



# Offer to subscribe for shares in a Rights Issue by Starbreeze AB (publ), March/April 2018

**Note that subscription rights may have financial worth.**

To ensure that the worth of the subscription rights is not lost, the holder must either:

- Exercise the subscription rights to subscribe for new shares by 10 April 2018; or
- Not later than 6 April 2018, sell the subscription rights not intended to be exercised to subscribe for shares.

Note that applications may also be made to subscribe for shares without subscription rights.

Note also that shareholders whose holdings are nominee registered must subscribe for shares through the nominee.

Distribution of this Prospectus and subscription for new shares are subject to restrictions in certain jurisdictions; see "Important information".



# IMPORTANT INFORMATION

Starbreeze AB (publ), company registration number 556551-8932, hereby extends an offer ("the Offer") to its shareholders and the public to subscribe for shares in the Company in accordance with the terms and conditions set forth in this prospectus ("the Prospectus"). In the Prospectus, "Starbreeze," the "Company," or the "Group" means Starbreeze AB (publ), registration no. 556551-8932, a subsidiary of Starbreeze AB, or the group of which Starbreeze AB is the parent company, as the context requires. "Carnegie" means Carnegie Investment Bank AB (publ). See "Definitions and glossary" for definitions of other terms in the Prospectus.

This Prospectus has been prepared by the board of directors of Starbreeze in accordance with the provisions of the Swedish Financial Instruments Trading Act (1991:980), Directive 2003/71/EC of the European Parliament and the Council (the "Prospectus Directive") and European Commission Regulation (EC) No 809/2004 of 29 April 2004 on implementing Directive 2003/71/EC of the European Parliament and the Council (incorporating Commission Delegated Regulation (EU) No 486/2012). The Prospectus was approved and registered by the Swedish Financial Supervisory Authority ("Finansinspektionen") on 22 March 2018, as provided under Chapter 2, section 25 of the Swedish Financial Instruments Trading Act (1991:980) and was published by the Company on the same date. Approval and registration do not imply any guarantee by Finansinspektionen that the factual information presented in the Prospectus is accurate or complete. The Prospectus has been translated to English. In the event of discrepancies between the Swedish version and the English version, the Swedish version shall take precedence. The Prospectus is available for inspection at the Company's headquarters, whose address is Regeringsgatan 38, 111 53 Stockholm, Sweden; on the Company's website (starbreeze.com) in the "Investors" section; on Carnegie's website (carnegie.se); on Nasdaq's website (nasdaqomxnordic.com); and on Finansinspektionen's website (fi.se). Any disputes concerning or relating to the contents of this Prospectus shall be resolved in accordance with Swedish law and exclusively by a Swedish court of law.

## Important information to investors

The Offer to subscribe for shares as set forth in the Prospectus is not intended, directly or indirectly, for such persons whose participation would require a further prospectus, registrations or measures other than those required under Swedish law. The Prospectus is not intended or permitted to be announced, published or distributed, directly or indirectly, in the United States of America, Australia, Hong Kong, Japan, Canada, New Zealand, Singapore or South Africa, or any other jurisdiction where such announcement, publication or distribution would be unlawful or require measures other than those required under Swedish law.

No subscription rights, paid subscribed shares or shares issued by Starbreeze ("Secu-

rities") have been registered and will not be registered under the United States Securities Act of 1933, as amended, nor under any corresponding state law in effect in the United States. This Prospectus does not constitute and will not constitute a part of an offer to buy or subscribe for securities in the United States of America.

In a member state within the European Economic Area ("EEA") that has implemented the Prospective Directive, this Prospectus is directed only at investors in such an EEA member state that meets the criteria for exemption from the obligation to prepare a prospectus, including qualified investors, in the manner referred to in the Prospectus Directive, as implemented in every such member state.

This Prospectus, and other materials pertaining to Securities, is distributed and directed exclusively to (i) persons who reside outside the United Kingdom of Great Britain and Northern Ireland or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, (the "Order") or (iii) persons falling within Article 49(2)(A) to (D) of the Order, and (iii) companies with high net worth and other persons to whom it may otherwise lawfully be communicated (all such persons in (i), (ii) and (iii) above together being referred to as "Relevant Persons"). The Securities are exclusively available to, and every solicitation, offer or agreement on subscribing for, purchasing or otherwise acquiring the securities mentioned, is made exclusively to Relevant Persons. This Prospectus or any part of its content must not be acted on or relied on by persons who are not Relevant Persons.

Applications to subscribe for shares issued by Starbreeze in contravention of the foregoing may be deemed invalid. Consequently, the Securities must not, directly or indirectly, be made available, resold or distributed in or to countries where measures are required as set forth above or to shareholders residing in such jurisdictions as set forth above.

Distribution of this Prospectus does not mean that the information is current at any time other than the date of publication of the Prospectus, or that Starbreeze's operations, results of operations or financial position have not changed subsequent to that date. In the event of any material changes in the information in the Prospectus subsequent to the date of publication but prior to admission to trading of the shares, these changes will be publicized as required under the provisions of the Swedish Financial Instruments Trading Act (1991:890), which regulates the publication of supplements to the Prospectus.

## Presentation of financial information

All financial amounts are expressed in Swedish kronor ("SEK") unless otherwise stated. "SEKK" means thousand Swedish kronor and "SEKm" means million Swedish kronor. "USD" means US dollars. "USDm" means million US dollars. See "Definitions and glossary" for definitions of other terms in the Prospectus. Certain financial information and other information presented in

the Prospectus has been rounded off to make the information easily accessible to the reader. Consequently, the figures in some columns may not add up precisely to the stated total. Unless explicitly stated otherwise, no information in the Prospectus has been reviewed or audited by the Company's statutory auditor. Please also note that the historical financial information presented in the Prospectus contains certain adjustments and additional information not included in the previously published historical annual reports for the relevant financial years.

