



STARBREEZE
STUDIOS

Annual Report 2020





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Starbreeze in brief

23 YEARS OF GAMES DEVELOPMENT

Vision: To create, develop and publish exciting, gameplay-focused and community-centric games.

- One of the first independent games developers in northern Europe, founded in 1998.
- Independent developer and publisher of computer and video games.
- Listed on Nasdaq Stockholm.

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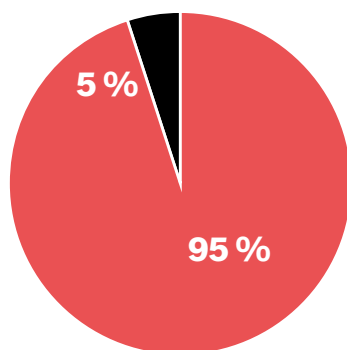
employees in four countries

PAYDAY – the company's own brand



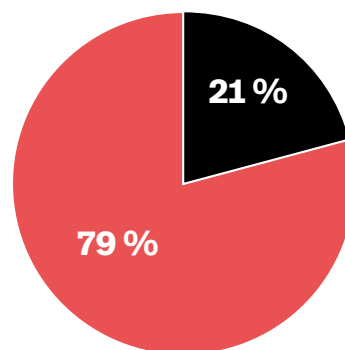
Net sales in 2020

By business area

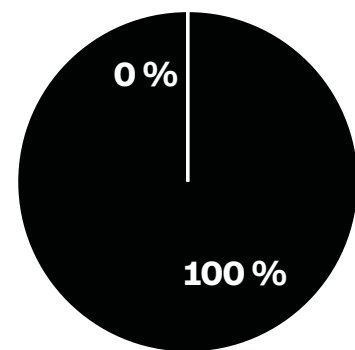


Starbreeze Games Other

By platform



Console PC



Digital Retail



CEO's message

When looking back on 2020 I see that it was a year when many things fell into place for Starbreeze. Successful launches of add-on bundles, or 'DLCs', for PAYDAY 2 demonstrated the strength of the PAYDAY franchise and our ability to generate add-on sales for existing games based on our Games as a service model. PAYDAY 2's good sales, combined with ongoing efficiency improvements and two rights issues during the year, have resulted in a stable financial position. This, together with the recent agreement with Koch Media for PAYDAY 3 and PopReach for the mobile game PAYDAY Crime War, supports our long-term goal to put Starbreeze back on the map as one of the leading games developers.

PAYDAY 2 remains a highly relevant product and with 19 DLC releases during the year, all performing well, the year ended with PAYDAY becoming the largest community on Steam. This demonstrates the strength of PAYDAY and is a result of the ambitious long-term work of our community team. In the final quarter of the year we had an average of around 135,000 active players every day on the platforms where the game is available. We will continue to develop DLCs for PAYDAY 2 at least until 2023 when the successor will be launched. The purpose is to generate continuous revenue streams and increased commitment and daily activity of our players. A committed large community provides an excellent position to grow from when we release new games in the future.

During the year, we amortized a large portion of our debt, an important step in strengthening the company's financial position. Strong sales, combined with lower running costs, resulted in good underlying profit development. Starbreeze will now, for the first time in a long time, be able to focus on our growth strategy by, among other things, strengthening our marketing and business development teams as well as continue to recruit the best game developers to our studios. The goal is clear: we will build the best possible team to further

develop current and future games within Games as a service, build the most committed community and create valuable IPs with great potential for revenue even beyond games.

When I became CEO at the end of October 2020, my goal was clear: to secure an attractive publishing agreement for PAYDAY 3. We achieved this on the 19th of March 2021 when we entered into a co-publishing agreement with Koch Media for the launch of PAYDAY 3 in 2023. The agreement covers the financing of both product development and marketing for PAYDAY 3, before and after release. This means that the total investment, over a period of up to 18 months after release, could amount to more than EUR 50 million, with our share of the development costs being financed by existing cash flow. Starbreeze will continue to develop the game and will remain as the owner of the IP. Through the co-publishing model, where Starbreeze takes a part of the investment, we also have a good portion of the future revenue.

In April, we reached another milestone, a licensing agreement on PAYDAY Crime War, the mobile version of PAYDAY 2, with PopReach Corporation. Through the agreement, we now have placed us in the best possible position for a successful launch of the mobile game. At the same time, PopReach will have a flying start by being able to develop the game based on the work that we have put into the project.

We have started 2021 following an intensive and successful 2020. We have a proven strong community who continues to play and buy our games, along with a skilled and focused development team working intensively with PAYDAY 3. I'm pleased to have started the year by achieving the goal I set in October and I look forward to being able to show more of PAYDAY 3 and the future Starbreeze. Our long-term goal is to prosper and grow by developing world class games and brands.

Tobias Sjögren
CEO Starbreeze

The year in figures

- Net sales declined by 57.9 percent to SEK 118.0 million (280.0).
- PAYDAY accounted for SEK 111.5 million (109.4).
- EBITDA amounted to SEK 49.3 million (-116.5).
- The loss before tax amounted to SEK -130.5 million (-452.4).
- Basic and diluted earnings per share were SEK -0.28 (-1.22).
- Cash and cash equivalents at the end of the period amounted to SEK 157.4 million (82.8).
- The Board of Directors proposes that no dividend be distributed for the 2020 financial year.

Key data

SEKk	2020	2019
Net sales	118,006	280,002
EBITDA	49,317	-116,457
Profit/loss before tax	-130,473	-452,424
Earnings per share	-0.28	-1.22
Cash flow from operations	-24,640	49,508
Net sales per employee	959	846

Net sales in 2020, SEKk

118,006

Net sales 2019: SEK 280,002k

The year 2020

SIGNIFICANT EVENTS 2020

- PAYDAY 2 with its DLCs met the first sales criterion at Steam on 3 January 2020, resulting in the game's future revenue split giving Starbreeze 75 percent from Steam after tax and returns, which is an increase from 70 percent.
- On 13 January, an extraordinary general meeting was held that resolved to change the terms of the convertible loan of SEK 215 million. Generally speaking, the change in terms meant that the maturity date of the convertible loan was changed from February 2020 to December 2024, and the conversion price for the convertible loan was set at SEK 2.25 per share.
- On 19 February, Starbreeze announced that the company had completed a private placement of SEK 51.3 million consisting of Class A shares to several reputable institutional investors, including Swedbank Robur, AP1 and AP4.
- The wholly owned subsidiary Parallaxter was sold in February.
- In March, it was announced that the company has appointed Mats Juhl as Chief Financial Officer (CFO).
- The Annual General Meeting was held on 13 May.
- In June, Starbreeze resolved on a new issue of Class A and Class B shares, with preferential rights for existing shareholders, of approximately SEK 250 million before transaction costs.
- In June, Starbreeze released PAYDAY 2: Silk Road – Family Matters, the third chapter of the Silk Road campaign.
- On 12 August, Starbreeze announced the terms of the fully guaranteed rights issue of SEK 250 million.
- In August, an extraordinary general meeting was held that resolved to amend the Articles of Association and approved the Board of Directors' resolution to issue new Class A and

Class B shares with preferential rights for existing shareholders.

- On 9 September, Starbreeze announced that the rights issue was oversubscribed by approximately 241 percent.
- Nasdaq Stockholm AB opted to remove the observation listing of Starbreeze A and B shares on 9 September.
- On 26 October, Tobias Sjögren was appointed Acting CEO of Starbreeze when the company's former CEO Mikael Nermark resigned for personal reasons.
- November saw the launch of PAYDAY 2: Silk Road – Crimson Shore, the fourth chapter of the Silk Road campaign.
- During the third and fourth quarters, Starbreeze completed payment to Supplier Creditors and Small Supplier Creditors who were included in the restructuring plan.

Significant events after the end of the year

- On 19 March 2021, Starbreeze announced that it has entered a global co-publishing agreement with the leading European publishing partner Koch Media. The agreement covers both product development and marketing of PAYDAY 3, as well as continued development and marketing of the game according to its 'games as a service model'.
- On 24 March, the Board of Directors of Starbreeze appointed Tobias Sjögren as permanent CEO of Starbreeze.
- On 14 April, Starbreeze announced that the company has signed a licensing agreement with PopReach Corporation for PAYDAY Crime War. Starbreeze will receive a license fee based on future sales and a one-time fee in connection with the transfer of the source code.

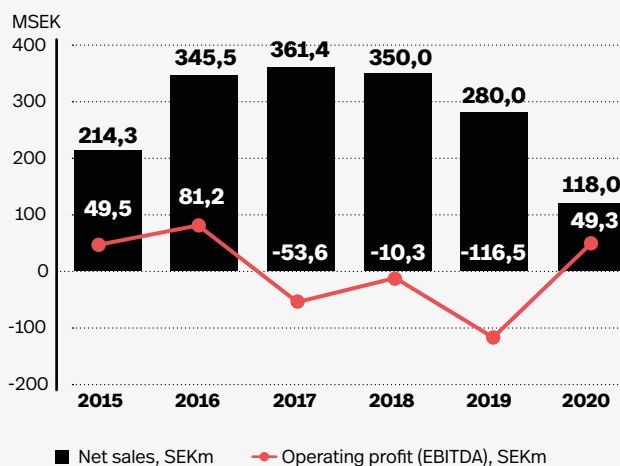
Largest shareholders at 31 December 2020

Owner	Holding, %	Voting rights, %
Digital Bros S.P.A	11.96	28.57
Swedbank Robur ¹⁾	14.77	12.91
Första AP-Fonden	10.16	9.51
Fjärde AP-Fonden	3.12	9.51
Förs. Bolaget, Avanza Pension	8.44	4.76
Swedfact Holding AB	0.71	2.30
Michael Hjorth ²⁾	0.39	1.28
Nordnet Pensionsförsäkringar AB	1.76	1.01
Lundgren, Fredrik	1.27	0.61
Risberg, Wilhelm	1.79	0.58
Other	45.63	28.96
Total	100.00	100.00

¹⁾ Swedbank Robur consists of the funds: Ny Teknik BTI, Småbolagsfond Sverige and Småbolagsfond Norden.

²⁾ Via Indian Nation Aktiefond.

Sales and profit 2015–2020





MARKET



Market

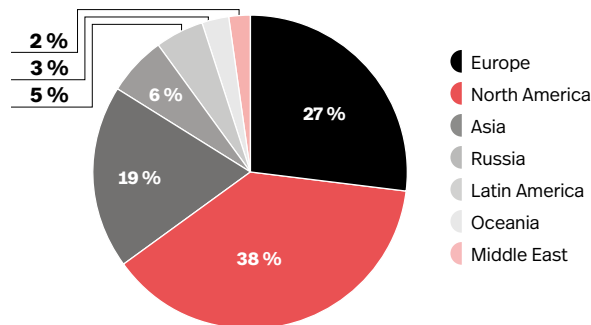
A GLOBAL, DYNAMIC AND TECHNOLOGY-DRIVEN MARKET

Starbreeze is a well-known company on the global gaming market, developing games primarily for PC and console, but also for other platforms such as mobile phones. Games developed in-house are aimed primarily at hardcore players, with a focus on the company's core genre: co-op first person shooters.

Starbreeze's products are sold via platforms such as Steam, PlayStation Store and Xbox Games Store. Of the gaming industry's total sales revenue in 2020, North America accounted for about 25 percent, Europe roughly 19 percent and Asia around 49 percent. Starbreeze sells its products via distributors/platform owners (e.g. Steam, and via console partners such as 505 Games). Starbreeze's end customers – the people who play the company's games – are found all over the world. The chart below shows the regions that are home to players who use Steam, the company's biggest distribution platform.

The global gaming market is experiencing significant growth, with a compound annual growth rate (CAGR) of 7.7 percent between 2018 and 2023 ¹⁾. Growth is partly driven by increased gaming within certain audiences and regions, new genres that attract new players, and new consumption patterns where social platforms such as YouTube and Twitch play a key role. The gaming market can be divided into three commercial categories: mobile games, console games and PC games. Despite its global nature, the market can also be broken down geographically.

Distribution of Starbreeze's revenues from Steam by region, 2020 ²⁾



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

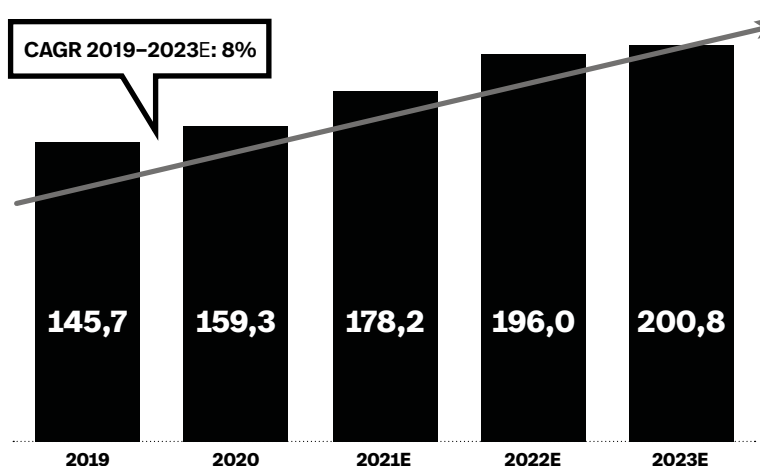
²⁾ Newzoo – 2020 Global Games Market Report: Trends, insights, and projections towards 2023

Size and growth of the global gaming market

The global gaming market for all platforms was expected to achieve sales of USD 159 billion in 2020, with growth of 9.3 percent compared to the previous year.

Starbreeze's sales are mainly digital via the Steam platform. The rise of digital distribution has reduced dependence on physical distribution channels (retail) and increased the ability to reach a wider geographic customer base. Currently, Starbreeze games are played mainly in North America, Europe and Asia.

Overview of the global gaming market 2019–2023, USD million ³⁾



Geographical distribution of the global games market

Starbreeze games are played primarily by gamers in North America and Europe. Asia-Pacific is a large, fast-growing gaming market, making it a strategically important growth area for Starbreeze.

Size and growth in different geographical markets

Asia (excluding the Middle East) and the Pacific region constitute the largest geographic gaming market segment globally, with a market share of 49 percent of the global gaming market in 2020 in terms of sales. Between 2019 and 2020, growth in the region was 9.9 percent.

North America accounts for 25 percent of the global gaming market, with 8.5 percent growth between 2019 and 2020. Europe accounts for 19 percent of the global gaming market with 7.8 percent growth between 2019 and 2020.

The global gaming market by segment

Console games

Console games are played on a desktop or handheld console, i.e. a device specially developed to play games. Examples of successful consoles in recent years include PlayStation 4, Xbox One and Nintendo Switch. A new generation of game consoles was launched at the end

of 2020 with the PlayStation 5 and Xbox Series X, which have significantly higher performance than previous generation consoles. Console games are distributed both online via digital download and via stores (retail) on DVDs. Games for consoles typically have a bigger production budget and are developed over a longer

period of time compared to mobile games, and unlike mobile games they are designed for extended gaming sessions. The segment represented 28 percent of the total gaming market in 2020 with revenues of USD 45.2 billion, and growth of 6.8 percent between 2019 and 2020.

Market data by geographical region, 2020⁴⁾

Region	Gaming revenues, USD billion	Growth 2019–2020, %	Number of gamers, millions
Asia-Pacific	78	10	1,447
North America	40	9	210
Europe	30	8	386
Latin America	6	10	266
Middle East and Africa	5	15	377
Total	159	9	2,686

³⁾Newzoo - 2020 Global Games Market Report: Trends, insights, and projections towards 2023

⁴⁾Newzoo - 2020 Global Games Market Report: Trends, insights, and projections towards 2023

PC games

PC games include all games that can be played on a PC (personal computer), whether it is a desktop computer or a laptop. Digital sales are growing steadily in this segment, with platforms such as Steam and Epic Games Store, while new forms of distribution based on streaming technology such as Google Stadia may grow in the future. In 2020, the segment

made up 23 percent of the global gaming market, with revenues of USD 36.9 billion.

Mobile games

Mobile games are played on a mobile device such as a smart phone or tablet. These games are often designed for shorter gaming sessions than PC and console games, as it is assumed they will be played on the bus or metro. And generally speaking, development budgets

are lower and production time shorter for mobile games than for games developed for PC and console. The mobile games market is based exclusively on digital distribution via platforms like App Store and Google Play.

The segment accounted for 49 percent of the global gaming market in 2020, with revenues of USD 77.3 billion and growth of 13.3 percent between 2019 and 2020.

Revenue models

Revenue models can vary significantly within the industry. In particular, the revenue models of mobile games are often different from those of PC and console games, but even among PC and console games it can vary greatly. A selection of the main revenue models in the gaming market is described below.

Premium games

Most PC and console games are full-price games. Full-price games are sold at a one-off price. A majority of revenues are earned soon after the game is released, generally within one year. Many full-price games are further developed post-release to generate additional purchases via downloads (DLC).

on one or more platforms via a monthly fee. The publisher is then paid by the distributor according to the agreement between them. This is a relatively new revenue model, and examples of services include Xbox Game Pass, PlayStation Now, EA Access, and Google Stadia. Playing games through streaming technology is relatively new to consumers and is expected to have a greater impact in a few years as mobile 5G technology gains more users and a stronger position.

DLCs/add-ons

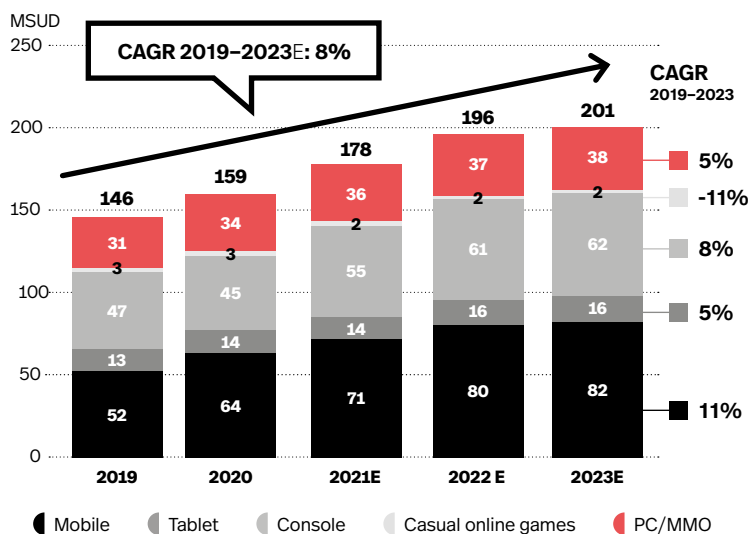
DLCs/add-ons are purchases that unlock additional content in a game beyond what users gets access to when they first buy the game. The increased distribution of games via digital download has increased opportunities for add-on sales for both premium and free-to-play games. Add-on purchases, or 'games-as-a-service', are an important factor in extending the life of the product with continual production

and sales of new game content, often by analysing user data and communicating with the player base (community). Starbreeze has historically been a pioneer of this revenue model.

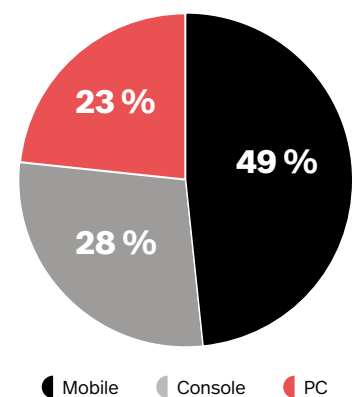
Free-to-play

Free-to-play is the collective term for games in which all or a significant part of the game is available for free. The revenue often comes from add-on purchases or purchases of currency or other content within the game. These games sometimes also generate revenue from in-game ads. Free-to-play is especially common among mobile games, but also occurs among console and PC games. Free-to-play requires a recurring customer base (retention) for the game to generate revenue, so ongoing investments in marketing and promotions are often required.

The global gaming market by segment⁵⁾



Global gaming market revenue distribution by segment in 2020⁶⁾



⁵⁾Newzoo - 2020 Global Games Market Report: Trends, insights, and projections towards 2023

⁶⁾Newzoo - 2020 Global Games Market Report: Trends, insights, and projections towards 2023

The gaming industry value chain

Developers

Developers are the companies that directly create and develop games. The composition and size of games development teams vary greatly depending on the type of game they are working on, and teams can consist of anything from a few up to several thousand developers. Games developers are usually divided into two categories, depending upon whether or not they are owned by a publisher. Developers owned by a publisher are referred to as internal developers, while other developers are called independent developers.

A need for significant flexibility and control over the composition of personnel by gaming industry developers means it is common to outsource parts of a game's development. There are companies that specialise in certain aspects of games development and whose business model is based on being a subcontractor for other developers.

Intellectual property (IP) owners

IP owners are the parties that own different brands used in games. IP owners may, for instance, be games developers that own the rights to proprietary games, publishers that have acquired a portfolio of brands, or the holders of copyright to films or books on which games are based.

Publishers

The publisher's role is primarily to launch games on the market and take overall responsibility for the product. This may be achieved by partly or entirely financing game development projects, monitoring production, providing quality assurance, adapting the product and often also distributing and marketing the finished game to retailers. The publisher often owns the rights to the game, while development and production are carried out either by an independent developer or the publisher's internal development studio. In some cases, the publisher acts solely as distributor, with responsibility for the game's launch, marketing and distribution, while the rights are still owned by the developer.

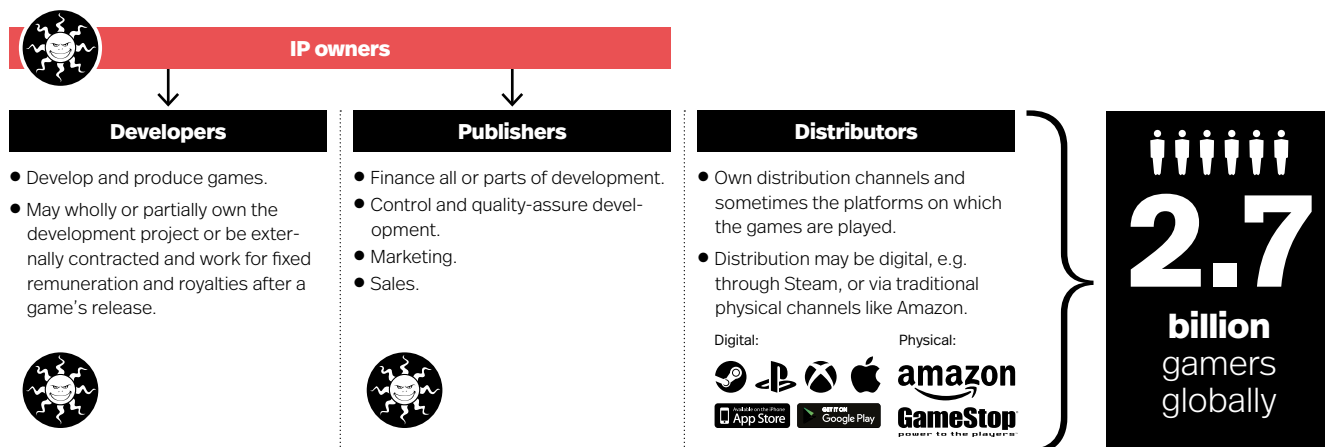
Retailers

The final party in the value chain before a game reaches the end consumer is the retailer. Retailers, or distributors, own the channels through which games are sold and/or the platforms on which games are played. Retailers may be physical and/or digital. A significant proportion of games are still sold through traditional retailers, such as Walmart, Amazon or Gamestop, but a growing proportion of games are now sold through digital channels such as Steam and Epic Store, as well as Sony's and Microsoft's console gaming platforms.

Starbreeze's role in the value chain

Starbreeze is now a developer, publisher and IP owner. The games are mainly available for sale through digital channels, with Steam currently being the most significant. By the end of 2020, Starbreeze, as a result of PAYDAY 2 which was developed in-house, had the world's largest gaming community on Steam, where players interact with each other and the company.

The gaming industry value chain



Competition

Starbreeze has strong expertise within its gaming genre, as well as a strong brand with the potential to expand into more segments and product categories. Starbreeze also has games on multiple platforms with broad geographical reach. As Starbreeze's market expands, the number of companies that can be considered competitors is growing. The gaming market is global and the company's competitors include both large and small

companies in several different regions. Starbreeze is also active in the mobile gaming market with its PAYDAY title: Crime War, currently under development. This market is generally characterized by lower initial barriers to entry as the games are simpler and do not require as extensive development projects, but over the years investment requirements have increased as the product is launched through 'user acquisition', which involves

direct marketing to potential customers. This has raised barriers to entry for products published without a partner specialising in user acquisition. There are a number of large companies in the mobile segment with several successful titles, such as Tencent and King Digital Entertainment PLC. There are also many smaller developers that have one or a few successful titles.

Covid-19

Covid-19 has had a major impact on the global economy. For the gaming industry, the main effect has been a surge in gaming in general, as games have become a way for people to consume entertain-

ment safely with social distancing and to keep in touch with family, friends and the outside world through online gaming. This effect is expected to subside somewhat as pandemic restrictions ease. It is

currently difficult to assess the long-term future market impact of this after the Covid-19 pandemic has receded.





THE PAYDAY BRAND

PAYDAY

STARBREEZE'S FLAGSHIP

Since Starbreeze was founded in 1998, the company has grown and developed into a globally known developer and publisher of computer and video games. The main business is based in Stockholm and is driven largely by the successful PAYDAY brand. Starbreeze has historically developed games based on its own and others' brands.

Earlier in Starbreeze's history, games production was financed entirely by external publishers. The development of fully or partly self-financed games in recent years has resulted in the company receiving a larger share of the revenue generated by the games. Proprietary games are currently published and distributed by Starbreeze through digital platforms, and physical distribution and sales also take place through agreements with external publishers.

