,833	-40,322	-46,262
Non-controlling interests	-	-32	-149	-665

Note 11: Available-for-sale assets and liabilities

TSEK	12/31/2019
Financial assets	-336
VR facilities, IT equipment and other equipment	-207
Trades and other receivables	-361
Prepaid expenses and accrued income	-11
Cash and cash equivalents	-169
Total asset	-1,084
Trade and other payables	-1,463
Total liabilities	-1,463

Note 12: Reclassifications of opening balances from Q4 2018

Reclassification of opening balances for assets held for sale, SEKk	New amounts for Dhruva	Previously reported for Dhruva	Difference
Goodwill	-56,783	-56,783	-
Other non-current assets	-	-	-
Capitalized development cost for own games and technology develop	-417	-417	-
Financial assets	-6,373	-	-6,373
VR facilities, IT equipment and other equipment	-2,951	-	-2,951
Trades and other receivables	-7,066	-	-7,066
Prepaid expenses and accrued income	-2,179	-	-2,179
Cash and cash equivalents	-3,063	-	-3,063
Assets held for sale	73,968	57,200	16,768
Total asset	-4,864	-	-4,864
Other non-current liabilities	-2,188	-	-2,188
Trades and other payables	1,223	-	1,223
Accrued expenses and deferred income	-3,899	-	-3,899
Total liabilities	-4,864	-	-4,864

Reclassification of opening balances for non-current liabilities and current liabilities, SEKk	Reclassified amounts Group	Reclassified amounts Parent company
Trades and other receivables	9,685	-
Trades and other payables	9,685	-
Non-current liabilities, earnouts, ePawn	-76	-76
Other non-current liabilities, Smilegate	-200,440	-200,440
Other non-current liabilities, Acer	-71,529	-71,529
Other non-current liabilities, bank overdraft	-75,770	-
Other non-current liabilities, bank loan	-30,000	-
Trades and other payables	377,815	272,045
Total	0	0