## Forward-looking statements and market data

The information in the Prospectus relating to future circumstances, such as statements and assumptions concerning the Company's future development and market conditions, is based on circumstances current at the time the Prospectus was published. Forward-looking information is always associated with uncertainty because it refers to and is dependent upon circumstances beyond the Company's control. When a statement is made in the Prospectus concerning a particular circumstance, the statement in question is based upon the Company's estimates, unless explicitly stated otherwise. Expressions such as the words "expected," "assumed," "should," "is considered" and similar expressions are used to indicate that the information should be regarded as estimates and forecasts. The estimates and forecasts are made on the basis of information that contains both known and unknown risks and uncertainties. No assurance that estimates and forecasts relating to the future will be realized is provided, whether express or implied. Nor does the Company undertake to publish updates or revisions of forward-looking statements consequent upon new information or comparable that emerges after the date the Prospectus was published. An investment in shares is associated with risk and risk-taking. Particular attention should be paid to the "Risk factors" section below. Persons considering investing in the Company are therefore urged to independently and carefully evaluate the Company's performance prior to investing on the basis of this Prospectus.

The Prospectus contains information about the Company's geographical markets and product markets, market size, market shares, market position and other market data attributable to the Company's operations and market. Where information has been obtained from a third party, the Company is liable for the accurate presentation of the information. As far as the Company is aware, no facts have been omitted which would render the information inaccurate or misleading in relation to the original sources. The Company has not, however, independently verified information provided by a third party and the completeness or accuracy of the information presented in the Prospectus therefore cannot be guaranteed. As far as the Company is aware, no third party in accordance with the above has a material interest in the Company.

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## Summary of the Offer

### Preferential rights

The Rights Issue refers to a maximum of 20,247,982 new shares (of which a preliminary maximum of 3,620,249 Class A shares and a preliminary maximum of 16,627,773 Class B shares). Shareholders will have preferential rights to subscribe for new shares in proportion to their shareholdings as of the record date, 22 March 2018. On the record date, one (1) Class A share or one Class B share will entitle the holder to one (1) subscription right of Class A or Class B, respectively. Fifteen (15) subscription rights entitle the holder to subscribe for one (1) new Class A share or one (1) new Class B share, respectively.

### Important dates

Record date for the right to participate in the Rights Issue: **22 March 2018**  
 Subscription period: **26 March–10 April 2018**  
 Trading in subscription rights: **26 March–6 April 2018**  
 Trading in BTA: **26 March 2018** until the date the Rights Issue has been registered with the Swedish Companies Registration Office and Euroclear  
 Publication of final outcome: On or near **13 April 2018**

### Subscription price

**SEK 7.50**

### LEI

**213800T68IVZFR868L42**

### Other information

Ticker for Class A shares on Nasdaq Stockholm:

**STAR A**

Ticker for Class B shares on Nasdaq Stockholm:

**STAR B**

#### ISIN codes Class A

Class A shares:	Class A subscription rights:	Class A BTA:
<b>SE0007158928</b>	<b>SE0011061902</b>	<b>SE0011061910</b>

#### ISIN codes Class B

Class B shares:	Class B subscription rights:	Class B BTA:
<b>SE0005992831</b>	<b>SE0011061936</b>	<b>SE0011061944</b>

### Financial calendar

Interim report for the period of January–March 2018:

**9 May 2018**

Annual report for the 2017 financial year:

**12 April 2018**

# SUMMARY

Prospectus summaries consist of disclosure requirements arranged in “elements.” The elements are numbered in sections A–E (A.1–E.7).

This summary contains all elements required in a summary of the relevant type of securities and issuer. Certain elements are not applicable to all types of prospectuses and there may therefore be gaps in the numbering of the elements.

Even if the inclusion of an element in the summary is required for the relevant securities and issuer, it is possible that no relevant information can be provided concerning the element. Where this is the case, the information has been replaced by a brief description of the element along with the notation “Not applicable.”

## Section A – Introduction and warnings

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<b>A.1</b>	<b>Introduction and warnings</b>	<p>This summary should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor.</p> <p>Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.</p>
<b>A.2</b>	<b>Use of the Prospectus by financial intermediaries</b>	<p><b>Not applicable.</b> Consent to the use of the Prospectus by financial intermediaries is not given.</p>

## Section B – Issuer and any guarantor

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<b>B.1</b>	<b>Legal and commercial name</b>	<p>The Company’s legal and commercial name is Starbreeze AB (publ), registration number 556551-8932.</p> <p>The Company’s shares are traded on Nasdaq Stockholm under the ticker STAR A for the Class A share and STAR B for the Class B share.</p>
<b>B.2</b>	<b>Domicile and legal form</b>	<p>The issuer is domiciled in Stockholm, Sweden and is a public limited liability company incorporated in Sweden pursuant to Swedish law and operates under Swedish law. The issuer’s legal form is regulated by the Swedish Companies Act (2005:551).</p>
<b>B.3</b>	<b>Description of the issuer’s current operations and principal activities</b>	<p>Starbreeze is a global game company whose vision is to be a leading provider in the entertainment industry by creating world-class experiences.</p> <p>Starbreeze was founded in 1998 and has since evolved into a well-established developer and publisher of PC and console games and VR products aimed at the global market. With offices in Stockholm, Paris, Los Angeles, Barcelona, Brussels, Luxembourg and India, Starbreeze develops high-quality entertainment products based on proprietary and third-party rights, both in-house and in partnership with external game developers. Operations are organized in three business areas: Starbreeze Games for own game development, Publishing, and VR Tech &amp; Operations for technology/software development in VR and operation of VR center.</p> <p>Starbreeze has executed a comprehensive development project in recent years aimed at refining the business model. The Company has, for example, reinforced the organization and senior management by recruiting key skills and a number of strategic acquisitions. Having previously operated only as a game developer and worked with external game publishers, the Company has now started its own publishing business, publishing both in-house and externally developed games. The business has also been expanded through ventures in the VR segment including development of a VR headset and location-based VR.</p> <p>Starbreeze is well-positioned for continued development towards becoming a leading provider in the global entertainment industry by creating world-class experiences.</p>