Starbreeze mainly develops games for PC and console, but also for other platforms such as mobile. The company mainly works on its own well-known PAYDAY IP, but also has other popular IP in its game catalogue. The development team consists of both experienced and new developers from a variety of countries and backgrounds in order to best serve players' interests. Starbreeze's story is continuing by creating interesting content and engaging experiences.

Starbreeze outsources specific aspects of its development projects, but always has its own development teams to ensure and verify that product specifications are met. Developed games are usually sold in the price range of SEK 299–699 through digital distribution channels or bricks-and-mortar stores as 'full-price games'.

Once a game has launched, the strategy is to ensure players remain engaged with the game for a long period, based on the games-as-a-service (GaaS) model. This is mainly done by continuing to develop the game and creating gaming in which the community is involved and can influence its future direction. Starbreeze therefore focuses on developing highly replayable games with the ability to generate a large community. Further development of games results in both free updates and updates sold at a relatively low price, known as add-on purchases or DLCs (downloadable content).



THE PAYDAY BRAND

The PAYDAY brand was first launched in 2011 with the first game PAYDAY: The Heist. After a number of updates and over one million copies sold, the development of PAYDAY 2 began. It launched in August 2013, recouping its development costs in less than a month. The brand has been active for 10 years, with over 28 million copies of the base game and more than 130 million DLC bundles on the market.

The success of PAYDAY

PAYDAY is a classic movie-inspired action experience in which you play a bank robber on your own or together with up to three other people online. Players take on various missions such as bank robberies in true Hollywood style. The game was released on a slightly smaller scale in 2013, but has had more than 200 updates over the past seven years, with content being released both free and paid. The key to success are the frequent updates that have increased incentives for players to continue to engage with the product and experience. The in-game missions also have a high degree of replayability, with some elements constantly changing, which also contributes to the long life of the content being released. The updates released in 2019 and 2020 were very well received and the perception among players is that PAYDAY 2 is back stronger than ever, which is confirmed by the product's sales.

An active community

An important element of PAYDAY's success is players' engagement with the product, including a close dialogue between developers and fans. A measure of the game's popularity can be found on the digital distribution platform Steam, where PAYDAY 2's forums are the largest on the whole platform, with over 7.1 million members. Players provide feedback directly to the developers, and great emphasis is put on the participation of fans in the continued development of the gaming experience.



At the peak,

61,765

**players were playing PAYDAY 2
simultaneously**

in 2020

● **PAYDAY: The Heist**

PAYDAY: The Heist launched in 2011 and immediately marked out a clear position for the brand, with steadily growing interest in the concept that laid the foundations for the development of PAYDAY 2. The first game was launched on the PlayStation and Steam.

● **PAYDAY 2**

PAYDAY 2 was launched in August 2013 for PC, and is a fast-paced four-player co-op first-person shooter. Players reprise the roles of Dallas, Hoxton, Wolf and Chain in the notorious PAYDAY gang, as a new crime wave hits Washington D.C.

In this sequel to PAYDAY: The Heist, the PAYDAY gang is once again approached by their accomplice Bain, who this time suggests they come to Washington D.C. and create mayhem. Since the game's launch more than 100 PAYDAY 2 DLC bundles have been released, which players must pay to access. In addition, numerous free DLCs have been released.

In total, there have been more than 200 updates since the game launched in August 2013. These contain new heists, new features, additional playable bank robbers, more weapons, masks and new challenges.

● **PAYDAY 2: Crimewave Edition**

PAYDAY 2: Crimewave Edition was released in June 2015 in retail outlets and on the digital market by Starbreeze partner 505 games for the PlayStation 4 and Xbox One consoles. Updates have been made on a number of occasions and can be purchased for the game both via digital distribution on console and in store.

● **PAYDAY 2 for Switch**

PAYDAY 2 for the Nintendo Switch platform launched in February 2018.

● **PAYDAY 2 VR**

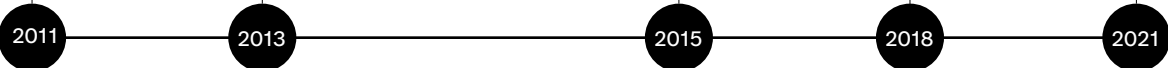
The VR version of PAYDAY 2 was launched in March 2018 and is part of the main game on Steam.

● **PAYDAY: Crime War**

PAYDAY: Crime War is an ongoing development project of a mobile game in the PAYDAY series. It is Starbreeze's first mobile game project.

● **PAYDAY 3**

PAYDAY 3 is Starbreeze's next game in the PAYDAY series. The game is in 'pre-production'



> **111 million**

SEK in net sales attributable to PAYDAY in 2020.

PAYDAY 2 HAS

> **7.1 million**

community members and in December 2020 became the largest community on Steam

Starbreeze Games business model

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

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

Illustrative business model for Starbreeze Games

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

Revenue sharing, if any, with external financial backers or external IP owners is additional.

GAMES DEVELOPMENT PROCESS

The Starbreeze strategy is to build a flexible, production-oriented and agile organisation to enable continuous optimization. The ambition is to create processes that make it possible for creative ideas to grow and develop into own intellectual property rights.

Production methodology

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

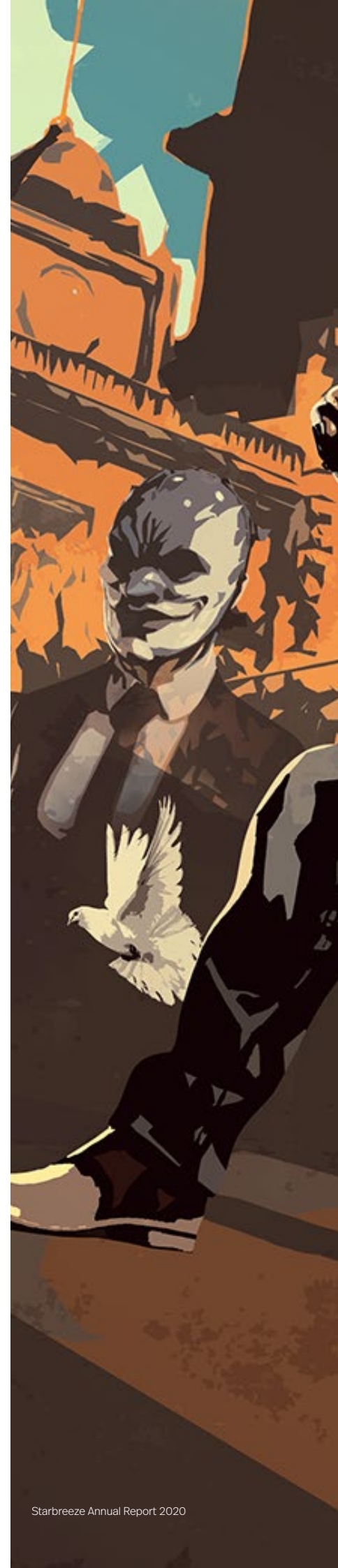
In its production, Starbreeze has chosen to take inspiration from the 'scrum' project method. In brief, scrum is based on working in projects with cross-functional teams that work interactively. The goal is to create a fun and focused work environment in which the teams have a sense of ownership and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

Project organisation

The Head of Production and the Lead Producer are ultimately responsible for the product portfolio for an individual product. The Head of Production is

responsible for overall budget, staffing and product targets across the whole product portfolio. The Head of Production is also organisationally responsible and responsible for ensuring that the cooperation between production and other parts of the company works optimally. The Lead Producer is ultimately responsible for the game vision and for it being communicated to all parties. The Lead Producer has overall responsibility for ensuring that the quality goals of the gaming project stay within budget and are delivered on time.

The Lead Producer is assisted by an Art Director who drives the visual vision, Level Designers and QA who design the game mechanics, and Writers. The Producer can have Associate Producers or other co-producers to assist. Other roles in production include Level Designers, Environment Artists, Animators, Audio Designers, Audio Composers, Concept Artists, Gameplay Programmers och Quality Assurers.





Content creation and implementation

Level Designer

Develops gameplay, which involves things such as deciding which enemies the player is to encounter and what the gamer will do and experience in the game. Builds the paths/settings used in the game.

Animator

Produces animation data for the game and develops the storytelling parts of the game.

Character and 3D Artist

Models the characters and artefacts used in the game based on the concepts created by the Art Director.

Texture Artist

Builds the textures used in the game's settings.

Effect Artist

Develops the effects seen in the game.

Concept Artist

Creates the originals for the models and settings to be included in the game.

Media Artist

Produces the moving images used in the game.

Audio

Creates and arranges the music and sound used in the game.

Programming

Game Programmer

Develops the systems that are specific to a particular game project. This includes such things as weapons, artificial intelligence and effects systems.

Technology

Engine Programmer

Develops and modifies the basic technology in the game engine.

Tools Programmer

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

Quality Assurer

Identifies problems in the game and reports them so that they can be fixed. Gatekeeper who ensures that the game maintains top quality of playability and design - nothing leaves production without QA approval.



EMPLOYEES AND ORGANIZATION



Employees and organization

STRONG ORGANISATION DEVELOPS NEXT PAYDAY SUCCESS

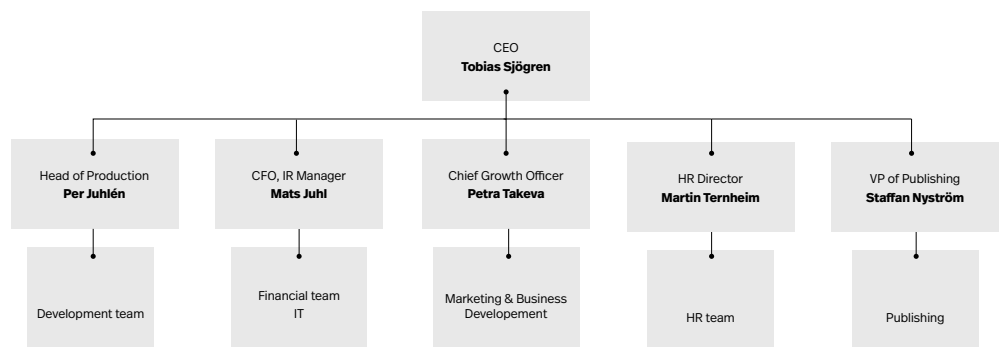
Starbreeze is a knowledge-based company that is dependent on the creativity, knowledge and engagement of its employees. The company offers stimulating tasks, with exacting requirements, to driven and committed employees in a multinational and multicultural workplace.

The company's headquarters are in Stockholm, Sweden, where the majority of its employees are based.

The company has studios in Stockholm, Paris and Barcelona, as well as staff in Los Angeles, United States.

During the financial year, the organization was reinforced by approximately 40 newly hired staff to continue creating and developing our games with the focus on PAYDAY.

The business is mainly centered around development of the company's three main games. PAYDAY 2, PAYDAY 3 and PAYDAY: Crime War. Game development for PAYDAY 2 and PAYDAY 3 takes place mainly in Stockholm and Paris and for PAYDAY: Crime War in Stockholm and Barcelona.



Organization as of end of March 2021.

Employee profile

Starbreeze is a knowledge-based company that is dependent on the creativity, knowledge and engagement of its employees. Starbreeze aspires to offer stimulating tasks, with exacting requirements, to driven and committed employees. The company has been developed from an employee organization in which specialists were responsible for defined areas into one where employees are given greater responsibility and challenges through closer collaboration and interaction throughout the product development process. The company has gone from a model where a producer is responsible for overview and details to a cross-functional and agile model where each specialist area or discipline is responsible for its skills through all the products and ensures details and solves design tasks through its combined expertise. This is done in cross-functional teams through a focus on problem-solving, with high priority given to quality. The foundation of this model is to benefit from the senior development expertise now found in the company as well as possible, while accessing the fingertip instincts of the young developers who are still living among the product's user base.

As of December 31, the company had 124 employees. The corresponding number at December 31, 2019 was 127. The average number of full-time employees in 2020 was 123, and the corresponding figure in 2019 was 331.

The average age at December 31, 2020 was 37 (35) and the gender breakdown was 85 percent men and 15 percent women. In order to maintain and strengthen its market position, Starbreeze

is working actively to attract and retain skilled and motivated employees by, for example, offering employees clear career paths and scope for continuous personal and professional development. Starbreeze is a multinational and multicultural workplace characterized by an open atmosphere, a positive attitude and strong spirit.

Gender equality

Efforts to promote gender equality at Starbreeze are intended to monitor and improve equality among the employees. Gender equality is important at Starbreeze and is given high priority by all the managers. Matters of gender equality must be considered and pursued in the company's operations. This means that the business must be run in a gender-neutral manner. Goals of gender equality and equal opportunity at Starbreeze:

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

Employee policy

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

- Market-based levels of pay
- Opportunities for advancement and career development.
- A workplace characterized by an open

atmosphere, a positive attitude and strong camaraderie.

- A multinational and multicultural workplace that offers interesting human interaction that encourages personal insight and open attitudes.
- The opportunity to build skills by collaborating with colleagues from many different countries, cultures and backgrounds.

Work environment

A good and safe work environment is a key topic for Starbreeze. The objective of work environment management at Starbreeze is to create a physically, psychologically and socially healthy and stimulating workplace for all employees and where risks of occupational injury and work-related ill-health are prevented.

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

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

Monitoring and improving the work environment must be a natural aspect of all activities within the company. Employees must not only know what risks might exist, but also how to avoid them.

Number of employees as of December 31, 2020

Office	Country	Headquarters	Total
Stockholm	Sweden	Yes	101
Paris	France	No	9
Los Angeles	United States	No	1
Barcelona	Spain	No	13
Total			124

Employee key data

	Full year 2020	Full year 2019	Full year 2018	Full year 2017
Average number of employees	123	331	634	278
Number of employees at the end of the year	124	127	604	650
Proportion of women, %	15	12	12	12
Average age, years	37	34	32	31
Net sales per employee, SEK thousand	959	846	552	1300



Values

The values described below permeate all activities at Starbreeze and contribute to the perception of Starbreeze as an attractive employer in the industry.

Team-oriented

We value trust and openness; clear communication where the team's results trump individual performance. There must be creative freedom in game development, and employees must be free to work with the games they are passionate about, all within set cost and time frames.

Ownership

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

Focused on solutions

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

SHARES AND SHAREHOLDERS

Starbreeze shares

Starbreeze shares have been listed in the Small Cap segment of Nasdaq Stockholm since October 2, 2017. The shares are traded under the same ticker and ISIN code as before: STAR A, SE 007158928 and STAR B, SE0005992831. At the end of the year, the closing price was SEK 1.06 (1.85) for the Class A share and SEK 1.09 (1.86) for the Class B share. Total market capitalization was SEK 785 million (612). Since April 2019, Starbreeze Class A shares have been traded on Nasdaq's Auction Only segment.

Performance of Starbreeze Class A and Class B shares from January 1, 2019 to December 31, 2020



Share capital

According to Starbreeze's Articles of Association adopted by the general meeting of shareholders held on August 13, 2020, share capital must be not less than SEK 7,000,000 and not more than SEK 28,000,000. The number of shares in the company must be not less than 350,000,000 and not more than 1,400,000,000. Shares may be issued in two classes: A and B shares. According to the Articles of Association, Class A shares must be converted to Class B shares at the request of the shareholder. The Articles of Association contain no specific provisions on redemption. All shares are freely transferable.

During the first quarter, a directed share issue was made, meaning that equity increased by SEK 658.7 thousand and the number of Class A shares increased by 32,936,784. During the third quarter, a directed share issue was made, meaning that equity increased by SEK 7.2 million, the number of Class A shares increased by 84,729,084 and the number of Class B shares increased by 277,575,549. Under the company's conversion program, 1,346,312 Class A shares were converted into Class B shares during the year.

At December 31, 2020, there were 724,609,266 shares outstanding (329,367,849), each with a quotient value

of SEK 0.02, corresponding to share capital of SEK 14,492 thousand (6,587). At December 31, 2020, there were 169,321,548 Class A shares (53,001,992) and 555,287,718 Class B shares (276,365,857). Each Class A share carries ten votes and each Class B share carries one vote.

Every shareholder eligible to vote at a general meeting for the full number of voting shares owned and represented, with no restriction on voting rights. All shares carry equal rights to participation in Starbreeze's assets and profits.

History of the share capital

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

Year	Transaction	Increase in share capital	Total share capital	Increase in the number of shares	Total number of shares	Quotient value (SEK)
2015	Bonus issue	1,449,853	4,349,560	72,492,662	217,477,987	0.02
2015	New share issues	203,462	4,553,022	10,173,120	227,651,107	0.02
2015	Exercise of warrants	54,200	4,607,222	2,709,984	230,361,091	0.02
2016	New share issues	799,155	5,406,377	39,957,732	270,318,823	0.02
2016	Exercise of warrants	132,218	5,538,594	6,610,890	276,929,713	0.02
2017	New share issues	41,576	5,580,170	2,078,781	279,008,494	0.02
2017	Exercise of warrants	80,589	5,660,759	4,029,447	283,037,941	0.02
2018	New share issues	818,596	6,479,355	40,929,778	323,967,719	0.02
2018	Exercise of warrants	26,557	6,505,911	1,327,836	325,295,555	0.02
2019	Conversion of convertible loans	81,446	6,587,357	4,072,295	329,367,849	0.02
2020	New share issues	7,904,828	14,492,185	395,241,417	724,609,266	0.02

Shareholders

Starbreeze had 28,263 shareholders (29,152) as of December 31, 2020, of which 17 percent were foreign. Of the shareholders, 73 percent were men, 24 percent were women and 3 percent were legal entities. Holdings of legal entities accounted for 62 percent of the share capital. See the list of the company's ten largest shareholders below.

Largest shareholders as of December 31, 2020

Shareholders	Class A shares	Class B shares	Total	Holding, %	Voting rights, %
Digital Bros S.P.A	61,758,625	24,890,329	86,648,954	11.96	28.57
Swedbank Robur ¹⁾	20,360,306	86,655,786	107,016,092	14.77	12.91
Första AP-Fonden	15,590,358	58,000,000	73,590,358	10.16	9.51
Fjärde AP-Fonden	21,241,790	1,400,000	22,641,790	3.12	9.51
Förs. Bolaget, Avanza Pension	5,096,984	56,059,394	61,156,378	8.44	4.76
Swedfact Holding AB	5,173,890	0	5,173,890	0.71	2.30
Michael Hjorth ²⁾	2,858,210	121,600	2,979,810	0.39	1.28
Nordnet Pensionsförsäkringar AB	1,113,578	11,667,264	12,780,842	1.76	1.01
Lundgren, Fredrik	505,762	8,723,029	9,228,791	1.27	0.61
Risberg, Wilhelm	0	13,000,977	13,000,977	1.79	0.58
Other	35,622,045	294,769,339	330,391,384	45.63	28.96
Total	169,321,548	555,287,718	724,609,266	100	100

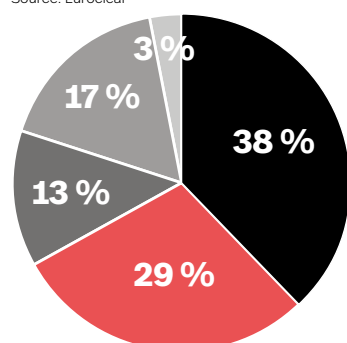
Source: Euroclear

¹⁾Swedbank Robur consists of three funds: Ny Teknik BTI, Småbolagsfond Sverige and Småbolagsfond Norden.

²⁾Via Indian Nation Aktiebolag.

Distribution of equity by shareholder December 31, 2020

Source: Euroclear



- Swedish private investors
- Financial services firms
- Social insurance funds
- Foreign shareholders
- Other legal entities

Distribution of shares December 31, 2020, grouped

Holding	Number of share-holders	Number of Class A shares	Number of Class B shares	Holding, %	Voting rights, %
1-500	10,973	491,515	1,343,499	0.25	0.28
501-1,000	3,435	632,638	2,063,612	0.37	0.37
1,001-5,000	7,390	3,626,851	14,922,793	2.56	2.28
5,001-10,000	2,402	2,844,522	15,100,505	2.48	1.94
10,001-15,000	1,008	1,759,198	10,807,471	1.73	1.26
15,001-20,000	681	1,622,684	10,758,622	1.71	1.20
20,001 -	2,374	158,344,140	500,291,216	90.90	92.67
Total	28,263	169,321,548	555,287,718	100.00	100.00

Source: Euroclear

Outstanding incentive programs

Warrants program 2018/2021

The Annual General Meeting held in May 2018 resolved in favor of a special share-based incentive program for senior management personnel and certain other key individuals aimed at managing new recruitments and promotions. In total, it is to be possible for up to 3,000,000 war-

rants, giving entitlement to subscribe for 3,000,000 class B shares, to be issued under the special incentive program with a term of three years, with a strike price equal to 200 percent of the share price then prevailing (SEK 22.73). The recalculated redemption price after completed new shares issues is SEK 16.43. As of

December 31, 2020, 625,275 of these warrants had been allocated, all with a maturity of June 2021.

As of December 31, 2020, none of the warrants in the warrant program have been exercised. For further information, see Note 30.

Dividends and dividend policy

Starbreeze intends to use the cash flow generated to finance the continued development and growth of the business and therefore not to pay dividends in the com-

ing years. No dividend was distributed to shareholders for the financial years July 1, 2014 to June 30, 2015, July 1, 2015 to December 31, 2015, 2016, 2017, 2018 or

2019. The Board of Directors proposes that no dividend (0) be paid for the 2020 financial year.

Authorizations

The Annual General Meeting held on May 31, 2020 resolved to authorize the Board of Directors to decide, on one or more occasions before the next Annual General Meeting, with or without waiver of shareholders' preferential rights, on new issue

of B shares, or convertible bonds or warrants conferring the right to purchase B shares, corresponding (in connection with the planned exercise of such convertible bonds or options where applicable) to a maximum of 10 percent of the number

of shares outstanding from time to time, against cash payment, by offset or by non-cash consideration. The issue price is to be market-based. Other terms and conditions will be decided by the Board of Directors and must be market-based.

Directors' report

CORPORATE GOVERNANCE

General information about corporate governance

Starbreeze is a Swedish limited liability company listed on Nasdaq Stockholm. Corporate governance at Starbreeze is based on Nasdaq's rules for issuers, the Swedish Code of Corporate Governance ('the Code'), the Swedish Companies Act, good stock market practice, the company's articles of association, internal control documents and other applicable laws, rules and recommendations.

The internal control documents mainly cover the Board's rules of procedure, the CEO's instructions, instructions for financial reporting and authorization and financial policy. In addition, Starbreeze has a number of policy documents and manuals that contain rules and recommendations, which include principles and provide guidance in the company's opera-

tions as well as for its employees.

Companies that apply the Code are not obliged to comply at all times with every rule included in the Code. If the company finds that a certain rule does not suit the company's particular circumstances, the company may choose an alternative

solution, provided that the company then provides details of such deviation and the alternative solution (in accordance with the 'comply-or-explain' principle). Starbreeze has been applying the Code since October 2, 2017, when the company was listed on Nasdaq Stockholm.

General meeting of shareholders

The shareholders' influence in the company is exercised at the general meeting of shareholders, which is the company's highest decision-making body. Any shareholder who, on the record date for the general meeting, is entered in the share register maintained by Euroclear Sweden AB and recorded in a VPC register or in a control account has the right to attend, in person or through an authorized representative. The meeting may decide on all matters concerning the company which do not explicitly fall under the exclusive competence of another company body under the Swedish Companies Act or the articles of association. For example, the meeting may resolve on increasing or decreasing the share capital, amendments to the articles of association and the company going into liquidation. With regard to the issue of new shares, convertible shares or warrants, in addition to deciding thereon itself the meeting also has the opportunity to grant authority to the Board of Directors to decide upon on such issues. Each shareholder, regardless of the size of their shareholding, has the right to have a specific matter addressed at the general meeting of shareholders. Shareholders wishing to exercise this right must submit a written request to the company's Board of Directors. Such

a request should normally be received by the Board of Directors in time for the matter to be included in the notice convening the general meeting of the company.

The Annual General Meeting is held annually within six months of the end of the financial year. The chair of the AGM must be nominated by the Nomination Committee and elected by the meeting. The tasks of the AGM include electing the company's Board of Directors and auditors, adopting the balance sheets and income statements of the Group and company, deciding on the appropriation of the company's profit or loss in accordance with the adopted balance sheet, and discharging the directors and the CEO from liability. The AGM also resolves on the fees to be paid to the directors and the company's auditors.

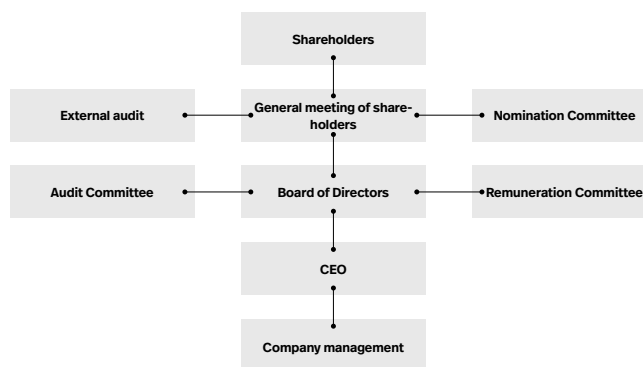
An extraordinary general meeting may be convened by the Board of Directors when the Board considers that there are grounds for holding a meeting before the next Annual General Meeting. The Board of Directors will also convene an extraordinary general meeting when an auditor or shareholder holding more than ten percent of the shares in the company requests in writing that a general meeting be held to deal with a specific matter.