## Section B – Issuer and any guarantor

### **B.4a** Significant recent trends in the industry

Starbreeze observes the following general trends in the industry in which the Company operates:

- Gamers are generally making higher demands for a context in which they can discuss, make a difference and watch while other gamers are playing. The game, the product, has become part of an overall community and entertainment phenomenon.
- Many popular games now offer an additional dimension of the experience by making it possible for gamers to collect weapons or clothing, for example, for their characters.
- Continuous effort is ongoing to further enhance gameplay for the consumer. Virtual Reality (VR) technology is expanding opportunities to create experiences in the games industry.
- The industry is undergoing consolidation, in which the largest companies are taking an increasing share of revenues in the global games market.

### **B.5** Group

Starbreeze AB (publ) is the parent company of the Group. In addition, the Group consists of (i) Starbreeze Production AB (company in Sweden), (ii) Starbreeze Publishing AB (company in Sweden), (iii) Starbreeze Studios AB (company in Sweden), (iv) Starbreeze Ventures AB (company in Sweden), (v) Starbreeze VR AB (company in Sweden), (vi) Enterspace (company in Sweden), (vii) Nozon S.p.r.l. (company in Belgium), (viii) Parallaxter S.p.r.l. (company in Belgium), (ix) Payday Production LLC (company in the United States), (x) Starbreeze Barcelona S.L. (company in Spain), (xi) Starbreeze LA Inc. (company in the United States), (xii) Starbreeze IP Lux (company in Luxembourg), (xiii) Starbreeze IP Lux II S.à.r.l. (company in Luxembourg), (xiv) Starbreeze USA Inc. (company in the United States), (xv) Starbreeze Paris SAS (company in France), (xvi) Dhruva Infotech Ltd (company in India) (90.5 percent interest and (xvii) StarVR Corporation (company in Taiwan, joint venture with Acer, 33.3 percent interest).

### **B.6** Major shareholders, control over the Company and notifiable interests

The lowest threshold for notifiable interests (“flagging”) in Sweden is five percent of all shares or five percent of voting power for all shares. The table below shows shareholders with notifiable interests in Starbreeze as of 30 December 2017, supplemented by changes known to the Company that occurred up to the date the Prospectus was issued.

Owner	Number of Class A shares	Number of Class B shares	Share of voting power, %	Share of equity, %
Bo Andersson Klint <sup>1)</sup>	18,718,667	5,377,886	24.30	7.93
Försäkringsaktiefbolaget, Avanza Pension	2,754,668	22,080,835	6.26	8.18
Swedbank Robur fonder <sup>2)</sup>	500,000	44,488,011	6.24	14.81
Hsbc-Fund Serv Clients A/C 006-Kr <sup>3)</sup>	3,376,016	6,244,015	5.05	3.17
Första AP-fonden	0	33,159,934	4.18	10.92

<sup>1)</sup> Shareholdings in Starbreeze, directly and indirectly through Varvtre AB.

<sup>2)</sup> Swedbank Robur Ny Teknik BTI, Swedbank Robur Smålandsfond Sverige and Swedbank Robur Smålandsfond Norden.

<sup>3)</sup> Smilegate Holdings Inc.

As far as the board of directors of the Company is aware, there are no shareholder agreements or other agreements between the Company's shareholders intended to exercise concerted influence upon the Company. Nor is the board of directors of the Company aware of any agreement or the equivalent that might lead to a change in control over the Company.

## Section B – Issuer and any guarantor

### B.7 Selected historical key financial information

The following summarized financial information regarding the financial years of 2014/2015, 1 July–31 December 2015 and 2016 was taken from Starbreeze's audited consolidated financial statements, which were prepared in accordance with IFRS and have been audited by the Company's statutory auditors. The information pertaining to 1 January–31 December 2017 was taken from Starbreeze's interim reports. The interim reports for Q2 and Q4 2017 have been reviewed by the Company's statutory auditors.

The Company's condensed financial statements presented below should be read together with Starbreeze's audited consolidated financial statements and explanatory notes for the years of 2014/2015, 1 July–31 December 2015, and 2016, and Starbreeze's interim reports for 1 January–31 December 2017.

The annual general meeting held in November 2015 resolved to change the financial year from a split financial year to the calendar year, effective 1 January 2016. Accordingly, the financial information in this section presents figures from the following financial years: July 2014–June 2015 (split financial year), July 2015–December 2015 (short financial year) and January 2016–December 2016 (financial year coinciding with the calendar year). Readers of the Prospectus should take particular note of this change of financial year, which impedes comparisons between financial years.

#### Condensed consolidated statement of comprehensive income

SEKk	Unaudited	Audited		
	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
<b>Operating revenue</b>				
Net sales	361,447	345,463	98,830	197,332
Capitalized development costs	231,934	154,450	50,248	28,135
Other operating revenue	–	23,132	481	6,846
<b>Total</b>	<b>593,381</b>	<b>523,045</b>	<b>149,559</b>	<b>232,313</b>
<b>Operating expenses</b>				
Other external expenses	–415,780	–292,106	–65,391	–116,407
Employee benefits expense	–229,938	–148,517	–59,712	–56,227
Amortization of intangible assets	–82,294	–20,600	–670	–11,807
Depreciation of property, plant and equipment	–15,642	–4,166	–1,905	–927
Other operating expenses	–1,186	–1,202	–847	–483
<b>Operating profit (-loss)</b>	<b>–151,459</b>	<b>56,454</b>	<b>21,034</b>	<b>46,462</b>
Financial income	10,105	17,511	286	391
Financial expenses	–30,631	–18,196	–128	–275
Share of profit or loss from holdings recognized using the equity method of accounting	–4,200	131	–	–
<b>Profit (-loss) before tax</b>	<b>–176,185</b>	<b>55,900</b>	<b>21,192</b>	<b>46,578</b>
Income tax	20,855	1,191	613	–12,428
<b>Net profit (-loss) for the period</b>	<b>–155,330</b>	<b>57,091</b>	<b>21,805</b>	<b>34,150</b>
<b>Other comprehensive income that may subsequently be reclassified to profit and loss</b>				
Exchange differences	1,402	–4,375	921	7,125
<b>Total comprehensive income</b>	<b>–153,928</b>	<b>52,716</b>	<b>22,726</b>	<b>41,275</b>
<i>Total comprehensive income for the period attributable to:</i>				
Owners of the parent	–154,022	52,716	22,726	41,275
Non-controlling interests	94	–	–	–
Average number of shares, basic	280,309,967	255,276,469	230,001,583	217,025,086
Average number of shares, diluted	280,309,967	257,234,798	234,090,261	226,340,695
Basic earnings per share, SEK	–0.55	0.22	0.09	0.16
Diluted earnings per share, SEK	–0.55	0.22	0.09	0.15

## Section B – Issuer and any guarantor

B.7 Selected historical key financial information, cont.	Condensed consolidated balance sheet	Unaudited		Audited		
		SEKk	31 Dec 2017	31 Dec 2016	31 Dec 2015	30 Jun 2015
	<b>Assets</b>					
	<b>Non-current assets</b>					
	<i>Intangible assets</i>					
	Goodwill	544,971	404,530	74,314	38,806	
	Other non-current assets	597,467	594,728	200,202	114,772	
	Capitalized expenditure for game and technology development	642,767	303,763	114,913	30,787	
	<i>Financial assets</i>					
	Financial assets	38,156	31,971	15,623	13,480	
	Investments in joint venture	41,890	8,638	-	-	
	Deferred tax assets	108,153	30,712	5,252	-	
	<i>Property, plant and equipment</i>					
	Computers and other equipment	98,901	23,458	16,773	9,688	
	<b>Total non-current assets</b>	<b>2,072,305</b>	<b>1,397,800</b>	<b>427,077</b>	<b>207,533</b>	
	<b>Current assets</b>					
	Inventories	22	2	2	426	
	Trades and other receivables	27,821	25,576	33,000	18,578	
	Prepaid expenses and accrued income	125,259	56,183	22,697	34,234	
	Cash and cash equivalents	233,757	669,380	85,354	110,606	
	<b>Total current assets</b>	<b>386,859</b>	<b>751,141</b>	<b>141,053</b>	<b>163,844</b>	
	<b>Total assets</b>	<b>2,459,164</b>	<b>2,148,941</b>	<b>568,130</b>	<b>371,377</b>	
	<b>Equity and liabilities</b>					
	Share capital	5,661	5,538	4,607	4,350	
	Reserves	5,073	3,671	8,046	7,125	
	Other capital contributions	1,243,573	1,175,563	257,352	135,561	
	Retained earnings including net profit for the year	27,748	185,451	128,360	106,555	
	Non-controlling interests	344	-	-	-	
	<b>Total equity</b>	<b>1,282,399</b>	<b>1,370,223</b>	<b>398,365</b>	<b>253,591</b>	
	<b>Liabilities</b>					
	Non-current liabilities, earnouts <sup>1)</sup>	347,862	307,099	8,227	8,281	
	Deferred tax liability	169,346	119,135	42,356	-	
	Other non-current liabilities	466,557	265,535	-	39,603	
	<b>Total non-current liabilities</b>	<b>983,765</b>	<b>691,768</b>	<b>50,583</b>	<b>47,884</b>	
	<b>Current liabilities</b>					
	Trade and other payables	122,396	41,990	53,923	36,473	
	Accrued expenses and deferred income	70,604	44,960	65,259	33,429	
	<b>Total current liabilities</b>	<b>193,000</b>	<b>86,950</b>	<b>119,182</b>	<b>69,902</b>	
	<b>Total equity and liabilities</b>	<b>2,459,164</b>	<b>2,148,941</b>	<b>568,130</b>	<b>371,377</b>	

<sup>1)</sup> Agreed conditional earnouts to the sellers of acquired companies may potentially be higher than the amounts reported on the balance sheet.

## Section B – Issuer and any guarantor

### B.7 Selected historical key financial information, cont.

#### Condensed consolidated statement of cash flows

SEKk	Unaudited	Audited		
	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
<b>Operating activities</b>				
Cash flow from operations	-11,167	8,868	50,349	59,935
Interest paid	-5,325	-2,682	-129	-3
Interest received	9	5,410	60	426
Income taxes paid	-4,603	3,695	-3,590	-23,607
<b>Cash flow from (-used in) operating activities</b>	<b>-21,086</b>	<b>15,291</b>	<b>46,690</b>	<b>36,751</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	-87,338	-9,449	-8,946	-8,885
Investments in subsidiaries	-59,076	-60,412	-4,305	-18,445
Purchase of intangible assets	-	-15,354	-525	-
Investment in other financial assets	-61,590	-9,668	-1,956	-12,420
Investments in capitalized expenditure for game and technology development	-412,103	-194,871	-67,317	-28,134
<b>Cash flow from (-used in) investing activities</b>	<b>-620,107</b>	<b>-289,754</b>	<b>-83,049</b>	<b>-67,884</b>
<b>Financing activities</b>				
New issues	-	554,906	10,579	460
Payments for stock options	43,073	14,128	-	-
Increase in non-current liabilities	169,209	284,945	-	-
Repayment of loans	-3,369	-516	-	-
<b>Cash flow from financing activities</b>	<b>208,913</b>	<b>853,463</b>	<b>10,579</b>	<b>460</b>
<b>Cash flow for (-used in) the period</b>	<b>-432,280</b>	<b>579,000</b>	<b>-25,780</b>	<b>-30,673</b>
Cash and cash equivalents at the beginning of the period	669,380	85,354	110,606	136,566
Exchange differences in cash and cash equivalents	-3,343	5,026	528	4,713
<b>Cash and cash equivalents at the end of the period</b>	<b>233,757</b>	<b>669,380</b>	<b>85,354</b>	<b>110,606</b>