Notice convening a general meeting

of the company will be published via an advertisement in Post- och Inrikes Tidningar and on the company's website. When the convening notice is published, information that notice has been given will be advertised in Dagens Industri. Notice convening ordinary general meetings of the company and extraordinary general meetings where amendments to the articles of association are to be addressed will be issued no earlier than six (6) and no later than four (4) weeks prior to the general meeting of shareholders. Notice convening other extraordinary general meetings will be issued not earlier than six (6) and not later than three (3) weeks prior to the general meeting of shareholders. The minutes of meetings are made available on the company's website no later than two weeks after the meeting.

The AGM was held during the 2020 financial year on May 13, 2020. On January 13, 2020, an extraordinary general meeting was held at which the meeting resolved, as proposed by the Board of Directors, to alter the terms of the convertible loan of SEK 215 million. The holder of the convertible loan, Smilegate Holdings Inc., has consented to amend the convertible terms as decided. In general terms, the change in terms means that the maturity date of the convertible

Starbreeze corporate governance structure



loan was changed from February 2020 to December 2024 and the conversion price for the convertible loan was set at SEK 2.25 per share. On August 13, 2020, an extraordinary general meeting was held at which the meeting resolved,

as proposed by the Board of Directors, to amend the Articles of Association by adjusting the limits for the company's share capital and number of shares. The Extraordinary General Meeting also approved the Board of Directors'

resolution to issue Class A and Class B shares with preferential rights for existing shareholders.

The next Annual General Meeting is scheduled to take place on May 12, 2021.

Nomination Committee

At the Annual General Meeting on May 13, 2020, a decision was taken to adopt a procedure for the appointment of a nomination committee prior to future AGMs.

In accordance with this procedure, the Nomination Committee is to consist of the Chairman of the Board and a maximum of four members, who will be appointed by the largest shareholders or groups of shareholders in terms of voting rights. The four largest shareholders in terms of voting rights will be contacted on the basis of the company's list of registered shareholders on the last working day in August, provided by Euroclear. Any shareholder who is not registered in Euroclear and who wishes to be represented on the Nomination Committee must notify the Chairman of the Board no later than September 1 and be able to confirm the nature of their ownership. In assessing which shareholders are the four largest in terms of voting rights, a group of shareholders will be deemed to be an owner if they (i) have been grouped as owners in the Euroclear system, or (ii) have announced and communicated to the company in writing that they have entered into a written agreement to take a long-term, collective approach to the

company's management through the coordinated exercising of voting rights. The Chairman of the Board must, as soon as possible after the end of August, convene the four largest shareholders in the company in terms of voting rights to form the Nomination Committee. If one of the four largest shareholders in terms of voting rights waives their right to appoint a member to the Nomination Committee, the next shareholder in order of size will be given the opportunity to appoint a member, but no more than ten shareholders need be consulted. The chair of the Nomination Committee must, unless the members agree otherwise, be the member representing the largest shareholder. The names of the committee members and the names of the shareholders who appointed them and details of how to contact the Nomination Committee must be published as soon as the Nomination Committee is appointed, which will be no later than six months prior to the Annual General Meeting.

The term of the Nomination Committee extends until the appointment of a new Nomination Committee. No fees are to be paid to the members of the Nomination Committee. However, the company

is to reimburse reasonable costs incurred by the Nomination Committee in fulfilling its duties.

The Nomination Committee is tasked with submitting proposals prior to the AGM and, where applicable, extraordinary general meetings, regarding the number of directors to be elected by the general meeting, directors' fees, the composition of the Board of Directors, the Chairman of the Board, the chair of the AGM, election of auditors and auditors' fees and how the Nomination Committee is to be appointed.

The names of the members of the Nomination Committee are to be published on the company's website not later than six months prior to the Annual General Meeting.

The company's Nomination Committee prior to the 2021 Annual General Meeting and for the period until the appointment of a new Nomination Committee comprises: Michael Hjorth (Digital Bros and Indian Nation), Ulrik Grönvall (Swedbank Robur Fonder), Ossian Ekdahl (Första AP-fonden (First Swedish National Pension Fund), and Torgny Hellström (Chairman of the Board).

Board of Directors

Duties of the Board of Directors

The Board of Directors bears ultimate responsibility for the company's organization and management of the company's operations, which are conducted in the interests of the company and all the shareholders. Some of the Board's main tasks are to address strategic issues

related to operations, financing, business establishments, growth, earnings and financial position and continuously evaluate the company's financial situation. The Board of Directors also makes sure that effective systems are in place to monitor and control the company's operations, and ensures that the company's

disclosure of information is transparent, accurate, relevant and reliable.

Composition of the Board of Directors

According to Starbreeze's Articles of Association, the Board of Directors must consist of not less than three and not more than eight directors, with not more

Composition of the Board of Directors

Name	Audit and Remuneration Committee	Position held since	Independent of company/shareholders	Attendance Board meetings	Attendance Audit Committee	Attendance Remuneration Committee
Torgny Hellström	Audit Committee and Remuneration Committee	2019	Yes/Yes	24/24	5/6	2/2
Kerstin Sundberg	Audit Committee (chair)	2019	Yes/Yes	24/24	6/6	-
Jan Benjaminson	Audit Committee	2019	Yes/Yes	24/24	5/6	-
Harold Kim	-	2016	No/No	4/6	-	-
Stefano Salbe	-	2019	No/No	4/6	-	-
Tobias Sjögren	Remuneration Committee until October 26, 2020	2019	No/Yes	24/24	-	2/2
Anna Lagerborg	Remuneration Committee from October 26, 2020	2020	Yes/Yes	18/18	-	0/0

than two alternates. Directors are normally elected annually at the Annual General Meeting for the period until the end of the next Annual General Meeting, but additional directors may be elected during the year at an extraordinary general meeting.

At the time of the publication of the Annual Report, the Board of Directors consists of six ordinary members: Torgny Hellström (Chairman), Kerstin Sundberg, Jan Benjaminson, Tobias Sjögren and Anna Lagerborg.

At the 2020 Annual General Meeting, the Board members Jan Benjaminson, Torgny Hellström, Kerstin Sundberg, Tobias Sjögren were re-elected, and Anna Lagerborg was newly elected.

All members of the Board are elected for the period until the end of the next Annual General Meeting, which will be held on May 12, 2021. However, each member of the Board has the right to step down at any time.

The Nomination Committee has made the assessment that Torgny Hellström, Jan Benjaminson, Kerstin Sundberg and Anna Lagerborg are independent in relation to both the company and company management, as well as major shareholders. The composition of the Board thus satisfies the requirements of the Code with regard to independence.

The directors of the company are presented in more detail in the section 'Board of Directors and Auditors' on pages 36-37.

The table on page 29 contains information about the participation of directors in various committees, when the director joined the Board of Directors and the Board's assessment of the independence of the various directors.

Chairman of the Board

The Chairman of the Board has a number of duties, including directing the work of the Board and ensuring that it is carried out efficiently and that the Board fulfils its duties. The Chairman must, by communication with the CEO, to receive the information required in order to monitor the company's position, financial planning and performance on an ongoing basis. Furthermore, the Chairman has to consult the CEO on strategic matters and verify that the decisions of the Board are effectively implemented.

The Chairman of the Board is responsible for maintaining contact with shareholders regarding ownership issues, and for conveying comments from the shareholders to the Board. The Chairman of the Board is elected by the general meeting of shareholders.

The Board's working methods

The Board follows written rules of procedure that are reviewed annually and established at the first meeting of the Board after election following the Annual General Meeting. The rules of procedure regulate such matters as the Board's working methods, duties, decision-making within the company, Board meeting agendas, the Chairman's duties and the division of tasks between the Board and the CEO. Instructions regarding financial reporting and instructions to the CEO are also established at the first meeting of the Board following election.

Twenty-four minuted meetings were held during the 2020 financial year. Details of each director's attendance at Board and committee meetings are provided in the table on page 29.

Strategic matters are presented by the CEO, and the Group's CFO is responsible for reporting on financial issues. The Board met with the auditor on several occasions during the financial year.

Board committees

The company's Board of Directors has established two committees: the Audit Committee and the Remuneration Committee. The Board has adopted rules of procedure for both committees.

Audit Committee

The Audit Committee is responsible for preparing the Board's work of quality assuring the company's financial reporting. Furthermore, the Audit Committee establishes guidelines for which non-audit services the company may procure from the company's auditors. The committee is also tasked with forwarding its evaluation of the audit work to the Nomination Committee in the preparation of the Nomination Committee's proposal for the Annual General Meeting regarding the election of auditors and the level of the audit fee. During the 2020 financial year, the Audit Committee consulted with the company's auditors on the existing accounting assessments. In addition the Audit Committee has proposed measures for the company to continuously improve internal controls.

Since the statutory Board meeting following the 2020 AGM, the Audit Committee has consisted of: Kerstin Sundberg (chair), Jan Benjaminson and Torgny Hellström.

Remuneration Committee

The Remuneration Committee is mainly tasked with preparing issues regarding remuneration and other terms of employ-

ment for the CEO and other senior management personnel. The Remuneration Committee is also responsible for monitoring and evaluating ongoing programs and programs completed during the year for variable remuneration for company management, and for monitoring and evaluating the application of the guidelines for remuneration of senior management personnel resolved upon by the Annual General Meeting.

Since the first meeting of the Board following the 2020 AGM, the Remuneration Committee has consisted of: Torgny Hellström (chair) and Tobias Sjögren. With effect from October 26, 2020, Tobias Sjögren was replaced by Anna Lagerborg on the Remuneration Committee.

Remuneration of directors

The remuneration of directors elected by the Annual General Meeting is decided by the general meeting of shareholders. The AGM held on May 13, 2020 approved directors' fees of SEK 800,000 to the Chairman of the Board and SEK 250,000 to each of the other non-executive directors.

In addition, the Annual General Meeting approved a fee of SEK 75,000 each to the chair and member of the Remuneration Committee. A fee of SEK 350,000 was decided upon for the chair of the Audit Committee and SEK 150,000 to its members. Fees are paid to the auditor according to approved invoices.

Directors' fees for 2020 are detailed on page 31.

Evaluation of the Board's work

Board performance is evaluated annually in order to further develop Board procedures and efficiency. The Chairman of the Board is responsible for such evaluation and for presenting it to the Nomination Committee. The purpose of the evaluation is to gain an understanding of directors' views on how Board work is pursued and any measures that can be taken to streamline the work of the Board, and whether the Board has a good balance in terms of areas of expertise. The evaluation provides important information for the Nomination Committee ahead of the Annual General Meeting.

During the year 2020, evaluation of the Board's work was carried out and presented to the Nomination Committee. The Nomination Committee discussed what experience and skills are needed on the Board of Directors, among other things in light of the now completed company reconstruction and the core business defined by the company.

Chief Executive Officer and other senior management personnel

Duties of the CEO and other members of Group management

The CEO is appointed by the Board of Directors and oversees the Group's day-to-day management in accordance with the Board's guidelines and instructions. The CEO is responsible for keeping the Board informed of the company's development and reporting on material deviations from established business plans and on events that have a major impact on the company's performance and operations, and for preparing relevant decision-making documentation for the Board, for example, regarding business establishments, investments and other strategic issues. Group management, led by the company's CEO, consists of persons responsible for significant business areas within Starbreeze.

Remuneration of the CEO and senior management personnel

Total salaries, variable pay and other benefits were paid to senior management personnel, including the CEO, in 2020 in the sum of SEK 12,967 thousand (12 709). Share-based remuneration totals SEK 0 thousand (27). Defined contributions to pension plans are paid for senior management personnel corresponding to costs under the ITP plan.

Costs of stock options granted to employees were charged against profit and loss in the amount of SEK 0 thousand

(0). See Note 13 for details.

Guidelines for remuneration of senior management personnel

These guidelines include senior management personnel in Starbreeze, who are members of the Company's management team from time to time. The guidelines are to apply to remuneration agreed, and changes made to already agreed remuneration, after the guidelines have been adopted by the Annual General Meeting. The guidelines do not cover remuneration decided by the general meeting of shareholders.

Regarding employment relationships governed by other than Swedish rules, appropriate adjustments may be made to comply with mandatory such rules or local practice, taking into account the overall purpose of these guidelines.

The guidelines promote the company's business strategy, long-term interests and sustainability.

In brief, the company's business strategy is as follows:

Starbreeze is an independent developer, creator, publisher and distributor of PC and console games with a global market focus, with studios in Stockholm, Barcelona and Paris. With the successful PAYDAY brand at its heart, Starbreeze develops games based on proprietary brands and brands of others, both inter-

nally and in collaboration with external game developers.

Starbreeze's main activity consists of proprietary development of video games financed in whole or in part from its own resources. The majority of the company's employees have as their main occupation development of the company's products. The games are then distributed mainly through digital platforms such as Steam, or in partnership with other companies for physical distribution. The company's end customers are the consumers who purchase the game through the various gaming platforms or retailers.

For further information on the company's business strategy, see www.starbreeze.com

The company will offer market-based terms that enable the company to recruit and retain skilled personnel.

Variable remuneration covered by these guidelines will aim to promote the company's business strategy and long-term interests, including its sustainability.

The forms of remuneration, etc.

The remuneration of company management may consist of fixed salary, variable remuneration, pension and other customary benefits. In addition, the Board evaluates on an annual basis whether share-based or share price-based incentive programs should be proposed to the AGM. Such share-based or share

2020 (SEK thousand)	Basic salary/ directors' fees	Variable remuneration	Other benefits	Pension expense	Total	Remaining warrants
Torgny Hellström, Chairman of the Board	1,089	-	-	-	1,089	-
Jan Benjaminson, director	420	-	-	-	420	-
Kerstin Sundberg, director	629	-	-	-	629	-
Tobias Sjögren, director	282	-	-	-	282	-
Anna Lagerborg, director May 13, 2020	159	-	-	-	159	-
Harold Kim, director Jan 1, 2020 - May 13, 2020	102	-	-	-	102	-
Mikael Nermark, CEO Jan 27, 2020 - October 26, 2020	7,868	5	156	250	8,279	100,000
Tobias Sjögren, CEO Oct 27, 2020 - Dec 31, 2020	482	-	-	-	483	-
Other senior management personnel; average of 2 individuals, at year-end 2 individuals	5,777	-	23	466	6,266	-
TOTAL	16,808	5	179	716	17,709	100,000

price-related incentive programs are resolved upon by the General Meeting and are therefore not covered by these guidelines.

As a general rule, fixed salary is reviewed annually and such review must take into consideration the individual's qualitative performance. Remuneration of the CEO and other senior management personnel must be market-based.

The Board of Directors also decides on variable remuneration in the form of cash bonuses to the company's senior management personnel. Variable remuneration will be linked to predetermined and measurable criteria. Variable remuneration on an annual basis may be up to 75 percent of the fixed annual salary of the CEO and 50 percent of the fixed annual salary of other senior management personnel.

Defined contributions to pension plans are paid for the CEO and senior management personnel corresponding to costs under the customary ITP plan.

Other customary benefits may amount to a maximum of 10 per cent of the fixed annual salary.

Regarding employment relationships governed by other than Swedish rules, as far as pension benefits and other benefits are concerned, appropriate adjustments may be made to comply with mandatory such rules or local practice, taking into account the overall purpose of these guidelines.

Termination of employment

The CEO is required to give six months' notice of resignation and the company is

required to give nine months' notice of termination of employment. Notice periods for other senior management personnel range from three to nine months. There is to be no severance pay.

In addition, compensation may be paid for any undertaking to restrict competition. Such remuneration is to compensate for any loss of income and only be paid to the extent that the former executive is not entitled to severance pay. The remuneration is to amount to a maximum of 60 per cent of the fixed cash salary at the time of termination, subject to mandatory collective agreement provisions, and be paid for the duration of the commitment to restrict competition, which is not to exceed 18 months after termination of employment.

Salary and terms of employment of employees

In preparing the Board's proposal for these remuneration guidelines, salary and terms of employment for the company's employees have been taken into account by information on employees' total remuneration, remuneration components and the increase and rate of increase in remuneration over time having formed part of the remuneration committee's and the Board's basis for decision when evaluating the reasonableness of the guidelines and the limitations that result from them.

The decision-making process for adopting, reviewing and implementing the guidelines

The Board of Directors has set up a remuneration committee. The commit-

tee's tasks include preparing the Board's decision on proposals for guidelines for remuneration of senior executives. The Board of Directors is to prepare proposals for new guidelines at least every four years and submit the proposal for resolution at the Annual General Meeting.

The guidelines are to remain in force until new guidelines have been adopted by the general meeting of shareholders. The Remuneration Committee is also to monitor and evaluate programs for variable remuneration for company management, the application of guidelines for remuneration of senior executives, and current remuneration structures and levels in the company. The CEO or other members of the executive management are not present when the Board of Directors deals with and decides on remuneration-related matters, to the extent that they are affected by the issues.

Departure from the guidelines

The Board of Directors has the right to depart from the above guidelines in whole or in part if the Board considers that in an individual case there are special reasons justifying doing so and a departure is necessary to satisfy the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As stated above, it is part of tasks of the remuneration committee to prepare the Board's decisions on remuneration matters, which includes decisions to depart from the guidelines.

Auditing and control

External auditor

The company's auditor is appointed by the general meeting. The auditor is tasked with auditing the company's financial statements and accounting records and the management of the company by the Board of Directors and Chief Executive Officer.

In addition to the auditor's report, the auditor normally also provides review report with the interim report for the third quarter.

The AGM held on May 13, 2020 re-elected the auditing firm Öhrlings PricewaterhouseCoopers AB, (Torsgatan 21, 113 21, Stockholm, Sweden) as the company's auditor for the period until the end of the AGM held in 2021. Öhrlings

PricewaterhouseCoopers AB was also the company's auditor for 2015, 2016, 2017, 2018, 2019, 2020 and the period prior to the 2021 AGM. Authorized public accountant Nicklas Kullberg is the auditor in charge. Nicklas Kullberg is a member of FAR, the institute for the accountancy profession in Sweden. The auditor's report is signed by Nicklas Kullberg.

Remuneration of the auditor

Remuneration of the auditor is decided by the AGM according to the Nomination Committee's proposal. The AGM held on May 13, 2020 decided that fees to the auditor would be paid in accordance with approved invoice.

Internal auditing and control

The Board of Directors' responsibility for internal control is regulated by the Swedish Companies Act and the Swedish Annual Accounts Act, which require Starbreeze to provide information in the corporate governance statement about the key elements of its systems for internal control and risk management in conjunction with annual financial reporting. The Board of Directors' responsibility for internal control is also regulated in the Code. Accordingly, the Board's duties include ensuring that Starbreeze maintains good internal control and formalized procedures that ensure compliance with established principles of reporting and internal control

and ensuring that appropriate systems exist for monitoring and control of the company's operations and the risks associated with its operations.

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

Control environment

Internal control at Starbreeze is based on a control environment that encompasses the organization, decision paths, duties and powers. The Board of Directors has written rules of procedure that clarify the Board's responsibilities and regulate the

division of work among the directors. The Board's rules of procedure also specify the issues that must be submitted to the Board for decisions. The division of roles between the Board of Directors and the CEO is communicated in the Board's rules of procedure and in its instructions to the CEO. In addition, the CEO manages operations based on the Swedish Companies Act, other laws and ordinances, regulations applicable to listed companies, the Swedish Corporate Governance Code, etc. The board of directors monitors compliance with established principles of financial reporting and internal control and maintains appropriate relations with the company's statutory auditor. Company management is responsible for the internal control system required to manage material risks in ongoing operations. The Audit Committee also prepares matters for decisions by the Board in order to maintain an effective control environment.

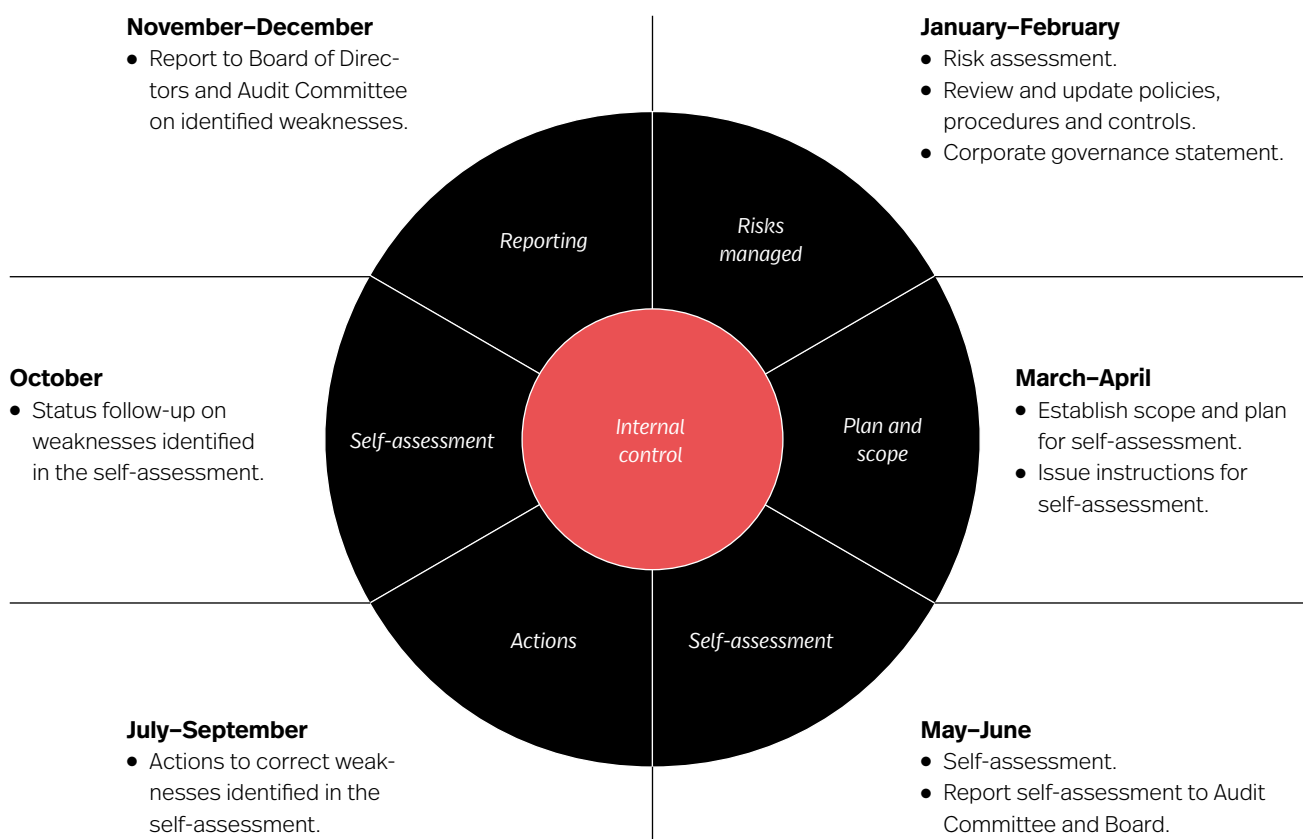
Risk assessment and control activities

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

Risk management

Material risks that affect internal control of financial reporting and operational controls are identified and managed at Group, business area and subsidiary levels. Within the Board, the Audit Committee is responsible for ensuring that material financial risks and risks of misstatements in financial reporting are

Starbreeze annual cycle for auditing and control



identified and prepared for decisions by the Board regarding possible corrective measures to ensure accurate financial reporting. Special priority is awarded to identifying processes where the risk of material misstatement is relatively higher due to the complexity of the process or in contexts that involve high monetary values.

The Board of Directors tasks senior management with analyzing operations and identifying and quantifying the risks to which the Group is exposed. Once the risks have been identified, they are ranked according to their probability and consequences. Based on this analysis, the company has designed a large number of controls in the areas of Finance, Management, IT, HR and Game Development, Marketing and PR, and IR. A planned self-assessment process is conducted according to an established plan and the outcome is reported to the Audit Committee and the Board of Directors, who verify that the controls have been performed. The results, analysis and measures in connection with this process are reported directly to the Audit Committee and Board of Directors according to the graph on page 33.

Follow-up

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

Towards the end of the year, the Audit Committee receives a final report on the outcome and status of internal control. Based on this report, the Audit Committee prepares a proposal on improvement measures for submission to the Board. This is a continuous process according to the annual cycle for auditing and control illustrated below.

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





Board of Directors and auditors



Torgny Hellström

Chairman of the Board since extraordinary general meeting in 2019

Born: 1958.

Principal occupation: Torgny Hellström is active as a director and management consultant and has previously held senior positions as Chairman of DDM Holding AG and MagComp AB, director of True Heading AB and Seapilot AB, within Anoto Group, most recently as CEO and previously as COO and Chief Legal Officer. Torgny's previous jobs also include Vice President Litigation within the Ericsson Group and positions in IBM Europe and IBM Nordic.

Other appointments: Chairman of the Board of Precise Biometrics. Chairman of the Board of Swipp AB

Holdings in the company: Directly owns 500,000 B shares

Torgny Hellström is independent in relation to the company, its management and major shareholders



Jan Benjaminson

Director since Extraordinary General Meeting 2019

Born: 1958

Principal occupation: Jan Benjaminson has extensive experience as a CFO with various listed and unlisted software companies in Sweden and is now CFO of G-Loot, an e-sports company. Jan has previously been CFO and CEO of TargetEveryOne and is also one of the founders of Level Eight, an independent mobile gaming development company. Jan was Chairman of Massive Entertainment from 2000 to 2002.