#### Key data for the Group

##### Key performance measures according to IFRS

The following calculations of key performance measures according to IFRS have been audited by the Company's statutory auditor for the financial years of 2014/2015, 1 July–31 December 2015 and 2016, and reviewed by the Company's statutory auditor for the interim periods of Q2 and Q4 2017.

	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
<b>Revenue</b>				
Net sales, SEKk	361,447	345,463	98,830	197,332
<b>Share data</b>				
Basic earnings per share, SEK	-0.55	0.22	0.09	0.16
Diluted earnings per share, SEK	-0.55	0.22	0.09	0.15
Average number of shares, basic	280,309,967	255,276,469	230,001,583	217,025,086
Average number of shares, basic	280,309,967	257,234,798	234,090,261	226,340,695

## Section B – Issuer and any guarantor

### B.7 Selected historical key financial information, cont.

#### Alternative Performance Measures not measured according to IFRS

Unless otherwise specified, the following table showing financial key data contains certain financial and operational key figures that are not generally accepted measures of financial performance or position under IFRS. The information below concerning the financial years of 2014/2015, 1 July–31 December 2015 and 2016, and the interim periods of 1 January–31 December 2017 is of substantive value to investors because it enables better evaluation of the Company's financial position and operating results. Unless otherwise specified, the key figures have not been audited, but were calculated based on figures audited by the Company's statutory auditor for the financial years of 2014/2015, 1 July–31 December 2015 and 2016, and reviewed by the Company's statutory auditor for the interim periods of Q2 and Q4 2017.

	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
<b>Margins</b>				
EBITDA margin, %	-9.0	15.5	23.9	30.0
EBIT margin, %	-25.5	10.8	21.3	23.5
Profit margin, %	-29.7	10.7	21.4	23.6
<b>Capital structure</b>				
Equity to assets ratio, %	52.1	63.8	70.1	68.3
<b>Share data</b>				
Number of shares at the end of the period, basic	283,037,940	276,879,720	230,361,091	217,477,987
Number of shares at the end of the period, diluted	306,443,723	304,352,451	234,449,769	226,793,596
<b>Employees</b>				
Average number of employees	272	151	105	66
Number of employees at the end of the period	650	212	109	76

#### Definitions of Alternative Performance Measures not measured according to IFRS

	Definition	Reason
<b>EBITDA margin</b>	EBITDA as a percentage of net sales.	The measure is relevant to create an understanding of operational profitability, and because the measure excludes depreciation and amortization, the margin gives stakeholders a clearer view of the Company's core profitability.
<b>EBIT margin</b>	EBIT as a percentage of net sales.	The measure is relevant to measuring operational profitability after depreciation and amortization.
<b>Profit margin</b>	Operating profit after financial income and financial expenses as a percentage of net sales.	The measure provides a clear view of profitability regardless of the corporate tax rate.
<b>Equity to assets ratio</b>	Equity as a percentage of total assets.	The measure is an indicator of the Company's gearing for financing of the Company.

## Section B – Issuer and any guarantor

B.7	Selected historical key financial information, cont.	Reconciliation of Alternative Performance Measures				
		SEKk	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
	<b>EBITDA margin</b>					
	EBIT		-151,459	56,454	21,034	46,462
	<i>Reversed:</i> Amortization of intangible assets		-82,294	-20,600	-670	-11,807
	<i>Reversed:</i> Depreciation of property, plant and equipment		-15,642	-4,166	-1,905	-927
	EBITDA		-53,523	81,220	23,609	59,196
	<i>Divided by:</i> The sum of net sales and capitalized development costs		593,381	523,045	149,559	232,313
	<b>EBITDA margin, %</b>		<b>-9.0</b>	<b>15.5</b>	<b>15.8</b>	<b>25.5</b>
	<b>EBIT margin</b>					
	EBIT		-151,459	56,454	21,034	46,462
	<i>Divided by:</i> The sum of net sales and capitalized development costs		593,381	523,045	149,559	232,313
	<b>EBIT margin, %</b>		<b>-25.5</b>	<b>10.8</b>	<b>14.1</b>	<b>20.0</b>
	<b>Profit margin</b>					
	Profit (-loss) before tax		-176,185	55,900	21,192	46,578
	<i>Divided by:</i> The sum of net sales and capitalized development costs		593,381	523,045	149,559	232,313
	<b>Profit margin, %</b>		<b>-29.7</b>	<b>10.7</b>	<b>14.2</b>	<b>20.1</b>
	<b>Equity to assets ratio</b>					
	Total equity, SEKk		1,282,399	1,370,223	398,365	253,591
	<i>Divided by:</i> The sum of equity and liabilities, SEKk		2,459,164	2,148,941	568,130	371,377
	<b>Equity to assets ratio, %</b>		<b>52.1</b>	<b>63.8</b>	<b>70.1</b>	<b>68.3</b>

### Significant events after 31 December 2017

- On 25 January 2018, Starbreeze executed, supported by the authorization of the 2017 AGM, a directed issue to Swedish and international institutional investors. The issue of 20,681,797 new Class B shares was priced at SEK 11.52 per share, corresponding to the closing price on 24 January 2018. The issue was oversubscribed and raised approximately SEK 238 million for the company before transaction costs. In addition, the board of directors today decided to offer existing shareholders the opportunity to participate in a rights issue of approximately SEK 150 million, subject to the approval of the subsequent general meeting. The purpose of the issues is to secure financing of the current business plan in the amount of about SEK 75 million until the release of OTWD. The company has also identified several business opportunities in addition to the current business plan, which it has assessed will create substantial value for shareholders.
- On 5 February 2018, Starbreeze AB signed a publishing agreement with Mohawk Games regarding the project currently under the working title 10 Crowns. Starbreeze will invest USD 7.7 million to bring the game to PC.
- On 21 March 2018 the Company announced that Starbreeze has decided to sell the publishing rights to the game Dead by Daylight to the developer, Behaviour Interactive Inc. Starbreeze will receive an initial payment of USD 4 million, followed by an additional USD 12 million paid in stages as royalties on 65 percent of game revenues. The deal will accelerate cash flows to Starbreeze from the game, which will strengthen Starbreeze's earnings and free up capital for new projects.

**B.8 Selected key pro forma financial information** *Not applicable.* The Prospectus contains no pro forma financial information.

**B.9 Profit forecast** *Not applicable.* The Prospectus contains no profit forecasts or estimates of expected operating results.

## Section B – Issuer and any guarantor

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**B.10** **Qualifications in the audit report** *Not applicable.* There are no qualifications in the audit report.

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**B.11** **Working capital** In Starbreeze's judgment, existing working capital is sufficient to cover requirements for ongoing operations during the twelve-month period following the date of the Prospectus. In this section, "working capital" means Starbreeze's capacity to meet its payment obligations as they become due for payment.

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## Section C – Securities

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**C.1** **Securities admitted to trading** Class A shares, ISIN code SE0007158928, and Class B shares, ISIN code SE0005992831.

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**C.2** **Currency of the securities** The shares are denominated in Swedish kronor (SEK).

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**C.3** **Number of shares** The Company's registered share capital amounts to SEK 6,074,394.77 divided among 54,170,260 Class A shares and 249,549,477 Class B shares. All shares are fully paid. Each share has a par value of SEK 0.02.

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**C.4** **Rights attached to the securities** Each Class A share in the Company entitles the holder to ten votes at the general meeting and each Class B share in the Company entitles the holder to one vote at the general meeting. Each shareholder is entitled to vote for all shares held by him or her in the Company. If the Company decides to issue new Class A and Class B shares not to be issued against non-cash consideration, owners of Class A and class B shares shall have preferential rights to subscribe for new shares of the same class, pro rata to the number of shares the shareholder previously owned (primary preferential rights). Shares that are not subscribed for under primary preferential rights shall be offered to all shareholders for subscription (primary preferential rights). If the Company decides to issue new shares of only Class A or only Class B shares not to be issued against non-cash consideration, all shareholders, regardless of whether their shares are Class A or Class B, shall have preferential rights to subscribe for new shares pro rata to the number of shares previously owned. All shares in the Company carry equal rights to dividends and to the Company's assets and any surplus in the event of liquidation. Decisions on the distribution of dividends are made by the general meeting and payment is executed by Euroclear. Rights to dividends accrue to shareholders found in the register of shareholders kept by Euroclear on the record date set by the annual general meeting. Owners of Class A shares have the right to request conversion of Class A shares to Class B shares. The conversion is executed once the shares have been registered and entered in the CSD register.

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**C.5** **Any restrictions on the free transferability of the securities** *Not applicable.* There are no formal restrictions on the free transferability of the shares.

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**C.6** **Admission to trading on a regulated market** Shares in Starbreeze have been admitted to trading on Nasdaq Stockholm since 2 October 2017.

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**C.7** **Dividend policy** Starbreeze operates in a rapidly growing market and in order to benefit from this growth, the Company intends to continue reinvesting profits in activities that promote organic growth, such as product development and marketing. The Company has not historically distributed dividends to shareholders. Future dividends will be the result of Starbreeze's future revenues, cash flow, working capital and general financial position. Moreover, future investments in acquisitions of other companies, for example, may affect the size of future dividends.

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

## Section D – Risks

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**D.1 Risks specific to the Company and the industry** An investment in Starbreeze shares is associated with several risks. A number of factors affect or may affect Starbreeze's business, both directly and indirectly. In addition to this section, investors should also consider the "Risk factors" section and other information in this Prospectus.

### Industry and operations-related risks

- Starbreeze is dependent upon developing new games on a regular basis, improving existing games and being engaged as a publisher of externally developed games. The capacity to develop new games and improve existing games entails many challenges. If the Company fails to regularly develop new games and improve existing games, there is risk that this could have negative impact on the Company's operating results and financial condition.
- When new games or other products are released, there is risk that they will not be received enthusiastically by the market. This could lead to revenue losses, poorer margins and reduced cash flows. There is also risk that capitalized development costs will have to be impaired, which could have negative impact on the Company's financial position.
- Starbreeze is a knowledge-intensive company and is dependent upon its continued capacity to employ, train and retain a number of key individuals in order to achieve success, in all functions in the locations where Starbreeze operates. This involves matters including commercial experience, understanding of gamer preferences and expertise in game development and technology. The business is also dependent upon key individuals at the senior management level. Due to the high rate of change in the game industry, if one or more key individuals leaves the Company or if the Company cannot find and employ individuals when the need arises, this could have negative consequences on the Company's business and operating results.
- In connection with project implementation, Starbreeze is dependent upon being able to put together a project team capable of efficiently executing a specific project. As an employer, Starbreeze competes in a global market in which certain skills are in high demand. If Starbreeze is unable to put together an appropriate team for a particular project or if Starbreeze fails to retain an appropriate team during the course of the project, performance of the project could be delayed, become more costly or deliver poorer results than expected, which could have negative impact on the Company's profitability, operating results and financial condition.
- Starbreeze operates in a global and highly competitive market in which the Company is competing not only with other game companies, but also other experiences that can occupy consumers' time. There is a risk that the Company may be outcompeted by other companies in one or more areas. If this were to occur, there would be negative impact on the Company's profitability, operating results and financial condition.