Other appointments: Founder and Chairman of the Board of Level Eight AB and director of Oxcia AB

Holdings in the company: -

Jan Benjaminson is independent in relation to the company, its management and major shareholders.



Kerstin Sundberg

Director since Extraordinary General Meeting 2019

Born: 1954

Principal occupation: Kerstin Sundberg has been active as a director since 2017. Previous background as authorized public accountant and financial advisor, most recently as a partner at Deloitte. Board member in Fortnox 2018-2020. Her industry focus includes Media and Telecommunications as well as M/A and Transaction Services.

Other appointments: Director and Chairman of the Audit Committee of the World Wide Fund for Nature (WWF)

Holdings in the company: -

Kerstin Sundberg is independent in relation to the company, its management and major shareholders.



Tobias Sjögren

*Director since the Annual General Meeting in 2019,
CEO since March 24, 2021*

Born: 1975.

Education: EMBA Gruppen

Principal occupation: Tobias has been active since 1996 in the video game industry in production, business development, sales and management. Most recently, Tobias was CEO of White Wolf Entertainment and has previously worked at Fox in a Box Stockholm AB, Paradox Interactive, Stardoll and the international agent firm DDM Agents. Tobias was head of DICE Stockholm's studio during the launch of the first Battlefield game..

Other appointments: Director of the company Fox in a Box Holding AB.

Holdings in the company: Directly or indirectly owns 70,000 Class A shares and 30,000 Class B shares.

Tobias Sjögren is not independent in relation to the company, its management and major shareholders.



Anna Lagerborg

Member of the Board since the 2020 AGM

Born: 1966.

Education: bachelor's degree. in systems science

Principal occupation: Anna currently works in executive search and business development at Safemind, a recruitment company specializing in tech and digitalization. Anna has an extensive background in managing tech organizations, including from NetEnt, where she has been development manager and a member of Group management, and from Hemnet, where she has been CTO, acting CEO and Deputy CEO.

Other assignments: -

Holdings in the company: -

Anna Lagerborg is independent in relation to the company, its management and major shareholders.

Auditors

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

Nicklas Kullberg

Auditor in charge

Auditor of Starbreeze AB (publ) since 2015.

Born: 1970

Authorized Public Accountant.

Senior management personnel



Tobias Sjögren

CEO since March 24, 2021

Born: 1975.

Education: EMBA Gruppen

Background: Former CEO of the company white wolf entertainment, former employments at Paradox Interactive, Stardoll and the international agent firm DDM Agents. Head of DICE Stockholm's studio during the time when the first Battlefield game was launched.

Holdings in the company: Directly or indirectly owns 100,000 Class B shares.



Mats Juhl

CFO since May 2020

Born: 1973

Education: Master's degree in Finance, Lund University

Background: CFO Mips AB (publ.), CFO Tengbomgruppen AB, CFO Sweden Arena Management KB (Friends Arena), Finance Director Ticnet AB, CFO Enea AB (publ.)

Holdings in the company: Directly or indirectly owns 200,000 Class B shares.



Per Juhlén

Head of Production since 2019

Born: 1973

Education: -

Background: Has extensive industry experience and most recently comes from DICE where he was Senior Development Director for 7 years, Starbreeze (2011-2012) and Hansoft.

Holdings in the company: -



Martin Ternheim

HR Director since 2019

Born: 1977

Education: MA in International Human Resources Management, University of Greenwich, 2004, and BSc in Human Resources Management, Unitec, 2002.

Background: Over 16 years of experience in HR, most recently as HR Manager at Telenor and before that HR consultant at EY where he mainly worked with HR in connection with M&As.

Holdings in the company: Directly or indirectly owns 300,000 Class B shares.



Petra Takeva

Chief Growth Officer since 2021

Born: 1977

Education: IHM Business School, Forsbergs School, Bergs School of Communication

Background: Petra has over 18 years of experience working with marketing and business development on both the agency and client sides. She has developed concepts and formats for product, services and marketing, mainly in the technology and entertainment industries.

Holdings in the company: -



Staffan Nyström

VP of Publishing since 2021

Born: 1978

Education: Master of Science - Industrial Economics, Luleå Technical University

Background: Over 18 years of experience in marketing on both the agency and client sides. Staffan previously ran the internal full-service agency at Wargaming and before that was Head of Marketing for Expansive Worlds at Avalanche Studios.

Holdings in the company: -

FINANCIAL OVERVIEW

Condensed consolidated statement of comprehensive income

SEK thousand	Full year 2020	Full year 2019	Full year 2018	Full year 2017
Operating revenue				
Net sales	118,006	280,002	349,955	361,447
Operating expenses	-107,131	-784,364	-1,927,760	-512,906
Operating profit/loss (EBIT)	10,875	-504,362	-1,577,805	-151,459
Net financial income/expense	-141,348	51,938	230,556	-24,726
Profit/loss before tax	-130,473	-452,424	-1,347,249	-176,185
Income tax	193	51,325	10,897	20,855
Earnings for the period	-130,280	-401,099	-1,336,352	-155,330

Condensed consolidated balance sheet

January 1–December 31, SEK thousand	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017
Assets				
Non-current assets				
Non-current intangible assets	454,289	384,565	787,459	1,973,404
Property, plant and equipment	55,570	76,614	60,499	98,901
Total non-current assets	509,859	461,179	847,958	2,072,305
Current assets	198,847	129,709	155,468	386,859
Available-for-sale assets	-	1,084	83,068	-
Total assets	708,706	591,972	1,086,494	2,459,164
Equity and liabilities				
Equity	228,498	6,158	339,006	1,282,399
Liabilities				
Non-current liabilities	329,849	184,196	159,314	983,765
Current liabilities	150,359	400,155	583,310	193,000
Available-for-sale liabilities	-	1,463	4,864	-
Total liabilities	480,208	585,814	747,488	1,176,765
Total equity and liabilities	708,706	591,972	1,086,494	2,459,164

Condensed consolidated statement of cash flows

SEK thousand	Full year 2020	Full year 2019	Full year 2018	Full year 2017
Cash flow from operating activities	-24,640	49,508	49,906	-21,086
Cash flow from investing activities	-96,215	-36,239	-559,224	-620,107
Cash flow from financing activities	-195,599	-	344,334	208,913
Cash flow for the period	74,744	13,269	-164,984	-432,280
Cash and cash equivalents at the start of the period	82,787	69,289	233,757	669,380
Exchange rate difference in cash and cash equivalents	-108	229	516	-3,343
Cash and cash equivalents at the end of the period	157,423	82,787	69,289	233,757

The Group's alternative performance measures

	Full year 2020	Full year 2019	Full year 2018	Full year 2017
EBITDA margin, %	41.8	-41.6	-3.0	-14.8
Profit margin, %	-110.6	-161.6	-385.0	-48.7
Basic earnings per share, SEK	-0.28	-1.22	-4.2	-0.55
Diluted earnings per share, SEK	-0.28	-1.22	-4.2	-0.55
Equity/assets ratio, %	32.2	1.0	31.5	52.1
Number of shares at the end of the period before dilution	724,609,266	329,367,849	325,295,554	283,037,940
Number of shares at the end of the period after dilution	724,609,266	329,367,849	345,895,038	306,443,723
Average number of shares before dilution	469,754,144	328,349,775	317,956,811	280,309,967
Average number of shares after dilution	469,754,144	328,349,775	317,956,811	280,309,967
Average number of employees	123	331	634	278
Number of employees at the end of the period	124	127	604	650

Definitions, Group alternative performance measures

The Annual Report refers to a number of non-IFRS performance measures that are used to help both investors and management analyze the company's operations. The measures presented in this report may differ from measurements with similar names used by other companies.

EBITDA

Earnings before interest, tax, depreciation and amortization

EBITDA margin

Earnings before interest, tax, depreciation and amortization as a percentage of net sales.

Profit margin

Profit after financial items as a percentage of total net sales

Earnings per share

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

Equity/assets ratio

Equity as a percentage of capital employed.

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DIRECTORS' REPORT, CONT.

The Board of Directors and Chief Executive Officer of Starbreeze AB (publ), 556551-8932, hereby present the annual accounts and consolidated financial statements for the fiscal year beginning on January 1, 2020 and ending on December 31, 2020, Starbreeze AB's twenty-third financial year. Unless otherwise specified, the information presented in the annual accounts relates to the Group. Information in parentheses refers to the preceding year.

General information about the business

Starbreeze is an independent developer, publisher and creator of PC and console games with a global market focus.

Starbreeze was founded in 1998 and has since developed into a well-established game developer and publisher of computer and video games with offices in several countries around the world and with its main business in Stockholm. In 2020, the business consisted mainly of Starbreeze Games with its own game development and publishing business focusing on its own IP PAYDAY.

Other business is part of what has been defined as non-core business, and no resources were charged to this business during the year.

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

Significant events during the year

Steam, Starbreeze's main digital distribution platform, normally applies a revenue split under which partners receive 70 percent of the revenue after tax and returns. The platform owner Valve

announced in the fall of 2018 that it had begun to apply a scale by which games that meet certain sales criteria can qualify for an additional 5 or 10 percentage points in revenue share in addition to the normal 70 percent. PAYDAY 2 with its DLCs met the first sales criterion on January 3, 2020, resulting in the game's future revenue split giving Starbreeze 75 percent from Steam after tax and returns.

An Extraordinary General Meeting was held on January 13, 2020. The Extraordinary General Meeting resolved in accordance with the Board's proposal to amend the terms of the company's outstanding convertible loan, by which the maturity date of the convertible loan was extended to December 6, 2024 and the conversion price for the convertible loan was set at SEK 2.25 per share. In connection with the renegotiation of the convertible loan, an extension fee of SEK 165 million was added. The liability for the extension fee has been subordinated to other liabilities and runs with a maturity of five years at zero percent interest.

As part of the financing of the business, on February 19, 2020 Starbreeze AB implemented a directed share issue of 32,936,784 Class A shares, at a subscription price of SEK 1.557. The issue provided the Company with proceeds of SEK 51.3 million, which is entirely conditional on use for the operating activities of New Starbreeze Publishing AB and is not intended to pay off the company's outstanding debts. The main subscribers to the directed share issue were Swedish institutional investors such as Swedbank Robur, the First Swedish National Pension Fund and the Fourth Swedish National Pension Fund.

Starbreeze sold the wholly-owned subsidiary Parallaxter in February 2020, which had a negative impact on cash flow during the year of SEK 0.5 million.

Mats Juhl was appointed Chief Financial Officer (CFO) and took up duties on May 4, 2020.

On May 13, the AGM was held.

On August 13, an Extraordinary General Meeting was held in Starbreeze AB, which approved the Board's decision on the issue of new Class A and Class B shares with preferential rights for existing

shareholders. The issue was fully guaranteed by existing shareholders as well as through a guarantee consortium, and totaled SEK 250 million. The issue was completed during September at a subscription price of SEK 0.69. The new share issue resulted in the issuance of 84,729,084 A shares and 277,575,549 B shares. The company received proceeds of approximately SEK 250 million, before issue expenses, which to around 60% is conditional on being used for the operating activities of New Starbreeze Publishing AB. The remaining portion of the issue proceeds was used to pay off the company's outstanding debts under the reconstruction plan. The main subscribers to the directed new share issue were Swedish institutional investors such as Swedbank Robur, the First Swedish National Pension Fund and Digital Bros S.P.A.

In August, an Extraordinary General Meeting resolved on amendment of the Articles of Association and approved the Board's decision on the new issue of Class A and Class B shares with preferential rights for existing shareholders.

During the year, Starbreeze finished paying off debts to Supplier Creditors and Small Supplier Creditors under the reconstruction plan, the final payment being made on December 5, 2020.

Nasdaq Stockholm AB opted to remove the observation listing of Starbreeze A and B shares on September 9.

Tobias Sjögren was appointed Chief Executive Officer on October 26, when the former Chief Executive Officer Mikael Nermark resigned for personal reasons.

Starbreeze continuously evaluates the impact on the business of the ongoing COVID-19 pandemic. Ongoing revenue-generating business has not shown any disruption as most of the revenue comes from a digital distribution model where the availability of the product and contact between players remain unbroken regardless of overarching measures aimed at social distancing. All the employees are working from home. The company's assessment is that the short-term impact on ongoing projects

continues to be small, although the long-term effects on future business and the impact on the efficiency of the project organizations may result in delayed deliveries. The impact on the company's revenue was positive during the year.

Stock option programs

As of December 31, 2020, there are no outstanding employee stock options, and allocated outstanding warrants total 625,275. See also Note 30.

Events after the end of the financial year

The most important events following the end of the financial year are summarized below. For detailed information about events during the quarter, refer to Starbreeze.com.

On March 19, a publishing agreement for PAYDAY 3 was signed with Koch Media Group.

On March 24, Tobias Sjögren was appointed CEO of Starbreeze, having previously served as acting CEO since October 26, 2020.

Net sales and earnings

The financial year covers 12 months (January-December 2020).

Net sales were SEK 118.0 million (SEK 280.0 million), of which PAYDAY accounted for SEK 111.5 million (SEK 109.4 million). Adjusted for non-recurring effects, attributable to a previous publishing agreements with Universal regarding PAYDAY: Crime War SEK of 42.5 million, net sales for PAYDAY increased by 66.7% compared to corresponding period of the previous year. Of net sales, PC accounted for SEK 87.7 million (SEK 54.3 million) and Console accounted for SEK 23.7 million (SEK 14.7 million). In the corresponding period of 2019, there are exceptional items of SEK 186.5 million mainly related to Psychonauts, 10Crowns, PAYDAY: Crime War and other non-core business.

Net sales from Steam sale of the base game PAYDAY 2 increased by 37% (SEK 6.2 million) compared to the corresponding period of 2019, net sales from sale of DLC (sale of add-on packs) have increased by 69% (SEK 23.3 million). SEK 5.6 million of net sales in the period is attributable to the increased revenue share achieved in the first quarter of 2020, where Starbreeze receives 75% of the revenues from Steam. Taken together, this provides increased Steam revenues attributable to

PAYDAY 2 of SEK 35.1 million during the year. Console revenues have shown a positive trend increasing by 61% (SEK 9.1 million) compared to the corresponding period last year.

The change in dollar exchange rate had a negative impact on net sales of SEK 4.2 million compared to the average exchange rate for the corresponding period of the preceding year.

Direct costs totaled SEK 31.1 million (661.5) and consist of costs related to game production and game development. The decrease is primarily due to capitalized development expenditure and costs of sold publishing rights of SEK 464 million being expensed in 2019, but also to the number of employees having been substantially reduced and a larger portion of the development work being capitalized in 2020. Direct costs include amortization of SEK 21.7 million (364.8). Amortization in the corresponding period in 2019 mainly relates to the amortization and impairment of projects divested or phased out during the period.

Capitalized development expenditure reduced direct costs by SEK 71.0 million (51.0) and relates to the games PAYDAY: Crime War, PAYDAY 2 and PAYDAY 3.

Selling and marketing expenses totaled SEK 8.5 million (12.0) and relate primarily to personnel expenses.

Administrative expenses totaled SEK 69.4 million (109.6) and relate, among other things, to office expenses and salaries of personnel not working in game production or marketing, as well as expenses attributable to reconstruction work. The decrease is mainly attributable to lower expenses related to reconstruction work and costs of premises. Administrative expenses include exceptional costs relating to personnel expenses of SEK 6.3 million, consisting mainly of final salary and associated expenses related to changes in personnel.

Administrative expenses include amortization of SEK 16.8 million (23.1).

Capitalized development expenses reduced administrative expenses by SEK 23.5 million (39.1) and relate to the games PAYDAY: Crime War, PAYDAY 2 and PAYDAY 3.

Other revenues/expenses totaled SEK 1.8 million (-1.2). The item consists of exchange-rate effects resulting from changes in dollar and euro rates against the Swedish krona as well as net income

attributable to sold subsidiaries of SEK 6.4 million.

Earnings before interest, tax, depreciation and amortization (EBITDA) totaled SEK 49.3 million (-116.5).

Remeasurement of earnouts totaled SEK 0.0 million (84.1). Profit share from the joint venture StarVR Corporation totaled SEK -2.1 million (-1.5).

Net financial income/expense totaled SEK -141.3 million (51.9). The decrease is mainly due to costs related to the extension of the company's convertible loan. The total cost charged to net financial income and expense resulting from the extension of the convertible loan is SEK 110.1 million. However, this has not affected liquidity. In the corresponding period of the preceding year, we had a positive effect of SEK 84.1 million related to remeasurement of earnout.

Earnings before tax for the period were SEK -130.5 million (-452.4).

Earnings for the period were SEK -130.3 million (-401.1).

Basic and diluted earnings per share were SEK -0.28 (-1.22).

Financial position

Goodwill at the end of the period totaled SEK 38.8 million (43.6). Other intangible fixed assets, consisting mainly of IP rights, totaled SEK 228.5 million (240.2).

Capitalized expenditure on proprietary game and technology development totaled SEK 171.4 million (81.5).

Investments in publishing projects totaled SEK 4.0 million (4.1).

Amortization and impairment of intangible assets totaled SEK 16.6 million (326.9) during the period.

Trade and other receivables totaled SEK 4.1 million (10.4).

Prepaid expenses and accrued income at the end of the period totaled SEK 34.7 million (33.4), of which SEK 16.0 million (13.4) related to receivables for digital sales, primarily through Steam, PlayStationStore, Xbox Live and Switch.

On the balance sheet date, Group equity was SEK 228.5 million (6.2).

Non-current liabilities totaled SEK 329.8 (184.2) of which convertible loans and related liability totaled SEK 270.1 million and liabilities to Nordea totaled SEK 11.0 million. The non-current portion of lease liability totaled SEK 37.1 million (55.3). Latent tax liability totaled SEK 0 million (7.9).

Current liabilities totaled SEK 150.4 million (400.2).

Trade payables and other liabilities at the end of the period totaled SEK 103.3 million (342.5), of which SEK 44.9 relates to Nordea. Current liabilities for leases totaled SEK 19.1 million (19.2). Accrued expenses and deferred income at the end of the period totaled SEK 27.9 million (38.5). The decrease is mainly due to paying off creditor debt under the reconstruction plan.

IFRS 16 Leases has been applied since January 1, 2019. The deposit paid for the premises in Stockholm is recognized as a financial asset on the balance sheet.

In discounting future lease payments, Starbreeze has used the marginal lending rate per country as a discount rate. The marginal borrowing rate is based on the financial strength of the lessee, country, and the length of the lease in question.

Share capital at the end of the period totaled SEK 14,492,185,37 (6,587,357) divided into 724,609,266 shares (329,367,849), of which 169,321,548 A shares (53,001,992) and 555,287,718 B shares (276,365,857).

Cash flow

Cash and cash equivalents at the end of the period totaled SEK 157.4 million (82.8).

Cash flow from operating activities totaled SEK -24.6 million.

(49.5). Adjustments for items not included in cash flow totaled SEK 37.1 million (586.9), of which depreciation and amortization totaled SEK 38.4 million. Cash flow from investing activities was SEK -96.2 million (-36.2), of which investments in proprietary game development totaled SEK -94.5 million. In the corresponding period of the preceding year, disposals of operations of SEK 67.2 million took place.

Cash flow from financing activities has increased to SEK 195.6 million (0.0) mainly attributable to completed new share issues of SEK 271 million, repayment of non-current liability of SEK 55 million and IFRS 16 Leases of SEK 18.8 million.

Working capital decreased by SEK 24.6 million, mainly attributable to the paying-off of operating liabilities under the reconstruction plan.

Total cash flow for the year was SEK 74.7 million (13.3). Cash and cash equivalents at the end of the period totaled SEK 157.4 million (82.8).

Investments

During the period, the Group's investments in property, plant and equipment totaled SEK 1.0 million (2.1). Investments in proprietary game and technology development totaled SEK 94.5 million (92.4).

Impairments

Starbreeze regularly tests assets with indefinite useful lives for impairment to ensure that the carrying amounts of assets do not exceed fair value. These impairment tests did not lead to any impairments during the fiscal year.

Research and development

The Group engages in research and development in game development. Most of the company's development expenditure is devoted to developing games compatible development, and consists mainly of personnel expenses. Most of the work is specific to various games. A certain proportion of development relates to functions and mechanics common to several games. The costs of this are incurred continuously during the research phase itself, i.e. until it is technically possible to complete the product and it is commercially viable. Once the project has reached this level and has thus moved into the development phase, costs are capitalized and recognized as an intangible asset. Once the asset is complete, it is amortized on a straight-line basis over the useful life of the asset.

Environmental impact

No Group companies are engaged in any activity that requires a permit under the Swedish Environmental Code. However, Starbreeze has an explicit aspiration to minimize the negative environmental impact of the business and has adopted several guidelines on this topic.

Sustainability

As of the 2017 financial year, large companies in Sweden are required under the Annual Accounts Act to present a sustainability report. Starbreeze's full sustainability report is available on the company's website.

A good and safe work environment is a key sustainability issue for Starbreeze. The goal of Starbreeze's work environment efforts is to create a physically, psychologically and socially healthy and stimulating workplace for all employees.

The company's Code of Conduct sets out the fundamental principles applicable to how Starbreeze conducts business. The Code of Conduct also explains what employees can expect of Starbreeze as an employer with regard to the work environment, safety, human rights, gender equality, health and personal privacy.

Marketing must be ethical, honest and reflect generally accepted social standards of what is deemed to be good taste and decency.

Employees

The company had 124 (127) employees at the end of the year, of whom 103 men and 21 women. The average age of employees as of December 31, 2020 was 37 (34). For more information see Notes 9, 11 and 12 as well as the Group sustainability report, which can be found on the website.

Remuneration of the Board of Directors and senior management personnel

Guidelines adopted and proposed for the 2021 AGM on remuneration of the Board of Directors and senior management are presented in the Corporate Governance report on page 28. Expenses in 2020 for remuneration of senior executives are set out in Note 13 and in the 2020 Remuneration Report.

Parent Company

Starbreeze AB (publ) is the Parent Company of the Group. Executive management and other central Group functions are coordinated in the Parent Company.

The Parent Company had net sales in 2020 of SEK 29.8 million (SEK 59.0 million), and earnings before tax were SEK -144.3 million (SEK -14.7 million). Earnings after tax were SEK -144.3 million (SEK -14.7 million).

Shares in subsidiaries totaled SEK 322.7 million (SEK 295.8 million).

At the end of the period, cash and cash equivalents totaled SEK 10.9 million (12.0), and the Parent Company's equity was SEK 784.6 million (581.1).

Non-current liabilities decreased to SEK 270.1 million (306.1). The decrease is due to repayment of debt under the reconstruction plan.

Shares and ownership structure

Starbreeze shares have been listed on Nasdaq Stockholm in the Small Cap segment since October 2, 2017. The shares are traded under the tickers STAR

A and STAR B with the ISIN codes SE007158928 and SE0005992831.

On December 31, 2020, the closing price was SEK 1.06, compared with SEK 1.85 on December 31, 2019 for Class A shares and SEK 1.09 compared with SEK 1.86 for Class B shares. At year-end, the total market capitalization was approximately SEK 785 million, compared with approximately SEK 612 million in the preceding year.

Share capital at year-end was SEK 14,492 thousand (6,587 as of December 31, 2019) divided into 724,609,266 shares (329,367,489), of which 169,321,548 Class A shares (53,001,992 Class A shares) and 555,287,718 Class B shares (276,365,857 B-shares). During the first quarter, a directed share issue was made, meaning that equity increased by SEK 658.7 thousand and the number of Class A shares increased by 32,936,784. During the third quarter, a directed share issue was made, meaning that equity increased by SEK 7.2 million, the number of Class A shares increased by 84,729,084 and the number of Class B shares increased by 277,575,549.

Under the Company's conversion program, 1,346,312 A shares were converted to B shares during the year.

Starbreeze had 28,263 shareholders (30,556) at the end of the year. The three largest shareholders at year-end were Digital Bros S.P.A, with 11.96 percent of the share capital and 28.57 percent of the voting rights, Swedbank Robur with 14.77 percent of the share capital and 12.91 percent of the voting rights and the First Swedish National Pension Fund with 10.16 percent of the share capital and 9.51 percent of the voting rights. For more information about the shares and shareholders, see Shares and Shareholders.

Risks and uncertainties

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

Risks related to external developers

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

Delays in projects

Both internal projects and projects developed by external partners may be subject to delays. Completion of a project may also require more resources than originally expected. When this occurs, especially in internal projects, the cost is borne by Starbreeze.

Low revenues upon release of games or other products

When new games or other products are released, there is risk that they will not be received favorably by the market. This applies both to internally financed projects and to games for which the company acts as the publisher and is responsible for a significant portion of the financing. There is also a risk of capitalized development expenditure needing to be impaired in such cases.

Dependence upon key individuals

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

Financing needs and capital

In the framework of Starbreeze's business operations, revenues will often be unevenly distributed over time, with an impact on liquidity over time. There is therefore a risk that the company will need to be capitalized in the future. There is also a risk that the company, at any given time, might not be able to raise additional capital or might not be able to raise capital on terms favorable to existing shareholders.

The Company assesses that the assumption of a going concern as being fulfilled. See also Note 3 D.

Intellectual property rights issues

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

Furthermore, there is a risk that outsiders might infringe the company's intellectual property rights, or that the company might infringe intellectual property rights owned by other parties.

Currency risks

Starbreeze operates in an international market. A large portion of Starbreeze's revenues are received in USD, while costs are mainly denominated in SEK but also in EUR. Starbreeze is therefore exposed to fluctuations in the currency market and changes in exchange rates.

Risk of requirement of impairment of goodwill and other intangible assets

The consolidated balance sheet consists largely of goodwill and other intangible assets, which totaled SEK 442,7 million as at December 31, 2020. The company continuously monitors relevant circumstances that have an impact on the company's business and general financial situation and the possible impact that such circumstances may have on the measurement of the company's goodwill and other intangible assets. It is possible that changes in such circumstances, or in the many factors the company takes into consideration in connection with its judgments, assumptions and estimates in connection with the measurement of goodwill and other intangible assets might require the company to impair goodwill and other intangible assets in the future.

Proposed disposition of profits

	Parent
SEK	2020-12-31
Retained earnings (-loss)	-997,815,685
Share premium reserve	1,912,127,083
Net profit (-loss) for the year	-144,271,822
Carried forward	770,039,576

The Board of Directors proposes that the retained earnings of SEK 770,039,576 be carried forward.

Dividend

The Board of Directors proposes that no dividend (0) be paid for the 2020 financial year.

Annual General Meeting

The Annual General Meeting of Starbreeze AB (publ), 556551-8932, will be held on Wednesday May 12, 2021.

Consolidated statement of comprehensive income

SEKk	Note	2020	2019
	2, 4, 11		
Net sales	5, 6	118,006	280,002
Direct costs	5, 8	-31,074	-661,520
Gross profit (-loss)	5	86,932	-381,518
Selling and marketing costs	8, 10, 12, 13	-8,464	-12,048
Administrative expenses	8, 9, 10, 12, 13	-69,428	-109,609
Other revenue	7	1,835	19,221
Other expenses	8, 14	-	-20,408
Operating profit (-loss), EBIT		10,875	-504,362
Financial income	15	628	84,266
Financial expenses	15	-139,864	-30,866
Share of profit or loss from holdings recognized using the equity method of accounting	42	-2,112	-1,462
Profit (-loss) before tax		-130,473	-452,424
Income tax	17	193	51,325
Net profit (-loss) for the year		-130,280	-401,099
Net income attributable to:			
Capitalize Owners		-130,280	-401,249
Non-controlling interests		-	150
<i>Other comprehensive income that may subsequently be reclassified to profit and loss:</i>			
Exchange differences		246	4,162
Total comprehensive income for the year		-130,034	-396,937
Total comprehensive income attributable to:			
Capitalize Owners		-130,034	-397,087
Non-controlling interests		-	150
Earnings per share attributable to owners of the parent during the period (SEK)			
Basic earnings per share, SEK	18	-0.28	-1.22
Diluted earnings per share, SEK	18	-0.28	-1.22

Financial position, Group

SEKK	Note	2020-12-31	2019-12-31
Assets	1, 2, 3, 4		
Non-current assets			
<i>Intangible assets</i>			
Goodwill	20	38,827	43,601
Other intangible assets	20	228,514	240,221
Capitalized development cost for own games and technology development	20	171,435	81,518
Investments in publishing projects	20	3,974	4,056
<i>Financial assets</i>	24, 25		
Financial assets	22	7,683	6,258
Investments in joint ventures	42	1,083	3,195
Non-current lease receivable		2,612	5,716
Deferred tax assets	17	161	-
<i>Property, plant and equipment</i>			
IT equipment and other equipment	21	6,704	12,850
Right-of-use asset - buildings	10	48,866	63,764
Total non-current assets		509,859	461,179
Current assets			
Trade and other receivables	26	4,061	10,391
Current lease receivable	10	2,627	3,106
Prepaid expenses and accrued income	27	34,736	33,425
Cash and cash equivalents	28	157,423	82,787
Total current assets		198,847	129,709
Assets held for sale	44	-	1,084
Total assets		708,706	591,972
Equity and liabilities			
<i>Equity attributable to owners of the parent</i>	19, 29, 30		
Share capital		14,492	6,587
Other capital contributions		1,979,111	1,711,334
Reserves		21,646	21,400
Retained earnings including profit or loss for the year		-1,786,751	-1,733,163
Total equity		228,498	6,158
Non-current liabilities			
Non-current liabilities, earnouts	32	-	62
Deferred tax liabilities	17	-	7,853
Non-current lease liability	10	37,147	55,272
Other non-current liabilities	41	292,702	121,009
Total non-current liabilities		329,849	184,196
Current liabilities			
Current liabilities, earnouts	32	18	-
Trade and other payables	33, 41	103,345	342,468
Current lease liability	10	19,135	19,181
Accrued expenses and deferred income	34	27,861	38,506
Total current liabilities		150,359	400,155
Liabilities held for sale	44	-	1,463
Total liabilities held for sale		-	1,463
Total liabilities		480,208	585,814
Total equity and liabilities		708,706	591,972

Consolidated statement of changes in equity

SEKk	Share capital	Other capital contributions	Reserves	Retained earnings (-loss)	Total	Non-controlling interests	Total equity
Balance at 1 January 2020	6,587	1,711,334	21,400	-1,733,163	6,158	-	6,158
Net profit (-loss) for the year	-	-	-	-130,280	-130,280	-	-130,280
Exchange differences	-	-	246	-	246	-	246
Total comprehensive income	-	-	246	-130,280	-130,034	-	-130,034
Transactions with shareholders							
New share issue through exercise of convertible bonds	7,905	293,368	-	-	301,273	-	301,273
Issue costs recognized in equity	-	-30,273	-	-	-30,273	-	-30,273
Shareholders' contributions from composition proposal	-	-	-	76,692	76,692	-	76,692
Other	-	4,683	-	-	4,683	-	4,683
Total contribution from and value transfers to shareholders, recognized directly in equity	7,905	267,777	-	76,692	352,374	-	352,374
Balance at 31 December 2020	14,492	1,979,111	21,646	-1,786,751	228,498	-	228,498

SEKk	Share capital	Other capital contributions	Reserves	Retained earnings (-loss)	Total	Non-controlling interests	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 balance at 1 January 2019	6,506	1,639,516	17,238	-1,326,490	336,770	1,947	338,717
Net profit (-loss) for the year	-	-	-	-401,249	-401,249	150	-401,099
Disposal of subsidiary with minority	-	-	-	-	-	-2,123	-2,123
Exchange differences	-	-	4,162	-	4,162	26	4,188
Total comprehensive income	-	-	4,162	-401,249	-397,087	-1,947	-399,034
Transactions with shareholders							
New issue through exercise of stock options	81	71,632	-	-	71,713	-	71,713
Shareholders' contributions received	-	186	-	-	186	-	186
Issue costs 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

Consolidated statement of cash flows

SEKk	NOTE	2020	2019
Operating activities			
Cash flow from operations		10,875	-504,362
Adjustment for non-cash items	39	37,053	586,897
Interest paid	39	-385	-9,301
Cash flow from (-used in) operating activities before changes in working capital		47,543	73,234
Cash flow from changes in working capital			
Increase (-)/decrease (+) in operating receivables		66,851	32,538
Increase (+)/decrease (-) in operating liabilities		-139,034	-56,264
Cash flow from (-used in) operating activities		-24,640	49,508
Investing activities			
Purchase of property, plant and equipment		-944	-2,092
Sold non-current assets		51	217
Divested subsidiaries	37	-472	67,202
Investments in other financial assets		-	-1,067
Investments in own games and technology		-94,541	-92,412
Investments in publishing projects		-309	-8,087
Cash flow from (-used in) investing activities		-96,215	-36,239
Financing activities			
New issue		301,273	-
Costs related to new issues		-30,274	-
Change in non-current liabilities		-1,598	-
Repayment of loans		-55,000	-
Effect of financial lease		-18,802	-
Cash flow from financing activities		195,599	-
Cash flow from (-used in) the year			
		74,744	13,269
Cash and cash equivalents at the beginning of the year		82,787	69,289
Exchange differences in cash and cash equivalents		-108	229
Cash and cash equivalents at the end of the year	28	157,423	82,787

Parent Company income statement

SEKk	NOTE	2020	2019
	1, 2, 3, 4		
Net sales	6	29,762	58,990
Other operating revenue	7	8,542	25,037
Total revenue		38,304	84,027
Other external expenses	8, 9	-24,374	-59,586
Employee benefits expenses	8, 11, 12, 13	-29,961	-38,574
Depreciation of property, plant and equipment	8, 21	-188	-217
Other operating expenses	14	-	-7,078
Operating profit (-loss)		-16,219	-21,428
Profit from holdings in group companies		-	-224,439
Other financial income	15	6,508	98,039
Financial expenses	15	-134,561	-54,260
Profit (-loss) after net financial income (-expense)		-144,272	-202,088
Appropriations	16	-	187,393
Profit (-loss) before tax		-144,272	-14,695
Income tax	17	-	-
Net profit (-loss) for the year		-144,272	-14,695

Parent Company balance sheet

SEKk	NOTE	2020-12-31	2019-12-31
Assets	1,2,3,4		
Non-current assets			
<i>Property, plant and equipment</i>			
Computers and other equipment	21	268	421
<i>Financial assets</i>	24		
Investments in group companies	23	322,702	295,806
Investments in joint venture	42	4,656	4,656
Other financial assets	22	2,594	585
Total non-current assets		330,220	301,468
Current assets			
Trade and other receivables	26	933	-
Receivables from group companies		1,332,388	1,080,277
Prepaid expenses and accrued income	27	524	837
Cash and cash equivalents	28	10,906	12,009
Total current assets		1,344,751	1,093,123
Total assets		1,674,971	1,394,591
Equity and liabilities			
Equity	19,29,30		
Share capital		14,492	6,587
<i>Non-restricted equity</i>			
Share premium reserve		1,912,128	1,649,033
Retained earnings (-loss)		-997,816	-1,059,812
Net profit (-loss) for the year		-144,272	-14,695
Total equity		784,532	581,113
Provisions			
Other provisions	31	-	31,230
Total provisions		-	31,230
Non-current liabilities			
Non-current liabilities, group		-	305,865
Non-current liabilities, earnouts	32	-	62
Other non-current liabilities, convertible bonds	41	160,002	-
Other non-current liabilities		110,082	198
Total non-current liabilities		270,084	306,125
Current liabilities			
Trade payables	33	1,013	8,060
Liabilities to group companies		576,994	239,012
Other liabilities	32	34,545	218,022
Accrued expenses and deferred income	34	7,803	11,029
Total current liabilities		620,355	476,123
Total equity and liabilities		1,674,971	1,394,591

Parent Company statement of changes in equity

SEKk	Restricted reserves		Non-restricted reserves		Total equity
	Share capital	Fair value reserve	Share premium reserve	Retained earnings (-loss)	
Balance at 1 January 2020	6,587	-	1,649,033	-1,074,507	581,113
New share issue through exercise of convertible bonds	7,905	-	293,368	-	301,273
Issue costs recognized in equity	-	-	-30,273	-	-30,273
Shareholders' contributions from composition proposal	-	-	-	76,692	76,692
Profit (-loss) for the year	-	-	-	-144,272	-144,272
Balance at 31 December 2020	14,492	-	1,912,128	-1,142,087	784,532

SEKk	Restricted reserves		Non-restricted reserves		Total equity
	Share capital	Fair value reserve	Share premium reserve	Retained earnings (-loss)	
Balance at 1 January 2019	6,506	-	1,577,401	-1,054,390	529,517
Issue of convertible	81	-	71,632	-	71,713
Issue costs recognized in equity	-	-	-	-5,422	-5,422
Profit (-loss) for the year	-	-	-	-14,695	-14,695
Balance at 31 December 2019	6,587	-	1,649,033	-1,074,507	581,113

Parent Company statement of cash flows

	NOTE	2020	2019
Operating activities			
Cash flow from operations		-16,219	-21,428
Adjustment for non-cash items	39	-29,718	973
Interest paid	39	-25	-9,301
Cash flow from (-used in) operating activities before changes in working capital		-45,962	-29,756
Cash flow from changes in working capital			
Increase (+)/decrease (-) in operating liabilities		-252,336	-499,777
Cash flow from (-used in) operating activities		26,232	466,109
Cash flow from (-used in) operating activities		-272,066	-63,424
Investing activities			
Purchase of property, plant and equipment		-74	-
Divested subsidiaries		-	67,431
Sold non-current assets		38	-
Cash flow from (-used in) investing activities		-36	67,431
Financing activities			
New issue		301,273	-
Costs related to new issues		-30,274	-
Cash flow from (-used in) financing activities		270,999	-
Cash flow for (-used in) the year		-1,103	4,007
Cash and cash equivalents at the beginning of the year		12,009	8,002
Cash and cash equivalents at the end of the year		10,906	12,009
Total available cash and cash equivalents	28	10,906	12,009

NOTES

1 General information

Starbreeze AB (publ) is an independent developer, creator, publisher and distributor of PC and console games targeted at a global market. Starbreeze was founded in 1998 and has since developed into a well-established developer and publisher of computer and video games with offices in several countries around the world and with its main business in Stockholm.

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

Starbreeze AB (publ) is listed on Nasdaq Stockholm in the Small Cap segment.

The Board of Directors approved the consolidated financial statements for publication on April 14, 2021.

2 Summary of key accounting policies

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

2.1 Basis for preparing the Parent Company and consolidated financial statements

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

The Parent Company's functional currency is the Swedish krona (SEK), which is also the presentation currency for the parent company and the Group. Accordingly, the financial statements are presented in SEK. All amounts, unless otherwise specified, are rounded to the nearest thousand.

Preparation of the financial statements in accordance with IFRS requires the use of certain key accounting estimates. Furthermore, management is required to make certain assessments in the application of the company's accounting policies. Estimates and assumptions are based on historical experience and factors that appear reasonable under prevailing circumstances. The results of these estimates and assumptions are subsequently used to assess the carrying amounts of assets and liabilities not clearly apparent based on other sources. Actual outcomes may differ from these estimates and judgments. Areas that entail a high degree of judgment, which are complex or such areas where assumptions and estimates are of material significance to the consolidated financial statements are specified in Note 4. The Parent Company's accounting policies are specified in Note 2.26.

2.1.1 Changes to accounting policies and disclosures

A. New and amended standards applied by the Group

No IFRS or IFRIC interpretations mandatorily effective for the first time for the financial year beginning on January 1, 2020 have had a material impact on the Group.

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

A number of new standards and interpretations come into effect for financial years beginning after January 1, 2020 and have not been applied in preparing these financial statements. These are not expected to have a substantial impact on the Group's financial statements.

2.2 Consolidated financial statements

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

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

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

Acquisition-related expenses are recognized when they arise.

Every contingent consideration to be transferred by the Group is recognized at fair value at the time of acquisition. In accordance with IFRS 9, subsequent changes in the fair value of a contingent consideration classified as a liability are recognized in profit or loss.

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

2.3 Segment reporting

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

Starbreeze's core business consists of game development, primarily of PAYDAY. With effect from the 2020 financial year, the Company has only one segment, accounting for the absolute majority of all sales and earnings.

Any revenues and expenses unrelated to the core business are classified as other income and expense. The Starbreeze Games segment consists of Starbreeze's portfolio of games developed in-house. Revenues for the year mainly relate to sales revenues and royalties for the rights to PAYDAY. In the previous year, revenues were also reported in the Publishing segment which consisted of Starbreeze publishing business in which Starbreeze acted as publishers for games developed by other game developers. The VR Tech & Operations segment consisted of Starbreeze's virtual reality (VR) technology and software development, which included the development of the StarVR headset and the VR film format PresenZ which was sold with the sale of the subsidiary Parallaxter in February 2020. Group-wide costs and projects that are not attributable to the above segments are reported under Other.

2.4 Foreign currency translation

Functional currency and presentation currency

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

Transactions and balance sheet items

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

Group companies

Earnings and financial position for all Group companies (none of whose functional currency is the currency of a hyperinflationary economy) which have a different functional currency than the presentation currency are translated to the Group's presentation currency as follows:

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

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

2.5 Property, plant and equipment

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

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

- Computers 3 years
- Other equipment 5 years

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

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

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

2.6 Non-current intangible assets

A. Goodwill

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

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

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

B. Capitalized expenditure on game and technology development

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

- it is technically possible to complete the software so that it can be used;
- the company intends to complete the software for sale or use;
- the company has the ability to use or sell the software;
- the company is able to demonstrate how the software will generate probable future economic benefits;
- adequate technical, economic and other resources to complete development and use or sell the software are available; and
- the expenditure attributable to the software during development can be measured reliably.

As regards development projects assessed as meeting all criteria for capitalization, these costs are capitalized in the balance sheet and designated 'Capitalized development costs of proprietary game and technology development'. Starbreeze expends development expenditure if the above is not met.

During the year, the Group capitalized game development expenses related to PAYDAY 2, PAYDAY 3 and PAYDAY: Crime War.

The capitalization is recognized net in the income statement, which means that the costs capitalized reduce the costs in the income statement on the line where the original cost has been recognized. The asset is amortized from the date the game is released and over an estimated useful life, which is usually between 18 and 120 months.

C. Rights to software

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

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

Rights relating to the PAYDAY game are amortized over an estimated useful life of 10 years.

D. Licenses and other rights

Separately acquired licenses and other rights are recognized at cost. Licenses acquired in a business combination are recognized at fair value at the time of acquisition. Licenses and rights have a determinable useful life and are recognized at cost less accumulated amortization. Amortization is taken to allocate the cost of licenses across their estimated useful lives of 3-10 years.

2.7 Impairments of non-financial assets

Assets that have an indefinite useful life are not amortized, but are tested annually to assess any requirement for impairment. Assets that are amortized are assessed for decline in value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and its value in use. During the year, the Group wrote down non-financial assets of SEK 0 million (324,8).

2.8 Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a contracting party in respect of the agreed terms of the financial instrument.

Financial assets are derecognized from the statement of financial position when the contractual rights relating to the financial asset cease, or when the financial asset and all significant risks and benefits are transferred. A financial liability is derecognized from the statement of financial position when it is extinguished, that is, when it is completed, cancelled or terminated.

Classification and measurement of financial assets on initial recognition

Other than trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for any transaction expenses.

Subsequent measurement of financial assets

Financial assets, other than those identified and effective as hedging instruments, are classified in the following categories:

- amortized cost;
- fair value through profit or loss;
- fair value through other comprehensive income.

The Group has no financial assets in the categories of fair value through profit or loss or through other comprehensive income in 2020.

The classification is determined by both:

- the company's business model for the management of the financial asset; and
- the characteristics of the contractual cash flows from the financial asset

All income and expenses relating to financial assets recognized in profit or loss are classified as financial expenses or financial income, except in the case of impairment of trade receivables that are classified as selling expenses.

Financial assets are measured at amortized cost if the assets meet the following conditions and are not recognized at fair value through profit or loss:

- they are held within the framework of a business model whose objective is to hold the financial assets and collect contractual cash flows, and
- the contractual terms of the financial assets give rise to cash flows which are only payments of principal and interest on the outstanding amount of principal.

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted if the effect of discounting is insignificant.

The Group's cash and cash equivalents, trade receivables and most other receivables fall into this category of financial instruments.

Classification and measurement of financial liabilities

The Group's financial liabilities include trade payables and other liabilities, other non-current liabilities and liability for earnout.

Financial liabilities are initially measured at fair value adjusted for transaction expenses, unless the Group has classified the financial liability at fair value through profit or loss.

Financial liabilities are measured at amortized cost after initial recognition using the effective interest method, except for financial liabilities measured at fair value through profit or loss. Financial liabilities measured at fair value through profit or loss are financial liabilities held for trading and consist in the Group of contingent consideration. Liabilities in this category are classified as current liabilities if they are expected to be settled within twelve months, and are otherwise classified as non-current liabilities.

All interest-related charges and, if applicable, changes in the fair value of an instrument recognized in profit or loss are included in the items Financial expenses or Financial income, or Other operating income or Other operating expenses.

2.9 Impairment of financial assets

The Group assesses the value of the financial assets by judging the strengths and weaknesses of customers and other contracting parties based on the information available. Since the company's other receivables relate to a small number of counterparties that are financially strong and pay according to plan or previous payment patterns, while the Group has historically not had any significant loan losses, it is judged that any loss provisions in addition to the receivables already reserved need not be recognized due to insignificant amounts.

2.10 Trade receivables

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

As the Group's customers are few in number and financially strong, credit risk in the Group is low. The revenues do not come from end customers. Receivables overdue more than 6 months relate to the VRtech and Operations segment and provision has been made for them in full.

2.11 Cash and cash equivalents

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

2.12 Share capital

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

2.13 Trade payables

Trade payables are obligations to pay for goods or services acquired in operating activities. Trade payables are classified as current liabilities if they fall due within one year. If not, they are recognized as non-current liabilities.

Trade payables are initially recognized at fair value and subsequently at amortized cost using the effective rate method.

2.14 Borrowing

The company has issued a convertible debt instrument, known as a 'compound instrument', where the holder can demand conversion to shares and where the number of shares to be issued is not affected by changes in the fair value of the shares. The liability component of a compound instrument is initially recognized at the fair value of a comparable liability that does not confer a right to convert the liability to

shares. The complete terms and conditions of these convertible debt instruments are available on the company's website.

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

Subsequent to acquisition, the liability component of a compound instrument is measured at amortized cost through the use of the effective interest method. The equity portion of a compound instrument is not remeasured after the date of acquisition.

2.15 Current and deferred tax

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

Deferred tax is recognized in its entirety, using the balance sheet method, on all temporary differences that arise between the taxable value of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not recognized if it arises from the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or taxable profit. Neither is deferred tax recognized if it arises as a result of the initial recognition of goodwill. Deferred tax is measured with application of tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled.

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

Loss carryforwards cannot be utilized between companies in different countries, and the remaining Swedish tax loss carryforward has a Group contribution restriction with regard to Enterspace AB and the other Swedish Group companies, which is applicable to losses generated up to December 31, 2016 and cannot be utilized until 2023 at the earliest. In addition, for deficits generated up to 2019, there is a Group contribution restriction in relation to the two new companies in the Group, New Starbreeze Studios AB and New Starbreeze Publishing AB. These deficits can be utilized in 2026 at the earliest.

2.16 Employee benefits

Pension obligations

Within the Group, pension plans consist mainly of defined-contribution pension plans. In defined contribution plans, the company pays defined contributions to a separate legal entity and has no future obligation to pay additional contributions. Employee benefits expense is charged to consolidated profit or loss as the benefits are vested.

Post-employment benefits

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

Profit participation and bonus plans

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

2.17 Share-based remuneration

As of December 31, the Group has no outstanding employee stock option programs.

The Group has a warrant program for senior management personnel and certain other key personnel, in order to manage new recruitments and promotions. The program is described in Note 30.

2.18 Provisions

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

Provisions are measured at the present value of outflows of resources expected to be required to settle the obligation. In this context, a pre-tax discount rate is used that reflects the current market assessments of the time-dependent value of money and the risks specific to the provision. The increase in the provision consequent upon the passage of time is recognized as interest expense. As of December 31, there are no provisions in the Group.

2.19 Revenue recognition

The Group's regular revenue comes mainly from end customers who pay a one-off price for the game as well as from the sale of DLCs, i.e. add-on packs to games. These models are described in more detail on page 11. 74% of Group sales for 2020 were made through the platform Steam. Revenue from Steam and other platforms is billed monthly or quarterly in the month after the sales period. The terms of payment vary from direct payment on receipt of invoice to 30 days from invoice date. The transaction price consists of agreed royalties.

Revenue from customers who buy games is often shared among more than one party, depending on the role of the party in the deal. Various shares of gross revenue from customers are obtained depending upon whether a party is a distributor, publisher, developer or owner of rights upon which the game is based. For every agreement to which the Group is a party, an analysis is made of the role and the implications, in terms of accounting, of acting as the principal or the agent in the revenue flow. Where the Group is assessed as the principal for a revenue flow, the revenue is recognized gross as net sales, and the revenue shares passed on to other parties are recognized as costs in the income statement. At present, the Group is classified as the agent in all contracts and thus recognizes the net of revenues and shares passed on to the principal as net sales.

Where sale of publishing rights and any licensing deals takes place, these must be disclosed. No such transactions occurred during the year. In 2019, this was recognized in net sales under other services. See also Notes 5 and 6.

In order to determine whether the Group is the principal or agent in the revenue transactions when multiple parties are involved in delivering a game to the final customer, it is assessed whether the Group has control of the asset purchased by the customer before it is transferred. When the Group sells through another party, the assessment is that it does not control the sales service signified by selling the game to the final customer. The Group's assessment is also that it also does not control the game itself (the product) at the point where it is sold to the final customer through another party. Starbreeze sets the price when sales take place through digital channels. Where the game constitutes a physical product sold through retailers, it is also assessed if the retailer has taken over inventory risk with the game, which is the case in all such sales. Starbreeze's overall assessment is that in the various transaction chains, it does not have control of the last link in the sales chain, and therefore recognizes its revenues net of deductions for the share of partners and retailers in the payment made by the customer for a game.

Royalties for games sold are recognized as revenue in the period in which the sales were made in accordance with the rules of IFRS 15. Under some agreements, Starbreeze sells the distribution right of a game IP for a specific platform. This usually occurs during the game's development. Starbreeze recognizes this payment as a liability until the game is completed and delivered. After delivery of the base game, which

is performance commitment 1, the liability is taken up as revenue. Any future revenue sharing which may flow to Starbreeze will be taken up as revenue on an ongoing basis. This revenue stream relates to performance commitment 2, which is future DLCs that will be contractually provided if the game is successful.

When selling games to the retail trade, the Group receives royalties only after the final consumer has purchased the game and not when the product is delivered to the retail trade. Stores are not able to return any goods sold.

Interest income is recognized allocated across the term according to the effective interest method.

2.20 Leases

The Company applies IFRS 16 Leases.