### Financial risks

- Within the framework of the Company's operations, revenues will often be unevenly distributed over time. There is risk that the Company will need to be capitalized in the future. There is also risk that the Company, at any given time, might not be able to raise additional capital or might not be able to raise capital on terms favorable to existing shareholders. If sufficient capital cannot be raised, this could result in the temporary suspension of development projects and investments, or in Starbreeze being forced to run operations at a slower rate than desired, which could lead to delayed or lost commercialization and revenues. If Starbreeze fails to raise necessary capital in the future upon reasonable terms for the Company, there could be negative impact on the Company's business, financial position and operating results.
- A large share of Starbreeze's revenues are paid in USD. At the same time, the Company's costs are mainly in SEK, but also in USD and EUR. Starbreeze is therefore exposed to fluctuations in the currency market, where movements in exchange rates could have negative impact on the Company's profitability and operating results. External factors such as supply and demand, economic downturns and booms, inflation and interest rate hikes may affect operating costs and selling prices, among else. There is risk that these factors may have negative impact on Starbreeze's costs and future revenues.
- On 20 January 2016, Starbreeze made an agreement with Smilegate on matters including financing and game development. Within the framework of the agreement, the Company issued a convertible bond of SEK 215,052,000 to Smilegate. The convertible bond matures on 26 February 2021. If Starbreeze meets the obligations that the Company has towards Smilegate, Starbreeze may call for conversion of the debt to equity. Under certain circumstances, however, the Company may be obliged to repay the loan early. In this connection, this would involve cases where Starbreeze breaches the obligations under the loan agreement, or where the senior management personnel who have entered into lock-up agreements in connection with the investment by Smilegate breach their obligations under those agreements.

## Section D – Risks

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### **D.1** Risks specific to the Company and the industry, cont.

- In accordance with the amendment agreement made by and between Starbreeze Publishing AB and Nordea Bank AB (publ), where Starbreeze and Starbreeze Production AB are the guarantors, Starbreeze Publishing AB has as of the date of this Prospectus deposited SEK 75 million in a bank account pledged to the benefit of Nordea Bank AB (publ). There is moreover risk that circumstances may occur in the future that would require Starbreeze Publishing AB to deposit additional funds in the pledged account. That a certain portion of the Group's cash and cash equivalents are placed in a bank account pledged to the benefit of Nordea Bank AB (publ) limits the Group's opportunity to exercise unrestricted control over such cash and cash equivalents, which could have negative impact on the Company's operations, financial position and operating results.
- Starbreeze has accumulated tax loss carryforwards. Changes in ownership that entail a change of controlling influence over Starbreeze could entail limitations (in whole or in part) of opportunities to utilize such loss carryforwards in the future. The opportunity to utilize loss carryforwards in the future could also be affected by changes in legislation. Starbreeze conducts business through subsidiaries in the United States, Luxembourg, Belgium, India and France. The business, including transactions between Group companies, is operated in accordance with the Company's interpretation of applicable tax laws, Starbreeze's internal pricing policy, tax treaties and statutes in Sweden and the aforementioned countries, and the requirements of the relevant tax authorities. There is risk that the Company's interpretation of applicable laws, tax treaties and statutes or of the relevant authority's interpretation of these, or of administrative practice, is in error, or that such rules will be amended, possibly retroactively. Moreover, there is risk that the assessments made by tax authorities in the countries where Starbreeze operates may differ from those made by the Company. This could, through decisions by the relevant authorities, change Starbreeze's tax situation and have negative impact on the Company's financial position and operating results..

#### **Legal risks**

- Intellectual property rights comprise a significant portion of the Company's assets. The Company has a strategy for protecting the intellectual property rights it has developed or acquired. If the products that the Company develops in the future are not afforded adequate intellectual property protection, or if existing intellectual property protection cannot be upheld or proves inadequate to safeguard the Company's rights and interests, there could be negative impact on the Company's capacity to run its business and on its financial condition and operating results. Furthermore, there is risk that outsiders may infringe the Company's intellectual property rights, or the Company may infringe intellectual property rights owned by another party. If this occurs, the Company could become party to or initiate costly litigation with an uncertain outcome. This in turn could have negative impact on the Company's profitability, operating results and financial condition. If in such litigation, the Company was found to have infringed the intellectual property rights of another, the Company could be ordered to pay significant damages. This could also put the Company at risk of claims under contracts made with various partners. This in turn could have negative impact on the Company's profitability, operating results and financial condition.
- The Company is also dependent upon the capacity to protect such trade secrets that are not covered by patents, patent applications, copyright or other intellectual property rights, including information about concepts that has not yet been made public. There is risk that someone with access to secret business information will disclose or otherwise use this information in a way that harms the company, which could have negative impact on the Company's business and financial condition.

There may be risks related to the industry and the business that are unknown to the Company at this time.

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### **D.3** Key information on the key risks specific to the securities

- Potential investors should consider that an investment in shares is associated with risk and that the shares may both increase and decrease in value. There is therefore risk that an investor will lose all or part of the capital invested. Share price performance is dependent upon multiple factors, some of which are company-specific and others that are connected to the stock market as a whole. Price variations can also arise from changes in buy and sell volumes and may not necessarily have any connection to the Company's underlying value. All decisions to invest in shares should be preceded by careful analysis. The stock market in general and the Company's shares in particular may be affected by psychological factors. The Company's shares may be affected in the same way as all other shares regularly traded on Nasdaq Stockholm. Psychological factors and their effects on share prices are often difficult to predict and could have negative impact on the Company's share price.
- The liquidity of the share also affects the possibility of trading in the share at the preferred point in time. There is risk that an active market for trading in Starbreeze's shares will not arise, or if one does, that it might not endure.
- The share price could be adversely affected if current shareholders choose to sell shares in the Company. Sales by current shareholders could also have negative impact on opportunities to issue new shares or utilize other financial instruments.
- At present, the Company expects to invest any profits in continued development and growth of the business and the Company therefore does not expect to recommend or distribute dividends in the near future.