All leases that have been recognized in accordance with IFRS 16 relate to rental premises. Other leases fall under the exemption rules for small-value or short-term contracts and mainly relate to the rental of office machinery.

At year-end, the Group had a book value of rights of use of SEK 48.9 million (63.8). A non-current receivable of SEK 2.6 million (5.7) and a current receivable of SEK 2.6 million (3.1) have been recognized in accordance with the standard for sublease contracts. On the liabilities side, the Group has taken up a non-current liability of SEK 37.1 million (55.3) and a current liability of SEK 19.1 million (19.2). The value of rights-of-use decreased by SEK 14.8 million (16.9) as a direct consequence of amortization of rights-of-use during the year. Net financial income/expense has been negatively charged by SEK 0.9 million (2.0). The deposit paid for the premises in Stockholm is recognized as a financial asset on the balance sheet.

No rental fees had been paid in advance at year-end.

When discounting future lease payments, Starbreeze has used the marginal loan rate per country as the discount rate. The marginal borrowing rate is based on the lessee's financial strength, country and the length of the lease in question.

As it is assessed as unlikely that these will be used, any extension options in the contracts have not been taken into account in the calculations. Non-lease components such as electricity costs have not been included in the calculations. See also Note 10 Rights of use.

2.21 Statement of cash flows

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

2.22 Earnings per share

Basic

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

Diluted

To calculate diluted earnings per share, the weighted average number of common shares outstanding is adjusted by the dilutive effect of all potential ordinary shares. The parent company has issued stock options that have a potential dilutive effect. In respect of stock options, a calculation is made of the number of shares that could have been bought at fair value for an amount corresponding to the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared to the number of shares that would have been issued under the assumption that the options were exercised. There is no such dilutive effect for the financial year 2020.

2.23 Joint ventures

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

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

2.24 Earnouts

Earnouts are measured at fair value and at the closing day rate. The remeasurement is done through profit or loss and is recognized in net financial income and expense. See Note 4 and Note 32.

2.25 Available-for-sale assets and liabilities

The balance sheet items are measured at the lower of the carrying amount and fair value. Foreign assets are measured at the closing rate.

2.26 Parent Company accounting policies

Presentation format

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

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

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

Investments in subsidiaries and associates

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

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

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

Financial instruments

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

Group contributions

Group contributions are recognized as appropriations.

Deferred income tax

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

Leases

Leases, regardless of whether they are finance or operating leases, are reported as operating leases.

Provisions

The Parent Company has taken over a debt relating to Nordea from its subsidiary Enterspace International AB as the subsidiary is not expected to be able to fulfil its payment obligation. In previous years, this debt was recognized as a provision in the parent company.

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

3 Financial risk management

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

A. Market risk

Currency risk

The Group operates internationally and is subject to currency risks from various currency exposures. Currency risk arises through future business transactions, recognized assets and liabilities and net investments in foreign operations. The Group has the option to use forward contracts to manage the currency risk arising from future business transactions and recognized assets and liabilities. Before foreign currency contracts are concluded, the CEO or CFO discusses any hedging with the Board of Directors, which can decide whether such hedging is to be done. The Group as far as possible matches cash flows in the different currencies and thus obtains a natural form of hedging. Currency flows are monitored and followed up continuously by the Finance Department. The Group did not hold any forward contracts during the financial year. The Group receives royalties for games sold and other revenues in USD.

Currency risks arise when future business transactions or recognized assets and liabilities are denominated in a currency other than the Group's functional currency. Decisions on forward cover are made by the Board of Directors.

If the USD exchange rate had been 10 percent higher in relation to SEK, with all other variables constant, revenues for the year as of December 31, 2020 would have been SEK 10.9 million (24.5) higher and costs for the year would have been SEK 1.3 million (0.2) higher.

If the USD exchange rate had been 10 percent lower in relation to SEK, with all other variables constant, revenues for the year as of December 31, 2020 would have been SEK 10.9 million (24.5) lower and costs for the year would have been SEK 1.3 million (0.2) lower.

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

December 31, 2020 would have been SEK 0.4 million (0.3) higher and costs for the year would have been SEK 2,5 million (1.0) higher.

If the EUR exchange rate had been 10 percent lower in relation to SEK, with all other variables constant, revenues for the year as of December 31, 2020 would have been SEK 0.4 million (0.3) lower and costs for the year would have been SEK 2,5 million (1.0) lower.

Of the net assets that were in foreign currencies at the balance sheet date of December 31, 2020, approximately SEK 25.3 million (42.3) was attributable to USD. If the USD exchange rate had been 10 percent higher/lower than the exchange rate prevailing at December 31, 2020, the Group's profit/equity after tax would have been positively/negatively impacted by approximately SEK 2.5 million (4.2).

Of the net assets that were in foreign currencies at the balance sheet date of December 31, 2020, approximately SEK 9.4 million (-9.3) was attributable to USD. If the EUR exchange rate had been 10 percent higher/lower than the exchange rate prevailing as of December 31, 2020, the Group's profit/equity after tax would have been negatively/positively impacted by approximately SEK 0.9 million (0.9).

If the Swedish krona (SEK) had depreciated/appreciated by 10 percent in relation to EUR, with all other variables constant, the restated profit after tax as of December 31, 2020 would have been SEK 0.2 million (9.2) lower/higher.

If the Swedish krona (SEK) had depreciated/appreciated by 10 percent in relation to USD, with all other variables constant, the restated profit after tax as of 31 December 2020 would have been SEK 0.0 million (0,3) lower/higher.

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

Interest rate risk relating to cash flow and fair value

At present, the company has interest-bearing liabilities in the form of convertible bonds and bank loans with an interest rate linked to STIBOR, where a lowering of the rate has no effect, as this has a floor of zero percent. The overdraft was converted into a loan with the same interest terms and other loan in January 2020. STIBOR is negative as of the reporting date. An increase in STIBOR of 5 percentage points would entail an increase in interest expense of SEK 5.6 million per year. The convertible loan runs at a fixed rate of 2%. The fixed interest rate means that there is no interest-rate risk. There are no interest-bearing assets.

Price risk

The Group is exposed to price risk if it holds investments classified as assets measured at fair value through profit or loss. As of December 31, 2020, the company had no current investments.

B. Credit risk

Credit risk arises through cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures towards customers, including outstanding receivables and agreed transactions. The Group has no significant concentration of credit risks. The maximum credit risk exposure corresponds to the carrying amount of the financial assets.

Only banks and financial institutions that have been given the lowest credit rating 'A' by independent valuers are accepted, and the approved financial institutions are named in the company's financial policy. If another institution is to be used, Board decisions are required. The main bank funds are held in a Swedish commercial bank.

The credit ratings of partners are regularly assessed to minimize credit risks. Any unpaid amounts are followed up directly and contact is made with the customers. We follow the industry and have ongoing and close contact with our customers. As the Group's customers are few in number and financially strong, credit risk in the Group is low. The revenues do not come from end customers. See also Note 2.9 Impairment of financial assets.

Remaining intercompany sums are expected to be paid for all receivables under the established reconstruction plan. See also the section on Reconstruction in the Directors' report.

C. Liquidity risk

Cash flow forecasts are prepared for the entire Group. The Finance Department regularly prepares and evaluates forecasts for the Group's liquidity reserve. THE CFO is responsible for these being produced and reported to the CEO and the Board of Directors in accordance with the Group's financial policy.

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

The following table analyzes consolidated financial liabilities, distributed according to the time remaining to the contractually agreed due date as of the reporting date. The amounts shown in the table are the contractual, undiscounted cash flows with the exception of the convertible loan which has been recognized at amortized cost according to the effective interest method. The company has external loans from Digital Bros (which in March 2020 took over the receivable from Smilegate) and Nordea. SEK 215 million concerns a convertible loan (which was renegotiated in January and can be converted into shares with a redemption price of SEK 1.63 per share). External liabilities total SEK 323 million. Loans are repaid when the borrowing companies concerned have available funds and positive cash flow. The convertible loan and renegotiation loss have a maturity of December 6, 2024.

	1-6 months	7-12 months	1-2 years	2-5 years	> 5 years
At 31 December 2020					
Trade and other payables	8,417	840	7	250	-
Non-current liability, earnout	18	-	-	-	-
Lease liability	8,865	10,270	16,283	20,864	-
Convertible bond	-	-	-	215,000	-
Non current liability, Renegotiation loss convertible bond	-	-	-	165,000	-
Loan, Nordea	40,000	4,887	11,000	-	-
Other liabilities	3,549	45,397	11,618	-	-
Total	60,848	61,394	38,908	401,114	-

	1-6 months	7-12 months	1-2 years	2-5 years	> 5 years
At 31 December 2019					
Trade and other payables	39,964	32,000	12,285	-	-
Current liability, earnout	-	-	62	-	-
Lease liability	-	19,181	-	55,272	-
Bank overdraft facility, Nordea	-	15,000	63,096	-	-
Trade and other payables, convertible	213,928	-	-	-	-
Other non-current liabilities	-	41,576	12,994	32,634	-
Total	253,892	107,757	88,437	87,906	-

D. Capital risk

The CFO continuously monitors the Group's liquidity and capital needs for the next twelve months.

The Board of Directors has assessed whether the assumption of going concern is fulfilled. The factors underlying the Board's assessment are described below:

- The Company has signed publishing agreements for PAYDAY 3 with Koch Media which mean that game development for PAYDAY 3 is funded until and after launch in 2023.
- The Company's contractual repayments for the period until the end of April 2022 are SEK 45 million.
- The Company will receive ongoing revenues from sale related to PAYDAY 2.

Based on the above, the assumption of going concern is judged to be fulfilled.

E. Fair value calculation

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

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

The table on the next page shows the Group's financial assets and liabilities measured at fair value as of December 31, 2020. There were no transfers between the levels during the year.

Level 2 financial instruments

Measurement techniques are used to determine the fair value of financial instruments that are not traded in an active market (for example OTC derivatives). In this connection, market information is used to the greatest extent possible when available, while company-specific information is used to the least extent possible. Instruments at this level for the Group include investments in convertible bonds and an embedded derivative in the convertible loan to Digital Bros. For the investment in convertible loan receivables, the cost is estimated to equal fair value due to the short maturity of the convertible. The embedded derivative in the convertible loan to Digital Bros is measured at fair value based on the prevailing share price, share volatility and risk-free interest rate.

If one or more material inputs are not based on observable market information, the instrument concerned is classified at Level 3.

Level 3 financial instruments

Fair value has been estimated by calculating the present value of future expected cash flows. The calculations are based on a discount rate of 9 percent and assumed probability-adjusted revenues.

The changes for level 3 instruments during the financial year are shown below. Fair value is based on future revenues, upon which the earnout will be based.

Fair value calculation, Group 2020

	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2020		

Financial liabilities

Conditional earnout	-	18
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Fair value calculation, Group 2019

	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2019		

Financial liabilities

Conditional earnout	-	62
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Conditional earnout related to acquisition

Balance at 1 January 2020	-	62
Remeasurement of liability		-44
Balance at 31 December 2020	-	18

Fair value calculation, Parent 2020**Financial assets and liabilities measured at fair value through profit or loss at 31 December 2020****Financial liabilities**

Conditional earnout	-	18
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Fair value calculation, Parent 2019**Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2019****Financial liabilities**

Conditional earnout	-	62
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Conditional earnout related to acquisition

Balance at 31 December 2019	-	88,662
Exchange rate differences	-	1,434
Remeasurement of liability	-	-85,548
Acquisitions during the year	-	-4,486
Balance at 31 December 2019	-	62

4 Key accounting estimates and judgments

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

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

Income taxes

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

As the company's future estimated profits cannot be calculated satisfactorily, as of December 31, 2020, the Group has no reported tax assets linked to loss carryforwards. Losses cannot be utilized between companies in different countries, and the remaining Swedish tax loss carryforward has a Group contribution restriction with regard to Enterspace AB and the other Swedish Group companies, which is applicable to losses generated up to December 31, 2016 and cannot be utilized until 2023 at the earliest. Deficits generated through 2019 are Group contributions to the two new companies in the Group, New Starbreeze Publishing AB and New Starbreeze Studios AB.

Starbreeze also has companies located in Luxembourg, where future profits may be taxed at a tax rate lower than in Sweden. Should this tax arrangement not be approved by the tax authorities, any future profits may adversely affect Starbreeze.

Revenue recognition

Sales of proprietary games are made digitally and physically through external distributors for both PC and game consoles such as PS4, Xbox Live and Nintendo Switch. The gross payment stream in all cases goes through the platform distributor. Starbreeze has judged that agreements for the sale of games developed in-house should be classified as revenue-splitting agreements, meaning that Starbreeze only recognizes its share of revenues, its royalties, in its income statement. For agreements where the assessment is instead that Starbreeze is a party to the end customer, the company must recognize the total revenue gross and the publisher's share of revenue must be reported as a deductible cost item, which entails the same net profit or loss as with current accounting. Net sales also include sales of licenses, game franchises or other similar rights, as such transactions are of a recurring nature for the Company. No such transactions took place in 2020.

Capitalization of game development expenses

The Group's expenditure on game development is capitalized when an assessment of the commercial potential of the game can be made. The assessment of commercial viability and return is based on factors including previously released games.

Earnout ePaw

A probability assessment has been made for the conditional earnout linked to the revenue linked to the technology acquired in 2016, and the liability has been recognized as a liability in the Parent Company and Group.

Leases

Since the company has been under reconstruction and is still in need of additional financing, it is uncertain whether any extension options on the rental contracts reported in accordance with IFRS16 will be exercised. These have therefore not been taken into account in the calculations.

Impairment testing of intangible assets

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

See Note 20 Intangible assets concerning sensitivity analysis.

Valuation of subsidiary shares and receivables from subsidiaries

The parent company tests each year whether there is a need for impairment of subsidiary shares and receivables from subsidiaries. No impairment was made during the financial year.

Going concern

See Note 3 D

5 Segment reporting

Starbreeze reported for the segments Starbreeze Games and Other during the financial year. Reporting is provided down to operating profit or loss, and assets and liabilities are not reported.

Operating segments are reported in a manner consistent with internal reporting which is submitted to senior management responsible for allocating resources to and assessing the segment's performance. Management assesses the business broken down into two segments. See also section 2.3 under accounting policies for further information on the company's segments.

Segment reporting, Group

	2020	2019
Starbreeze Games		
Net sales	111,579	127,020
Direct costs	-28,862	-229,682
Gross profit	82,717	-102,662
Operating costs	-71,121	-75,563
Operating profit (-loss)	11,596	-178,225
Publishing		
Net sales	-	146,494
Direct costs	-	-199,750
Gross profit	-	-53,256
Operating costs	-	-17,563
Operating profit (-loss)	-	-70,819
VR Tech & Operations		
Net sales	-	2,236
Direct costs	-	-219,745
Gross profit	-	-217,509
Operating costs	-	-7,198
Operating profit (-loss)	-	-224,707

Other

Net sales	6,427	4,252
Direct costs	-2,212	-12,343
Gross profit	4,215	-8,091
Operating costs	-4,936	-22,520
Operating profit (-loss)	-721	-30,611

Total

Net sales	118,006	280,002
Direct costs	-31,074	-661,520
Gross profit	86,932	-381,518
Operating costs	-76,057	-122,844
Operating profit (-loss)	10,875	-504,362

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

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

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

Starbreeze Games	11,596	-178,225
Publishing	-	-70,819
VR Tech & Operations	-	-224,707
Other	-721	-30,611
Total	10,875	-504,362
Net financial income or expense	-141,348	51,938
	-130,473	-452,424

The Group's revenue comes from four different regions as shown below. The Group sells to distributors/platform owners and does not sell directly to consumers. The largest distributor/platform owner, Steam, accounted for 74 percent of sales in 2020.

In 2019, the publishing rights to System Shock 3, Psychonauts 2 and 10 Crowns were sold. These belonged to the Publishing segment.

Segment reporting, Group

2020	Starbreeze Games	Publishing	VR Tech & Operations	Other
Net sales				
- Games (PC & Console)				
Rest of Europe	14,603	-	-	273
USA	94,506	-	-	1,193
Asia	2,351	-	-	-
- Services				
Rest of Europe	-	-	-	8
USA	12	-	-	48
- Licenses				
USA	-	-	-	4,723
- Other				
Sweden	-	-	-	182
Rest of Europe	107	-	-	-
Total net sales	111,579	-	-	6,427

2019	Starbreeze Games	Publishing	VR Tech & Operations	Other
Net sales				
- Games (PC & Console)				
Sweden	250	25	-	-
Rest of Europe	13,501	96	-	-
USA	52,734	698	-	-
Asia	2,443	-	-	-
- Services				
Rest of Europe	-	-	-	4,252
Asia	14,725	-	738	-
- Licenses				
Rest of Europe	-	-	428	-
USA	42,499	143,876	-	-
- Other				
Sweden	606	958	708	-
Rest of Europe	191	108	61	-
USA	49	712	-	-
Asia	22	21	301	-
Total net sales	127,020	146,494	2,236	4,252

Assets and investments, distribution at 31 December 2020

	Sweden	USA	France	Spain	Total, Group
Intangible assets	406,026	36,724	-	-	442,750
Financial assets	1,064	2,383	7,855	237	11,539
Property, plant and equipment	52,602	865	225	1,878	55,570
Total	459,692	39,972	8,080	2,115	509,859

Assets and investments, distribution at 31 December 2019

	Sweden	USA	France	Spain	Total, Group
Intangible assets	326,767	42,630	-	-	369,396
Financial assets	6,833	6,994	1,096	246	15,169
Property, plant and equipment	71,322	1,773	413	3,106	76,613
Total	404,922	51,397	1,509	3,352	461,179

Impairments:

Impairments have been made as follows:

Nedskrivning per tillgångsslag 2020, TSEK	Starbreeze Games	Publishing	VR Tech & Operations	Övrigt	Totalt
Other intangible assets	-	-	-	-	-
Capitalized development cost for own games and technology de	-	-	-	-	-
Investments in publishing projects	-	-	-	-	-
VR facilities, IT equipment and other equipment	-	-	-	-	-
Summa	-	-	-	-	-

Impairments in profit and loss and other comprehensive income for the period 2020, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Övrigt	Totalt
Direct costs	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total	-	-	-	-	-

Impairments by asset class 2019, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Övrigt	Totalt
Other intangible assets	-	3,869	101,651	-	105,520
Capitalized development cost for own games and technology de	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	Övrigt	Totalt
Direct costs	111,327	25,469	183,510	-	320,306
Other comprehensive income	-	-	-	4,445	4,445
Total	111,327	25,469	183,510	4,445	324,751

6 Net sales

The date of recognition of revenue is as follows:

Revenue recognition for development assignments takes place in the period when the service is performed and for royalties takes place in the period when the end customer has acquired the product.

Other services are recognized as revenue in the period in which the performance has been fulfilled.

Contractual assets and contractual liabilities

The Group has no contractual assets. Within the Group, in addition to trade receivables, there are receivables from contracts with customers where the remuneration for services depends only on the time elapsed. Receivables from contracts with customers are recognized as part of prepaid expenses and accrued income on the Royalties line.

Remaining unfulfilled performance commitments

All contracts for the sale of services included in development assignments have an original term of no more than one year or are invoiced based on time spent.

	Group		Parent	
	2020	2019	2020	2019
Development contracts	-	14,725	-	-
Royalties	112,986	70,960	-	-
Publishing rights	-	143,876	-	-
Licenses	-	42,499	-	-
Other services	5,020	7,942	29,762	58,990
Total	118,006	280,002	29,762	58,990

7 Other operating income

	Group		Parent	
	2020	2019	2020	2019
Exchange differences	-5,623	8,319	-10,938	2,783
Net result sold shares in Subsidiaries	6,355	-	902	-
Other income	1,103	10,903	18,579	22,254
Total	1,835	19,221	8,542	25,037

8 Costs broken down by nature of expense

	Group		Parent	
	2020	2019	2020	2019
Capitalized development	-94,541	-92,412	-	-
External services	43,857	271,176	23,748	58,896
Employee benefits expenses	112,064	187,124	29,961	38,574
Cost of premises	9,144	29,384	554	690
Other costs	-	20,408	-	7,078
Depreciation, amortization and impairments	38,442	387,905	260	217
Total	108,966	803,585	54,523	105,455

9 Remuneration of auditors

	Koncernen		Moderbolaget	
	2020	2019	2020	2019
PwC				
Revisionsuppdraget	1 865	2 099	1 865	1 886
Revisionsverksamhet utöver revisionsuppdraget	488	414	487	414
Skatterådgivning	256	213	256	213
Övriga tjänster	500	210	500	210
Övriga				
Revisionsuppdraget	53	229	-	-
Summa	3 162	3 165	3 108	2 722

Group: Of the amount for auditing activities other than the statutory audit, SEK 0.5 million relates to PwC Sweden, of fees for tax advisory services, SEK 0.3 million relates to PwC Sweden and of the amount for other services, SEK 0.5 million relates to PwC Sweden.

The total audit fee for the Group is in line with the preceding year.

Parent Company: For the Parent Company, of the amount for auditing activities other than the statutory audit, SEK 0.5 million relates to PwC Sweden, of fees for tax advisory services, SEK 0.3 million relates to PwC Sweden, and of the amount for other services SEK 0.5 million relates to PwC Sweden.

10 Rights of use

The Group applies IFRS 16. The contracts that fall under the standard relate to leases for premises in Sweden, the United States and Spain. Other leases, for example for office machinery, are subject to the exemption rules for contracts with short terms and small value and also continue to be expensed on a straight-line basis in the income statement.

During the year, both premises in the United States were leased to third parties.

When discounting future lease payments, Starbreeze has used the marginal loan rate per country as the discount rate. The marginal borrowing rate is based on the lessee's financial strength, country and the length of the lease in question.

See also Note 2.20.

Right-of-use assets in the balance sheet	2020-12-31	2019-12-31
Premises Stockholm	48,116	62,265
Premises Barcelona	750	1,498
Total Right-of use assets	48,866	63,764

Change in leases during the year	2020	2019
Opening balance right-of-use assets, 1 Januari 20	63,764	111,500
Endend agreements	-	-27,181
Subleases	-	-1,302
Exchange rates differences	-57	-855
Depreciation of the year	-14,841	-16,895
Capital loss when entering sublease contracts	-	-1,503
Closing balance right-of-use assets, 31 Decem	48,866	63,764

Analysis of the lease liability	2020-12-31	2019-12-31
W ithin one year	19,135	19,181
1-5 years	37,147	55,272
>5 years	-	-
Total	56,282	74,453

Analysis of the lease receivable	2020-12-31	2019-12-31
Within one year	2,627	3,106
1-5 years	2,612	5,716
>5 years	-	-
Total	5,239	8,822

11 Average number of employees

Average number of employees	2020		2019	
	Total	Of whom, men	Total	Of whom, men
Parent company				
Sweden	12	6	19	14
Subsidiaries				
Sweden	88	77	158	139
France	9	8	9	8
USA	1	-	1	-
Belgium	-	-	17	14
United Arab Emirates	-	-	3	2
Spain	13	13	9	9
India	-	-	115	107
Total	123	104	331	293

Directors and senior management personnel	2020		2019	
	Number on reporting date	Of whom, men	Number on reporting date	Of whom, men
Group				
Directors	5	3	6	5
CEO and senior management personnel	3	2	3	2
Parent company				
Directors	5	3	6	5
CEO and senior management personnel	3	2	3	2

12 Employee benefit expenses

Board of Directors

A fee is paid to the Chairman of the Board and directors as resolved by the Annual General Meeting. The Board fee decided upon by the AGM, on May 13, 2020, for the period to the next AGM is SEK 2,600 thousand (2,970). The Chairman of the Board receives 800 SEK thousand (950) and the members of the Board receive 250 thousand (280) each. In addition, the AGM decided upon a fee for the Remuneration Committee of SEK 75,000 each for the chair and members. A fee of SEK 350,000 was decided upon for the chair of the Audit Committee and SEK 150,000 to its members.

Chief Executive Officer

The Chairman of the Board negotiates with the CEO regarding the CEO's salary and other terms of employment. The Chairman reports the outcome of these negotiations to the entire Board prior to a final decision being made.

Salary and remuneration to the Board of Directors and the CEO include salary and benefits to the CEO during the year of SEK 8,512 thousand (8,118) and pension expenses of SEK 250 thousand (246). The costs of the Chief Executive Officer relate to the incumbent, Tobias Sjögren, as well as the salary of Mikael Nermark, who was CEO until October 2020. The CEO is required to provide six months' notice of resignation, and the company is required to provide nine months' notice of termination. There are no agreements on severance pay.

Defined contributions to pension plans are made for the CEO corresponding to costs under the ITP plan.

Senior management personnel

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

Cost of employee compensation

Total	Group		Parent	
	2020	2019	2020	2019
Salaries and other remuneration	79,766	138,836	22,180	27,549
Social insurance costs	30,309	44,237	8,294	10,459
(of which, pension expenses)	6,703	9,241	2,121	2,560
Total	110,075	183,073	30,474	38,009

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

	Board and CEO		Other employees	
	2020	2019	2020	2019
Group	11,194	11,076	68,572	127,760
Parent company	11,194	11,076	10,986	16,473

13 Remuneration of the Board of Directors and senior management personnel

Principles

Policies for remuneration of senior management personnel were established by the AGM held in May 2020. Remuneration of the CEO and other senior management personnel is to consist of fixed salary. The Board of Directors is also entitled to decide on variable remuneration in the form of a cash bonus in amounts that do not exceed 75 percent of the fixed annual salary of the CEO and 50 percent of the fixed annual salary of other senior management personnel on an annual basis.

Defined contributions to pension plans are paid for the CEO and senior management personnel corresponding to costs under the standard ITP plan. The CEO is required to provide six months' notice of resignation, and the company is required to provide nine months' notice of termination. Notice periods for other senior management personnel range from 3-9 months. There are no agreements on severance pay.

'Other senior management personnel' refers to the management team as listed in the 'Senior management personnel' section.

Remuneration and other benefits during the financial year

A total amount of salary, variable remuneration and other benefits was paid to senior management personnel, including the CEO, of SEK 12,967 thousand (12,709), as well as an invoiced fee for the CFO of SEK 1,346 thousand (4,039). Defined contributions to pension plans are paid for senior management personnel corresponding to costs under the ITP plan.

Board and senior management

2020	Base pay/director's fee	Variable pay and royalties	Other benefits	Pension expenses	Total	Remaining warrants
Torgny Hellström, chairman	1,089	-	-	-	1,089	-
Jan Benjaminson, director	420	-	-	-	420	-
Kerstin Sundberg, director	629	-	-	-	629	-
Tobias Sjögren, director	282	-	-	-	282	-
Anna Lagerborg, director 2020-05-13	159	-	-	-	159	-
Harold Kim, director 2020-01-01 - 2020-05-13	102	-	-	-	102	-
Mikael Nermark, CEO 2020-01-01 - 2020-10-26	7,868	5	156	250	8,279	100,000
Tobias Sjögren, CEO 2020-10-27 - 2020-12-31	482	-	1	-	483	-
Other senior management personnel; average of 2 individuals, 2 individuals at year-end	5,777	-	23	466	6,266	-
Total	16,808	5	180	716	17,709	100,000

Board and senior management

2019	Base pay/director's fee	Variable pay and royalties	Other benefits	Pension expenses	Total	Remaining warrants
Michael Hjorth, director/chairman 2019-01-01 - 2019-03-07	118	-	-	-	118	-
Matias Myllyrinne, director	88	-	-	-	88	-
Torgny Hellström, chairman 2019-03-07 - 2019-12-31	1,175	-	-	-	1,175	-
Jan Benjaminson, director 2019-03-07 - 2019-12-31	395	-	-	-	395	-
Harold Kim, director	373	-	-	-	373	-
Kerstin Sundberg, director 2019-03-07 - 2019-12-31	602	-	-	-	602	-
Tobias Sjögren, director 2019-06-04 - 2019-12-31	207	-	-	-	207	-
Stefano Salbe, director 2019-06-04 - 2019-12-31	-	-	-	-	-	-
Mikael Nermark, CEO	5,847	2,095	176	246	8,364	100,000
Other senior management personnel; average of 2.6 individuals, 3 individuals at year-end	8,598	-	32	352	8,982	-
Total	17,403	2,095	208	598	20,304	100,000

14 Other operating expenses

	Group		Parent	
	2020	2019	2020	2019
Capital loss divested subsidiary	-	-30,599	-	-
Writedown of debt on group company in liquidation	-	-5,243	-	-5,243
Agreed waived liability to group company hold for sale	-	15,434	-	-
Other expenses	-	-	-	-1,835
Total	-	-20,408	-	-7,078

15 Finance income and expense

The table below shows the Group's financial income and expenses.

	Group		Parent	
	2020	2019	2020	2019
Interest income	-	-	6,508	5,256
Remeasurement of earnouts	-	84,099	-	92,783
Other	628	167	-	-
Total financial income	628	84,266	6,508	98,039

Interest expenses	-5,537	-10,905	-1,713	-56
Interest expenses, convertible bonds	-22,766	-17,974	-22,766	-17,974
Interest expenses lease	-1,509	-1,987	-	-
Renegotiation loss convertible bond	-90,934	-	-90,934	-
Implicit interest	-19,148	-	-19,148	-
Provision for guarantee commitment for loan in subsidiary*	-	-	-	-31,230
Other financial expenses	30	-	-	-5,000
Total financial expenses	-139,864	-30,866	-134,561	-54,260

* Avser Enterspace International AB i likvidation:s lån från Nordea.

16 Appropriations

	Parent	
	2020	2019
Difference between recognized and planned depreciation and amortization	-	-
Group contribution	-	187,393
Total	-	187,393

17 Income tax and deferred tax

The applicable tax rate is the income tax rate for the Group. The average weighted tax rate is 21.3%. Temporary differences exist when the respective taxable values of assets or liabilities differ. Temporary differences in Starbreeze have arisen mainly through tax loss carryforwards. Deferred tax assets are recognized for tax loss carryforwards to the extent that they can be utilized through future taxable profits and to the extent that they can be offset against deferred tax liabilities on temporary differences.

No deferred tax asset, relating to loss carryforwards, had been recognized as of December 31, 2020. As of the closing date, the unrecognized loss carryforward for the Parent Company and the Swedish subsidiaries totals SEK 373.0 million. Loss carryforwards cannot be utilized between companies in different countries, and the remaining Swedish tax loss carryforward has a Group contribution restriction with regard to Enterspace AB and the other Swedish Group companies, which is applicable to losses generated up to December 31, 2016 and cannot be utilized until 2023 at the earliest. In addition, for deficits generated up to 2019, there is a Group contribution restriction in relation to the two new companies in the Group, New Starbreeze Studios AB and New Starbreeze Publishing AB. These deficits can be utilized in 2026 at the earliest.

	Group		Parent	
	2020	2019	2020	2019
Recognized profit (-loss) before tax	-130,473	-452,424	-144,272	-14,695
Tax at applicable tax rate	48,625	131,850	35,228	3,145
Tax effect of other non-deductible costs	232	-163,497	-10,594	-29,970
Tax effect of other non-taxable income	-12,785	17,885	59	20
Foreign withholding tax	-1,013	-793	-	-
Change of unrecognized tax assets related to loss carryforwards	-34,866	65,891	-24,693	26,409
Adjustment of tax for previous year	-	-11	-	396
Tax on profit for the year according to income statement	193	51,325	-	-

Distribution of income tax, Group	2020	2019
Current tax	-1,418	-64
Deferred tax	1,611	51,389
Tax on profit for the year according to income statement	193	51,325

Group	2020-12-31	2019-12-31
Balance at 1 January, deferred tax liabilities/assets	7,853	56,269
Change of temporary differences in capitalized development costs through profit or loss	527	-14,583
Changes in temporary differences in surplus values in the Group	-733	-32,527
Reclassification of previously capitalized deficits	-7,849	-
Change relating to reversal of deferred tax through profit or loss	-	326
Lease IFRS16	41	-473
Deferred tax on untaxed reserves	-	-3
Exchange differences	-	-1,156
Balance at December 31, deferred tax liabilities/assets	-161	7,853

Specification of deferred tax liabilities/assets	2020-12-31	2019-12-31
Lease IFRS16	-432	-473
Temporary differences in surplus values in the Group	653	1,386
Reclassification of previously capitalized deficits	-7,849	-
Change of temporary differences in capitalized development costs	7,467	6,940
Total deferred tax liabilities/asset	-161	7,853

18 Earnings per share

Basic and diluted earnings per share are calculated by dividing profit attributable to owners of the parent company by the weighted average number of shares outstanding during the period.

To calculate diluted earnings per share, the weighted average number of common shares outstanding is adjusted by the dilutive effect of all potential ordinary shares.

Group	2020	2019
Earnings per share		
Basic, SEK	-0.28	-1.22
Diluted, SEK	-0.28	-1.22

Number of shares at the end of the period		
Basic	724,609,266	329,367,849
Diluted*	724,609,266	329,367,849

Average number of shares		
Basic	469,754,144	328,349,775
Diluted*	469,754,144	328,349,775

* The dilution effect attributable to any conversion for the convertible held by Digital Bros. has not been taken into account in the above calculation as it does not mature until December 2024.

The company has issued 625,275 warrants that are not expected to be exercised due to the set strike price substantially exceeding the share price. They have therefore not given rise to a dilutive effect.

19 Dividend per share

No dividend will be proposed.

20 Non-current intangible assets

Goodwill consists of synergies and other intangible assets such as market position and personnel from the acquisitions of Overkill Software in June 2012, Orange Grove Media LLC in July 2015 and Payday Production LLC in September 2015. In 2016 Parallaxter and Nozon were acquired, which increased the goodwill balance mainly for personnel, and in 2017 Dhruva was acquired. Nozon and Dhruva were sold in 2019, and the value of goodwill in the Group has consequently decreased.

The Group tests regularly for impairment of goodwill and other intangible assets that are not complete, in accordance with IAS 36. Completed intangible assets that are being amortized are tested for impairment if the Group is given indications that fair value might be lower than the book value.

The recoverable amounts for cash generating units have been determined through calculation of value in use. For these calculations, sales forecasts have been estimated for the entire Group and for separate game development projects. Cash flows are based on a conservative forecast.

As of December 31, 2020, impairment tests were performed for goodwill and shares in subsidiaries. The game development projects for which costs have been capitalized has been tested separately. The tests did not result in any impairments in 2020.

Remaining assets are primarily attributable to the core business of game development, that is to say the Starbreeze Games segment.

The remaining goodwill, SEK 38.8 million, is in the Starbreeze Games segment. The recoverable amount consists mainly of cash flows related to PAYDAY.

For assets in the Starbreeze Games segment and other assets, impairment assessments have been made within the Group based on discounted future cash flows.

The assets have been divided into different cash-generating units (CGUs). The division into CGUs is based on its commercialization and not which platform it belongs to. As an example, PAYDAY is its own CGU. The the Payday CGU accommodates PAYDAY, PAYDAY 2, PAYDAY 3 and PAYDAY: Crime War. In other words, it is not the platform that decides, it is the IP itself that generates the cash flow. When the assets are impairment tested, this is viewed from a CGU perspective. No impairments were made in 2020.

Remaining CGUs after impairment testing

CGU	Description of CGU	Goodwill	Other intangible assets	Capitalized expenditure for own games and technology development	Investments in publishing projects	Total
Payday	Spel IP	38,827	228,314	171,435	-	438,576
Geminose	Spel IP	-	200	-	-	200
Hype	Spel IP	-	-	-	3,974	3,974
Total		38,827	228,514	171,435	3,974	442,750

Goodwill

A traditional cash flow model was used in calculating value in use. A tax rate of 21.4 percent was used, which was assumed to correspond to the average in the Group. A pre-tax discount rate of 20-25 percent was also applied. A sensitivity analysis shows that margin persists even with a 5 percent discount rate adjustment. The impairment test did not give rise to any impairment in 2020. The average EBITDA margin was 34 percent for the forecast period.

Key assumptions applied in impairment testing are the quantification of future revenues, growth and the cost of capital.

Acquired goodwill is broken down by segment as shown on the table below.

Segment	2020-12-31	2019-12-31
Starbreeze Games	38,827	43,601
Other	-	-
Total	38,827	43,601

Game and technology development projects

Impairment testing of game development projects was based on each game's estimated future cash flows and profit or loss based on management's forecasts and budgets for the next seven years.

PAYDAY 2 has been assumed to have lower sales than currently and for PAYDAY 3 the expected cash flows are based on the history of previous PAYDAY games. PAYDAY 3 is assumed to be launched in 2023 and is assumed to be strongest in sales terms in the first few months after launch. We have signed an agreements with a publishing partner for PAYDAY 3 and assumptions have been made to bring in a publishing partner for PAYDAY: Crime War during 2021, which can contribute both capital and experience, and the value of the assets depends on such cooperation. See also section D Capital risk in Note 3 Financial risk management. The discount rate used in impairment testing is 20-25 percent. It has been assessed that the discount rate for remaining assets is the same for all assets. This assumption is based in part on an external valuation of the assets. A sensitivity analysis shows that a margin remains even with an increased discount rate of 5 percent for proprietary games.

Group	Goodwill	IP/Technology	Capitalized game and technology development costs	Investments in publishing projects	Other	Total
Cost at 1 January 2020	459,389	659,236	931,559	187,326	6,705	2,244,214
Divested subsidiary	-239,955	-132,236	-21,413	-	-	-393,604
Development in progress						
Own development	-	-	94,541	-	-	94,541
Own technology development	-	309	-203	-	-	106
Exchange differences	-10,349	-17,211	-	-	-	-27,560
Cost at 31 December 2020	209,085	510,098	1,004,484	187,326	6,705	1,917,697
Depreciation, amortization and impairments at 1 January 2020	-415,788	-419,015	-850,041	-183,270	-6,705	-1,874,818
Depreciation and amortization for the year	-	-12,077	-4,468	-82	-	-16,627
Divested subsidiary	239,955	132,083	20,578	-	-	392,616
Exchange differences	5,575	17,425	882	-	-	23,882
Depreciation, amortization and impairments at 31 December 2020	-170,258	-281,584	-833,049	-183,352	-6,705	-1,474,947
Total carrying amount at 31 December 2020	38,827	228,514	171,435	3,974	-	442,750

Group	Capitalized game and technology development costs				Other	Total
	Goodwill	IP/Technology				
Cost at 1 January 2019	507,396	647,423	840,680	355,012	6,705	2,357,216
Divested subsidiary	-59,753	3,643	417	-1,153	-	-56,846
Sale of publishing rights	-	-	-	-166,642	-	-166,642
Development in progress						
Own development	-	-	90,055	-	-	90,055
Own technology development	-	684	-	-	-	684
Exchange differences	11,745	7,486	407	109	-	19,747
Cost at 31 December 2019	459,389	659,236	931,559	187,326	6,705	2,244,214
Depreciation, amortization and impairments at 1 January 2019	-450,227	-291,351	-669,763	-167,041	-6,705	-1,585,087
Depreciation and amortization for the year	-	-20,028	-9,523	-3,467	-	-33,018
impairments for the year	-	-105,519	-166,722	-21,600	-	-293,841
Divested subsidiary	41,361	2,288	-	8,840	-	52,489
Exchange differences	-6,922	-4,405	-4,033	-1	-	-15,361
Depreciation, amortization and impairments at 31 December 2019	-415,788	-419,015	-850,041	-183,269	-6,705	-1,874,818
Total carrying amount at 31 December 2019	43,601	240,221	81,518	4,057	-	369,396

21 Property, plant and equipment

Computers and other equipment	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Cost at 1 January	188,681	206,713	3,721	3,671
Purchases	944	1,070	74	50
Divestment subsidiary	-443	-9,658	-	-
Retirements and disposals	-276	-10,654	-105	-
Exchange differences	-1,800	1,652	-	-
Asset held for sale	-	-441	-	-
Accumulated cost at 31 December	187,106	188,681	3,690	3,721
Depreciation at 1 January	-175,831	-146,214	-3,301	-3,084
Retirements and disposals	523	10,777	105	-
Planned depreciation for the year	-6,923	-13,435	-226	-217
Impairments	-	-26,280	-	-
Exchange differences	1,829	-913	-	-
Asset held for sale	-	234	-	-
Closing balance accumulated depreciation	-180,402	-175,831	-3,422	-3,301
Planned residual value at 31 December	6,704	12,850	268	421

During the year, no impairments occurred in respect of the Group's property, plant and equipment (SEK 26.3 million).

22 Financial assets

	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Deposits, rent guarantees	5,662	6,578	573	585
Other financial assets	2,021	-	2,021	-
Total	7,683	6,258	2,594	585

Outstanding deposits relate essentially to deposit for the rental of premises.

23 Investments in Group companies

	Country of registration and operation	Business	Share of equity	Share of votes	Number of shares	Carrying amount in parent company	Equity excluding net result	Net result	Total Equity
Starbreeze Studios AB	Sverige	Game development	100%	100%	10,000	16,965	30,451	3,591	34,042
Starbreeze Publishing AB	Sverige	Game development	100%	100%	1,000	276,400	272,745	95,919	368,664
Starbreeze Production AB	Sverige	Game development	100%	100%	1,000	2,347	119,026	-4,301	114,725
Starbreeze USA Inc.	USA	Game development	100%	100%	100	-	-83,539	-2,399	-85,938
Starbreeze IP LUX	Luxemburg	Technology development	100%	100%	12,500	-	-32,220	-1,523	-33,743
Starbreeze LA Inc	USA	Game development	0%	100%	100	-	38,449	2,607	41,056
Starbreeze VR AB	Sverige	Technology development	100%	100%	50,000	-	45	-6	39
Starbreeze Ventures AB in liquidation	Sverige	Investments	100%	100%	50,000	-	-15,590	-3	-15,594
Starbreeze Paris SAS	Frankrike	Technology development	100%	100%	58,281	-	8,483	791	9,274
Starbreeze Barcelona SL	Spanien	Game development	100%	100%	3,000	-	-2,551	-985	-3,536
New Starbreeze Publishing AB	Sverige	Game development	0%	100%	2,360,777	-	301,976	-143,947	158,029
New Starbreeze Studios AB	Sverige	Game development	100%	100%	500	26,990	6,292	-1,449	4,843
Enterspace AB	Sverige	Technology development	100%	100%	50,000	-	2,733	-2,690	43
Enterspace International AB in liquidation	Sverige	Technology development	0%	100%	1,733	-	1,644	-1,619	25
Starbreeze IP LUX II Sarl	Luxemburg	Investments	100%	100%	230,000	-	-93,543	-22,478	-116,021
						322,702	554,400	-78,492	475,908

	2020-12-31	2019-12-31
Cost at 1 January	295,806	514,595
Acquisition of subsidiaries	-	249
Shareholder contribution	26,940	58,076
Adjustment of earnouts	-44	8,958
Impairment	-	-205,499
Sale of Subsidiaries	-	-80,572
Accumulated cost at 31	322,702	295,806

24 Financial instruments by category

Group, 31 December 2020

Assets on the balance sheet	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income	Derivative	Total
Financial assets	7,683	-	-	-	7,683
Trade and other receivables	4,061	-	-	-	4,061
Cash and cash equivalents	157,423	-	-	-	157,423
Total assets	169,167	-	-	-	169,167
Liabilities in the balance sheet	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income	Derivative	Total
Other non-current liabilities	22,618	-	-	-	22,618
Convertible bond	160,002	-	-	-	160,002
Non-current liability, renegotiation loss convertible b	110,082	-	-	-	110,082
Trade and other payables	103,345	-	-	-	103,345
Current liability, earnout	-	18	-	-	18
Total liabilities	396,047	18	-	-	396,065

Group, 31 December 2019

Assets on the balance sheet	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income	Derivative	Total
Financial assets	6,258	-	-	-	6,258
Trade and other receivables	10,391	-	-	-	10,391
Cash and cash equivalents	82,787	-	-	-	82,787
Total asstes	99,436	-	-	-	99,436

	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income	Derivative	Total
Liability, earnout, ePawn	-	62	-	-	62
Other non-current liabilities	121,009	-	-	-	121,009
Total non-current liabilities	213,928	-	-	-	213,928
Trade and other payables	128,540	-	-	-	128,540
Total liabilities	463,477	62	-	-	463,539

Parent company at 31 December 2020

Assets on the balance sheet	Loan and trade receivables	Assets measured at fair value through profit or loss	Assets available for sale	Total
Financial assets	2,594	-	-	2,594
Trade receivables and other receivables	1,333,321	-	-	1,333,321
Cash and cash equivalents	10,906	-	-	10,906
Total	1,346,821	-	-	1,346,821

Liabilities on the balance sheet	Other financial liabilities	Financial liabilities at fair value through profit or loss	Assets available for sale	Total
bond	110,082	-	-	110,082
Convertible bonds	160,002	-	-	160,002
Trade payables and other current liabilities	612,534	-	-	612,534
Current liabilities, earnouts	-	18	-	18
Total	882,618	18	-	882,636

Parent company at 31 December 2019

Assets on the balance sheet	Loan and trade receivables	Assets measured at fair value through profit or loss	Assets available for sale	Total
Financial assets	585	-	-	585
Trade receivables and other receivables	1,080,277	-	-	1,080,277
Cash and cash equivalents	12,009	-	-	12,009
Total	1,092,871	-	-	1,092,871

Liabilities on the balance sheet	Other financial liabilities	Financial liabilities at fair value through profit or loss	Assets available for sale	Total
Other financial liabilities	306,063	-	-	306,063
Non-current liabilities, earnouts	-	62	-	62
Convertible bonds	213,928	-	-	213,928
Trade payables and other current liabilities	251,166	-	-	251,166
Total	771,157	62	-	771,219

25 Credit quality of financial assets

	2020-12-31	2019-12-31
Group 1	283	2,001
Group 2	8,165	7,167
Total	8,448	9,168

At 31 December 2020, past due and unpaid trade receivables amount to SEK 8,165 thousand (7,167).

Group 1: Existing customers (more than 6 months) with no previous missed payments.

Group 2: Existing customers (more than 6 months) with previous missed payments.

Bank deposits and short-term deposits, Group	2020-12-31	2019-12-31
Moody's rating Aa1	-	-
Moody's rating Aa2	76	1,760
Moody's rating Aa3	155,771	75,261
Moody's rating A	230	-
Moody's rating Baa1	1,347	5,766
Total	157,423	82,787

26 Trade and other receivables

	Group		Moderbolaget	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Trade receivables	8,448	9,168	9	-
Provision for doubtful receivables	-7,589	-	-	-
Receivables from group companies	-	-	1,332,388	1,080,277
Other receivables	3,202	1,223	924	-
Total	4,061	10,391	1,333,321	1,080,277

Aging report	2020-12-31	2019-12-31
Not due	244	2,000
3-6 months	39	-
> 6 months	8,165	7,168
Total	8,448	9,168

Trade and other receivables per currency	2020-12-31	2019-12-31
SEK	3,238	10,137
EUR	675	6,590
USD	148	26,969
GBP	-	121
Total	4,061	43,816

As the Group has historically not had any material loan losses and considers that the same circumstances will continue to prevail, it is judged that a provision for any future loan losses does not amount to material sums. See also Note 2.9 Impairment of financial assets.

27 Prepaid expenses and accrued income

	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Other accrued receivables	8,118	9,328	524	837
Accrued royalty income	26,618	24,097	-	-
Total	34,736	33,425	524	837

28 Cash and cash equivalents

	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Cash and bank deposits	157,423	82,765	10,906	11,988
Short-term deposits	-	21	-	21
Total	157,423	82,787	10,906	12,009

Cash and cash equivalents include short-term deposits that mature within three months of acquisition and can be readily converted to cash with no interest expenses

29 Change in number of shares

The share capital, SEK 6,587 thousand is divided into 329,367,849 shares, giving a quotient value of SEK 0.02 per share. One Class A share gives entitlement to ten (10) votes and one Class B share to one (1) vote. All shares issued by the parent company are paid up.

The AGM held in May 2020 resolved to authorize the Board of Directors to, on one or more occasions before the end of the next AGM, decide to issue, with or without waiver of shareholders' preferential rights, new Class B shares, or convertible bonds or warrants conferring the right to purchase Class B shares, corresponding (in planned exercise of such convertible bonds or warrants where applicable) up to a maximum of ten (10) percent of the number of shares outstanding from time to time, for cash payment, by offset or for non-cash consideration.

Number of shares	Class B shares	Class A shares
Number of shares 31 Dec 2018	271,804,827	53,490,727
New subscription through exercise of convertible bond	4,072,295	-
Conversion	488,735	-488,735
Number of shares 31 Dec 2019	276,365,857	53,001,992
New issue	277,575,549	117,665,868
Conversion	1,346,312	-1,346,312
Number of shares 31 Dec 2020	555,287,718	169,321,548

30 Share-based remuneration

Long-term incentive programs are resolved by the Annual General Meeting. As of December 31, 2020, there is only one current option program, warrants 2018/2021. Other employee stock and warrant options programs have expired. A summary of the warrant program is presented below.

Warrants program 2018/2021

The Annual General Meeting held in May 2018 resolved in favor of an additional special share-based incentive program for senior management personnel and certain other key individuals aimed at managing new recruitments and promotions. In total, it is to be possible for up to 3,000,000 warrants, giving entitlement to subscribe for 3,000,000 Class B shares, to be issued under the special incentive program with a term of three years, with a strike price equal to 200 percent of the share

price then prevailing. As of December 31, 2019, 625,275 of these warrants had been issued, all with a maturity of June 2021. The warrants were issued on market terms.

In respect of the warrants program 2018/2021, the weighted average fair value of warrants granted during the financial year was SEK 22.73 per warrant and was determined using the Black-Scholes pricing model. Key inputs in the model were the share price at grant date, volatility of 48.6

percent, expected dividend of 0 percent, expected maturity of the warrants of 3 years and annual risk-free interest rate of -0.39 percent.

Warrants program 2015/2019 (4 years)	2020-12-31		2019-12-31	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	-	-	34.92	30,373
Recalculation of option due to dilution	-	-	-	-
Expired warrants	-	-	34.92	-30,373.0
At 31 December		-		-

Warrants program 2015/2018 (3 years)	2020-12-31		2019-12-31	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	16.48	625,275	22.73	625,275
Granted warrants	-	-	-	-
At 31 December		625,275		625,275

31 Provisions

	Parent	
	2020-12-31	2019-12-31
Difference between recognized and planned depreciation and amortization	-	31,230
Total	-	31,230

32 Liability, earnout

Non-current liabilities, earnouts	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Liability, earnout, ePawn	18	62	18	62
Total	18	62	18	62

33 Trade payables and other liabilities

	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Trade payables	9,514	47,010	1,013	8,060
Liabilities to group companies	-	-	576,994	239,012
Tax liabilities	-	15,000	-	-
Other liabilities	45,348	44,619	1,802	2,099
Social insurance and comparable fees	3,597	6,911	787	1,996
Current part of earn out, ePawn	18	-	18	-
Current part of convertible bond, Smilegate	-	213,928	-	213,928
Current part of bankloan	44,887	15,000	31,938	-
Total	103,363	342,468	612,552	465,094

34 Accrued expenses and deferred income

	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Accrued salaries	1,060	14,157	1,055	2,804
Accrued annual leave pay	8,831	8,968	1,977	3,351
Accrued social insurance fees, annual leave pay	2,842	2,845	621	1,053
Accrued social insurance fees, employee stock options	457	1,009	314	836
Accrued interest	2,369	-	905	-
other accrued expenses	12,302	11,526	2,931	2,986
Total	27,861	38,506	7,803	11,029

35 Pledged assets

	Group		Parent	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Pledged shares in subsidiaries for loan credit with Nordea	-	-	278,748	278,748
Deposits, rent guarantees	585	6,594	-	-
Total	585	6,594	278,748	278,748

36 Contingent liabilities

The Group has no contingent liabilities.

37 Divestment of subsidiaries

Net assets at the time of disposal of the companies

In 2020, the participations in Parallax were divested. The transactions have resulted in a capital gain in the Group totalling SEK 5.5 million. The net assets held by the subsidiaries at the time of disposal, the consolidated profit or loss of the divestitures and the cash flow effect of the transactions are set out in the tables below.

Parallaxter

Net assets disposed	43,861
Goodwill	
Other intangible assets	-15
Capitalized development cost for own games and technolc	-192
Financial assets	343
Fixed assets	199
Trades and other receivables	393
Cash and cash equivalents	480
Total asset	1,208

Other current interest-bearing liabilities	-1,596
Trade and other payables	-2,166
Total liabilities	-3,762

Net assets disposed	-2,554
Net result incl amortizatøn of intercompany receivables	5,454
Selling price	1
Liquid funds in in divested operations	-480
Total cash flow impact	-479

Parallaxter	2020	2019
SEKk	Jan	Jan-Dec
Net sales	8	61
Direct costs	-373	-12,178
Gross profit (-loss)	-365	-12,117
Administrative expenses	-	-1,774
Other revenue	-	16,408
Other expenses	-	-
Operating profit (-loss)	-365	2,517
Financial income	-	304
Financial expenses	-2	-135
Profit (-loss) before tax	-367	2,686
Income tax	321	325
Net profit (-loss) for the period	-46	3,011
<i>Profit (-loss) including sales expenses</i>		
Profit (-loss) for the period	-46	3,011
Hänförligt till:		
Owners of the parent	-46	3,011
Non-controlling interests	-	-

38 Related-party transactions

The parent company Starbreeze AB, which is the ultimate parent company in the Group, billed Group companies SEK 29.8 million (59.0) for costs related to game development and for a portion of Group costs. The table below shows billing by other Group companies to Group companies:

The parent company Starbreeze AB purchased services from Group companies totaling SEK 1.0 million (3.8). Other purchases by Group companies from Group companies are shown in the table below: Remuneration to senior management personnel is specified in Note 13.

Receivables and liabilities	2020-12-31	2019-12-31
Receivables		
Parent company Starbreeze AB	1,332,388	1,043,435
Liabilities		
Parent company Starbreeze AB	576,994	331,778
Group company billing		
	2020	2019
Starbreeze AB	29,762	58,990
Starbreeze Production AB	-	2,308
Starbreeze Publishing AB	-	1,975
Starbreeze Studios AB	1,335	9,943
Starbreeze Paris SAS	11,480	15,793
Starbreeze IP LUX	-	-
Starbreeze IP LUX II	-	257
Nozon SPRL	-	823
Starbreeze Barcelona	12,410	13,446
Starbreeze LA	6,362	7,425
New Starbreeze Publishing AB	-	26,159
New Starbreeze Studios AB	89,031	126,919
Enterspace AB	-	-
Dhruva Infotech Ltd	-	6,788
Total	150,381	270,826

Inköp från koncernbolag	2020	2019
Starbreeze AB	954	3 804
Starbreeze Production AB	262	6 458
Starbreeze Publishing AB	693	56 995
Starbreeze Studios AB	344	5 970
Starbreeze Paris SAS	544	2 069
Starbreeze IP LUX	-	4
Starbreeze IP LUX II	-2	32 831
Nozon SPRL	-	-1 103
Parallaxter SPRL	-	1 774
Starbreeze Barcelona	901	1 827
Starbreeze LA	63	898
Starbreeze USA	-	-
New Starbreeze Publishing AB	139 843	134 305
New Starbreeze Studios AB	6 780	21 959
Enterspace International AB	-	-
Enterspace AB	-	2 970
Starbreeze Middle East	-	64
Totalt	150 381	270 826

39 Adjustment of items not included in cash flow

	Group		Parent	
	2020	2019	2020	2019
Amortization of intangible assets	16,627	33,019	-	-
Depreciation of property, plant and equipment	21,794	30,135	226	217
Impairment of intangible assets	-	293,841	-	-
Impairment of tangible assets	-	30,910	-	-
Gains & losses on sale of assets	-51	-	-38	-
Cost of sold assets	-	170,175	-	-
Change in provision	-	-	-31,230	-
Capital loss, divested subsidiaries	-	30,599	-	-
Other unrealized exchange losses	-1,317	-1,782	1,324	756
Total	37,053	586,897	-29,718	973

Paid interest	Group	Moderbolaget
	2020	2020
Interest on frozen debt	-385	-25
Total interest paid	-385	-25

Refers to interest on debt now finally paid off under the reconstruction plan.

40 Events after the balance sheet date

On March 19, the Company signed a publishing agreement regarding PAYDAY 3 with Koch Media Group.

Tobias Sjögren was appointed CEO on March 24, 2021, having previously served as acting CEO since October 26, 2020.

41 Interest-bearing liabilities

In February 2016, a convertible loan was received from Smilegate and has subsequently been transferred to Digital Bros. In January 2020, an Extraordinary General Meeting established changes to the terms of the convertible. The new terms involve moving the due date of the convertible loan to December 2024; the original maturity was in February 2020. The interest rate remains unchanged at 2%. The conversion price was set at SEK 2.25 (13.49) per share; restated after completed issues in 2020, the conversion price is SEK 1.63 per share. The carrying amount of the convertible loan, measured at amortized cost, as of December 31, 2020 was SEK 160.0 million (213.9). Of the total value of the convertible loan, equity is SEK 76.7 million, and non-current liability is SEK 138.3 million.

Starbreeze's charge for these changes to the terms of the convertible loan, known as renegotiation loss, was SEK 165 million and is a loan subordinated convertible, recognized as non-current liability, valued at a current value of SEK 110.1 million with an interest rate of zero (0) percent.

The renegotiation loss affected the company's earnings by SEK 90.2 million during the year. Repayment of convertible loan and renegotiation loss has to take place if and when the Company has a freely available cash flow as defined in the 2018 reconstruction plan.

A year-end, Starbreeze Publishing has a loan agreement with Nordea Bank AB (publ), which also includes Starbreeze AB and Starbreeze Production AB as guarantors, amounting to SEK 23.9 million with interest terms STIBOR +3.5 percent.

Starbreeze AB has a loan agreement with Nordea Bank AB (publ) at year-end which amounts to SEK 31.9 million, with interest terms STIBOR +4.0 percent. The loans are due in December 2024 and payment is made under the approved reconstruction plan as well as the terms of loan agreements. The liability is divided into non-current and current parts, according to when they are expected to be paid, which is set out in the reconstruction plan and contractual terms with Nordea. This means that SEK 40 million is estimated to be refunded within 6 months.

All borrowing takes place in SEK. Supplier invoices other than in SEK are mainly denominated in USD.

Group	2020-12-31			2019-12-31		
	Långfristig del	Kortfristig del som redovisas bland kortfristiga skulder	Summa	Långfristig del	Kortfristig del som redovisas bland kortfristiga skulder	Summa
Convertible bond	160,002	-	160,002	-	213,928	213,928
bond	110,082	-	110,082	-	-	-
Bank overdraft facility, Nordea	-	-	-	63,096	15,000	78,096
Loan, Nordea	11,000	44,887	55,887	31,230	-	31,230
Liabilities for development funding	-	-	-	12,921	-	12,921
Longterm trade payables according to the reorganization plan	-	-	-	12,285	-	12,285
Other non-current liabilities	11,618	-	11,618	1,478	-	1,478
Total	292,702	44,887	337,589	121,009	228,928	349,938

Parent	2020-12-31			2019-12-31		
	Långfristig del	Kortfristig del som redovisas bland kortfristiga skulder	Summa	Långfristig del	Kortfristig del som redovisas bland kortfristiga skulder	Summa
Convertible bond	160,002	-	160,002	-	213,928	213,928
Non current liability, renegotion loss convertible b	110,082	-	110,082	-	-	-
Loan, Nordea	-	31,938	31,938	-	-	-
Other non-current liabilities	-	-	-	198	-	198
Total	270,084	31,938	302,022	198	213,928	214,126

42 Interests in joint ventures

Koncernen

	Country of operation	Business	Share of equity	Share of votes	Number of shares	Carrying amount
StarVR Corporation	Taiwan	Technology development	33%	33%	16,000,000	1,083

StarVR Corporation, the company's joint venture with Acer, is a sales and marketing company that manages the sales process vis-à-vis business customers, support and aftermarket support. Under the terms of the joint venture, Starbreeze owns and controls IP rights related to StarVR, while Acer manufactures the product. R&D and reference design work for the StarVR headset will be carried out jointly by Starbreeze and Acer. StarVR Corporation absorbs all costs of marketing and selling StarVR, but as long as Starbreeze retains the IP rights, Starbreeze will bear R&D related costs. Production costs are borne by Acer. The reconciliation below reflects adjustments made by the Group upon application of the equity method, including adjustments to fair value at acquisition date and adjustments for differences in accounting policies.

Investments in joint venture

	2020-12-31	2019-12-31
Reconciliation against carrying amounts:		
Net assets at 1 January	9,681	14,110
Profit (-loss) for the period	-18,180	-4,808
Exchange differences	11,781	379
Net assets at 31 December	3,282	9,681
Group share	33%	33%
Group share, SEKK	1,083	3,195
Carrying amount	1,083	3,195

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

	2020-12-31	2019-12-31
Condensed balance sheet		
Current assets	10,867	14,532
Non-current assets	59	2,105
Current liabilities	-7,644	-6,956
Net assets	3,282	9,681
Condensed statement of comprehensive income		
Revenue	-2,130	2,459
Profit (-loss) for the period	-18,180	-4,808
Total comprehensive income	-18,180	-4,808

43 Net debt

	Other assets		Liabilities related to financing activities				Total
	Cash	Convertible bonds	Derivatives	Renegotiation loss convertible bond and other non-current liabilities	Other Current liabilities		
Balance at 1 January 2020	82,787	-213,928	-	-176,281	-15,000	-405,209	-322,422
Cash flow	74,744	-	-	-	-	-	74,744
Exchange differences	-108	-	-	-	-	-	-108
Reclassification	-	-	-	-	-29,887	-29,887	-29,887
Other non-cash items	-	53,927	-	6,434	-	60,360	60,360
Balance at 31 December 2020	157,423	-160,002	-	-169,847	-44,887	-374,736	-217,313

	Other assets		Liabilities related to financing activities				Total
	Cash	Convertible bonds	Derivatives	Renegotiation loss convertible bond and other non-current liabilities	Other Current liabilities		
Balance at 1 January 2019	69,289	-271,926	-42	-14,046	-105,770	-391,784	-322,495
Cash flow	13,269	4,301	-	-	5,000	9,301	22,570
Exchange differences	229	-	-	-	-	-	229
Reclassification	-	-	-	-106,963	106,963	-	-
Other non-cash items	-	53,697	42	-55,272	-21,193	-22,726	-22,726
Balance at 31 December 2019	82,787	-213,928	-	-176,281	-15,000	-405,209	-322,422

Net liability	2020-12-31	2019-12-31
Cash and cash equivalents	157,423	82,787
Current liabilities	-44,887	-15,000
Non-current liabilities	-329,849	-390,209
Net Liability	-217,313	-322,422

44 Available-for-sale assets and liabilities

The Parent Company sold the subsidiary Parallaxter, VR Tech & Operations segment, in February 2020. No assets classified as available for sale thereafter.

	2020-12-31	2019-12-31
Goodwill	-	-
Other intangible assets	-	-
Capitalized expenditure for own games and technology development	-	-
Financial assets	-	336
Property, plant and equipment	-	207
Trade and other receivables	-	361
Prepaid expenses and accrued income	-	11
Cash and cash equivalents	-	169
Total assets	-	1,084
Non-current liabilities	-	-
Trade and other payables	-	-1,463
Accrued expenses and deferred income	-	-
Total liabilities	-	-1,463
Net	-	-379

The income statement and balance sheet will be presented to the Annual General Meeting on May 12, 2021 for adoption.

The Board of Directors and the CEO hereby certify that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair presentation of the Group's financial position and earnings. The annual report was prepared in accordance with generally accepted accounting practices in Sweden and provides a fair presentation of the parent company's financial position and earnings.

The Directors' Report for the Group and the parent company provides a fair presentation of the operations, position and earnings of the parent company and the Group and describes the material risks and uncertainties faced by the parent company and the companies included in the Group.

Stockholm, April 14, 2021 Starbreeze AB (publ)

Torgny Hellström
Chairman

Directors

Jan Benjaminson

Kerstin Sundberg

Tobias Sjögren

Anna Lagerborg

Tobias Sjögren
CEO

Our audit report was submitted on April 14, 2021
Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg
Authorized Public Accountant

To the Annual General Meeting of shareholders in Starbreeze AB (publ), corporate registration number 556551-8932

Report on the annual accounts and consolidated financial statements

Opinions

We have carried out an audit of the annual report and consolidated financial statements of Starbreeze AB (publ) for 2020 with the exception of the corporate governance report on pages 28-38. The Company's annual report and consolidated financial statements are included on pages 28-84 of this document.

In our opinion, the annual report has been prepared in accordance with the Annual Accounts Act and gives a true and fair view of the Parent Company's financial position as at December 31, 2020 and of its financial results and cash flow for the year in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Group's financial position as at December 31, 2020 and of its financial results and cash flow for the year in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our statements do not include the corporate governance report on pages 28-38. The Directors' Report is consistent with the other parts of the annual report and consolidated financial statements.

We therefore recommend that the Annual General Meeting adopt the income statement and balance sheet of the Parent Company and the statement of comprehensive income and the statement of financial position of the Group.

Our statements in this report on the annual accounts and consolidated financial

statements are consistent with the content of the supplementary report submitted to the Parent Company's and the Group's Audit Committee in accordance with Article 11 of the Auditor's Regulation (537/2014).

Basis for opinion

We have carried out the audit in accordance with International Standards on Auditing (ISA) and good auditing practice in Sweden. Our responsibilities according to these standards are described in more detail in the Auditor's responsibility section. We are independent in relation to the Parent Company and the Group in accordance with good accounting practice in Sweden and have otherwise fulfilled our professional ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and beliefs, no prohibited services referred to in Article 5(1) of the Auditor's Regulation (537/2014) have been provided to the audited Company or, where appropriate, its Parent or its controlled company in the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate as a basis for our statements.

Our approach to the audit

The scope and direction of the audit
Starbreeze is an independent developer, creator, publisher and distributor of PC and console games with a global market focus. We designed our audit by determining the level of materiality and assessing the risk of material misstatement in the financial statements. In particular, we took into account the areas where the CEO and the Board of Directors made subjective assessments, such as important accounting estimates that have been made on the basis of assumptions and forecasts of future events, which are inherently uncertain. As with all audits, we have also taken into account the risk of the Board of Directors and the CEO breaching internal control,

including considering whether there is evidence of systematic discrepancies that have given rise to the risk of material misstatement as a result of irregularities.

We adapted our audit to conduct an appropriate audit in order to be able to comment on the financial statements as a whole, taking into account the Group's structure, accounting processes and controls as well as the industry in which the Group operates.

Materiality

The scope and direction of the audit were affected by our materiality assessment. An audit is designed to obtain a reasonable degree of assurance as to whether the financial statements contain any material misstatement. Errors may arise as a result of irregularities or mistakes. They are considered material if, individually or collectively, they can reasonably be expected to influence the economic decisions taken by users on the basis of the financial statements.

Based on professional judgment, we determined certain quantitative materiality figures, including for financial reporting as a whole. Using these qualitative considerations, we established the nature and scope of the audit and the nature, timing and scope of our audit measures, as well as assessing the impact of individual and cumulative errors on the financial statements as a whole.

Key audit matters

Key audit matters are the areas that, in our professional assessment, were the most important for the audit of the annual accounts and consolidated financial statements for the period in question. These areas were addressed in the context of the audit of, and in our position on, the annual accounts and consolidated financial statements as a whole, but we do not make separate statements on these areas.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of shares in subsidiaries, goodwill and other intangible assets</p> <p>Goodwill and other intangible assets including capitalized expenditure for game and technology development amounted to SEK 443 M in the Group as of December 31, 2020. About 99% of the value is related to Payday. In the Parent Company, shares in subsidiaries amounted to SEK 323 M, a large amount of which is also related to value in Payday. The company tested the impairment requirements in connection with the closing of the accounts. Significant assumptions in the impairment tests are set out in Note 20 of the Annual Report and include, among other things, estimates of future cash flows. Due to the degree of estimates, we have assessed that the valuation of goodwill and other intangible assets is a key audit matter.</p> <p>The Company's impairment test did not lead to any impairment.</p> <p>As stated in the Annual report, the launch of Payday 3 is scheduled for 2023. Valuation of shares in subsidiaries, goodwill and other intangible assets presume a successful launch. If the game were not to meet expectations, it could result in the impairment of shares in subsidiaries, goodwill and other intangible assets.</p>	<p>We studied management's testing of whether any impairment requirement exists for shares in subsidiaries, goodwill and other intangible assets. We evaluated the company's process for preparing forecast cash flows and the mathematical accuracy of the models used. We have also assessed material assumptions in impairment testing, mainly future income, growth and cost of capital by assessing the reasonableness of the Company's forecasts. We have focused in particular on the sensitivity of the calculations. Finally, we assessed whether the disclosures provided in the notes of the Annual Report were consistent with IFRS. We found that the company's methods and assumptions had been applied consistently.</p>
<p>Recognition of capitalized expenditure on game and technology development and investments in publishing projects</p> <p>As stated in the Directors' Report and in Note 20, Starbreeze invests significant amounts in game and technology development. Note 21 states that SEK 94 M was capitalized in 2020, and capitalized expenditure for game and technology development and investments in publishing projects totaled SEK 1,192 M and the carrying amount was SEK 175 M. Most of this amount comprises investments in the game Payday 3. This is a key audit matter due to the size of the amount and that capitalized expenditure for game and technology development includes assessments made by management regarding whether the expenditure satisfies the capitalization criteria, for example, if it is possible to reliably measure the expenses attributable to the asset and it can be demonstrated that the asset will generate future economic benefits.</p> <p>As stated in the Annual report, the launch of Payday 3 is scheduled for 2023. Recognition of capitalized expenditure for game and technology development and investments in publishing projects presume a successful launch. If the game were not to meet expectations, it could result in the impairment of capitalized expenditure for game and technology development and investments in publishing projects.</p>	<p>We studied management's specification of ongoing development projects that were capitalized as intangible assets during the financial year. We made random checks in the projects and tested the accuracy of capitalizing the expenditure based on the criteria of IAS 38, for example, by assessing the procedures for ensuring that the expenses are recognized for the correct project and, on a test basis, examining the underlying expenses against supporting documentation. We also examined the calculation of future economic benefits.</p>

Information other than the annual accounts and consolidated financial statements

This document also contains information other than the annual report and consolidated financial statements and can be found on pages 1-27. The Board of Directors and the CEO are responsible for this other information. The information in the "2020 remuneration report" and the "2020 sustainability report," which are published on the website at the same time as this report, also comprise other information. Such other information comprises a document that does not include the annual accounts. The other information comprises a remuneration report and a sustainability report that we obtained before the date of this auditor's report. The Board of Directors and the CEO are responsible for this other information. Our statement regarding the annual accounts and consolidated financial statements does not include this information and we make no statement attesting for this other information.

In connection with our audit of the annual accounts and consolidated financial statements, it is our responsibility to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated financial statements. In this review, we also take into account the knowledge we have otherwise acquired during the audit and assess whether the information otherwise appears to contain material misstatement. If, based on the work done on this information, we conclude that the other information contains a material error, we are required to report this. We have nothing to report in that regard.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation of the annual accounts and consolidated financial statements and providing a true and fair view in

accordance with the Annual Accounts Act and, in the case of consolidated financial statements, in accordance with IFRS, as adopted by the EU, and the Annual Accounts Act. The Board of Directors and the CEO are also responsible for the internal control that they deem necessary for the preparation of an annual report and consolidated financial statements that do not contain any material misstatement, whether due to irregularities or mistakes. In preparing the annual report and consolidated financial statements, the Board of Directors and the CEO are responsible for assessing the Company's and the Group's ability to continue operations. They disclose, where applicable, conditions that may affect the ability to continue operations and to use the assumption of continued operation. However, the assumption of continued operation does not apply if the Board of Directors and the CEO intend to liquidate the Company, cease operations or have no realistic alternative to doing any of these.

Without prejudice to the Board's responsibilities and other tasks, the Audit Committee of the Board of Directors shall, among other things, monitor the Company's financial reporting.

Auditor's responsibilities

Our objective is to obtain a reasonable degree of assurance as to whether the annual accounts and consolidated financial statements as a whole contain no material misstatement, whether due to irregularities or mistakes, and to provide an audit report containing our statements. Reasonable assurance is a high degree of certainty, but is no guarantee that an audit carried out under ISA and good auditing practice in Sweden will always detect a material error if one exists. Errors may arise as a result of irregularities or errors and are considered material if they can reasonably be expected to influence the financial decisions taken by users on the basis of the annual accounts and consolidated financial statements individually or collectively.

A further description of our responsibility for the audit of the annual accounts and consolidated financial statements can be found on the Swedish Auditor's Inspectorate's website:

www.revisorsinspektionen.se/revisornsansvar. This description is part of the audit report.

Report on other statutory and regulatory requirements

Opinions

In addition to our audit of the annual report and consolidated financial statements, we have also carried out an audit of the Board of Directors' and CEO's management for Starbreeze AB (publ) for 2020 and of the proposed dispositions regarding the Company's profit or loss.

We recommend that the Annual General Meeting dispose of the profits as proposed in the Directors' Report and discharge the Members of the Board of Directors and the CEO from liability for the financial year.

Basis for opinion

We have carried out the audit in accordance with good auditing practice in Sweden. Our responsibilities according to this are described in more detail in the Auditor's responsibility section. We are independent in relation to the Parent Company and the Group in accordance with good accounting practice in Sweden and have otherwise fulfilled our professional ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate as a basis for our statements.

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposed dispositions regarding the

Company's profit or loss. In the case of a dividend proposal, this includes, among other things, an assessment of whether the dividend is justifiable in view of the requirements that the Company's and the Group's operating activities, scope and risks impose on the size of the Parent Company's and the Group's equity, consolidation needs, liquidity and position in general.

The Board of Directors is responsible for the Company's organization and the management of the Company's affairs. This includes, among other things, continuously assessing the Company's and the Group's financial situation, and ensuring that the Company's organization is designed so that the accounting, the management of funds and the Company's financial affairs are otherwise controlled in a satisfactory manner. The CEO shall manage day-to-day administration in accordance with the guidelines and instructions of the Board of Directors and shall, inter alia, take the necessary measures to ensure that the Company's accounts are carried out in accordance with the law and that the management of funds is carried out in a satisfactory manner.

Auditor's responsibilities

Our objective regarding the audit of the administration, and thus our discharge statement, is to obtain audit evidence in order to be able to assess with a reasonable degree of certainty whether any Board member or the CEO in any material respect:

- has taken any action or has been guilty of any misconduct that may give rise to liability to the Company
- otherwise acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our goal regarding the audit of the proposal for dispositions of the Company's profit or loss, and thus our statement on this, is to assess with reasonable degree of certainty whether the proposal is compatible with the Companies Act.

Reasonable assurance is a high degree of certainty, but no guarantee that an audit carried out in accordance with good auditing practice in Sweden will always detect any measures or omissions that may give rise to liability to the Company, or that a proposal for dispositions of the Company's profits or losses is not compatible with the Swedish Companies Act.

A further description of our responsibility for auditing the administration can be found on the Swedish Auditor's Inspectorate's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the audit report.

Auditor's examination of the corporate governance report

The Board of Directors is responsible for the corporate governance report on pages 28-38 and for its preparation in accordance with the Annual Accounts Act.

Our review has been carried out in accordance with FAR's statement RevR 16 The auditor's review of the corporate governance report. This means that our review of the corporate governance report has a different focus and a significantly smaller scope compared to the focus and scope of an audit according to International Standards on Auditing and Good Auditing Practice in Sweden. We believe that this review provides us with sufficient grounds for our statements.

A corporate governance report has been prepared. Information in accordance with Chapter 6, Section 6, second paragraph, points 2 to 6 of the Annual Accounts Act and Chapter 7, paragraph 31, second paragraph of the same Act is consistent with the other parts of the annual accounts and consolidated financial statements and is in accordance with the Annual Accounts Act.

Öhrlings PricewaterhouseCoopers AB, SE-113 97 Stockholm, Sweden, was appointed Starbreeze AB (publ)'s auditor by the Annual General Meeting on May 13, 2020 and has been the Company's auditor since September 25, 2000.

Stockholm, April 14, 2021

Öhrlings PricewaterhouseCoopers AB
Nicklas Kullberg
Authorized Public Accountant