## Section D – Risks

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### **D.3** Key information on the key risks specific to the securities, cont.

- The Offer as set forth in this Prospectus will entail dilutive effects for existing shareholders who do not participate in the Rights Issue. The Company may decide in the future to issue additional new shares or other securities to raise capital. This Offer and all such further offers could reduce proportional ownership and share of voting power of shareholders in the Company, as well as earnings per share in the Company, and new issues could have negative impact on the market price of the shares. In addition, there are stock options and two convertible bonds outstanding at present. If the holders of the convertible bonds and/or stock options call for conversion or subscription, proportional ownership, share of voting power and earnings per share will be reduced for existing shareholders.
- By virtue of their shareholdings, the Company's major shareholders have the capacity to exert significant influence in matters addressed at general meetings. This influence could be disadvantageous to shareholders whose interests differ from those of the major shareholders.
- Shareholders who reside in or have a registered address in certain jurisdictions other than Sweden, including shareholders in the United States, could be prevented from exercising their preferential rights attached to the shares they own in the Company in connection with the Rights Issue and future new issues, unless a registration measure or equivalent measures under relevant law in the respective jurisdiction have been taken with regard to such shares, or an exemption from registration requirements or comparable is applicable under relevant law in the respective jurisdiction. The Company may choose to execute new share issues without taking such measures, which would mean that proportional ownership and the share of voting power of shareholders residing in certain jurisdictions other than Sweden could be reduced as a result of future new issues.
- If the Offer as set forth in this Prospectus is not fully subscribed, the Company will obtain less capital to finance the Company's business plan; in such case, it might be necessary to restrict the Company's operations, which could have negative impact on the Company's financial position and results of operations.
- Subscription rights and BTA (paid subscribed shares) are both expected to be traded on Nasdaq Stockholm for a limited period of time. Trading may also be restricted and individual holders may consequently be unable to sell their subscription rights and/or BTA. There is risk that active trading in subscription rights and BTA will not develop on Nasdaq Stockholm and that restricted trading may exacerbate the fluctuation in the market price of subscription rights and/or BTA and that the price indication for these instruments may consequently become inaccurate or misleading.
- If a shareholder does not exercise their rights to subscribe for shares through payment by 10 April 2018, or does not sell their subscription rights by 6 April 2018, such shareholder's subscription rights will expire worthless and the holder will have no right to any compensation. Consequently, shareholders and nominees must ensure compliance with all necessary instructions pertaining to the exercise of subscription rights. If a shareholder or the shareholder's nominee does not follow the instructed procedure for exercising the subscription rights, the rights will expire, become worthless and cease to exist. Moreover, if a shareholder does not exercise or only partially exercises their rights to subscribe for shares, that shareholder's share in the Company's share capital and share of voting rights will be reduced and diluted. There is risk that the compensation a shareholder who does not participate in the Rights Issue may obtain by selling subscription rights allotted to that shareholder will not be equal to the financial dilution of the shareholder's ownership in Starbreeze.

## Section E – Offer

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### **E.1** Issue proceeds and issue expenses

Starbreeze executed a directed issue of approximately SEK 238 million on 24 January 2018. The completed directed issue of new shares and the Rights Issue are therefore expected to raise capital of approximately SEK 388 million for Starbreeze before issue costs. The Company's issue costs are expected to be approximately SEK 35 million. Provided that the Rights Issue is fully subscribed, the net proceeds of the directed issue and the Rights Issue will amount to approximately SEK 353 million. The issue costs are attributable to preparation of the Prospectus, fees to public authorities, issue administration and marketing expenses.

### **E.2a** Reasons for the offer

In conjunction with the listing on Nasdaq Stockholm in October 2017, the board of directors of Starbreeze adopted new financial targets, which are linked to the Company's business plan. Starbreeze is in an expansion phase that entails major initiatives in all three business areas, Starbreeze Games, Publishing and VR Tech & Operations, which in the short term have impact on the Company's profitability and cash flow. The initiatives in progress are expected to create substantial value for the Company's shareholders. The Company's target is to achieve revenues of at least SEK 2 billion in 2020 and to generate positive EBITDA for the fourth quarter of 2018 and for every subsequent financial year on an annualized basis.

In connection with the announcement of a directed share issue of SEK 238 million on 24 January 2018, Starbreeze also announced its intention to carry out a rights issue of approximately SEK 152 million. The proceeds of the rights issue, together with the issue proceeds from the directed share issue, will be used to broaden the revenue base and accelerate growth.

## Section E – Offer

### **E.2a** Reasons for the offer, cont.

Starbreeze expects to raise approximately SEK 390 million before issue expenses from the completed directed issue and the Rights Issue. The Company's issue expenses are expected to amount to approximately SEK 30 million. Assuming completion of the proposed Rights Issue, the net proceeds of the directed issue and the rights issue of approximately SEK 360 million will be used as follows:

- SEK 75 million to secure the financing of the existing business plan up to the release of OVERKILL's
- The Walking Dead (OTWD), planned for the autumn of 2018,
- SEK 50 million for intensified marketing of OVERKILL's The Walking Dead (OTWD),
- SEK 50 million in new publishing titles which are not included in the aforementioned business plan,
- SEK 35 million to expand the existing game portfolio to new platforms and geographies,
- SEK 30 million to extend the development plan for PAYDAY 2 to 2019,
- SEK 50 million to accelerate the production plan for PAYDAY 3.

The remaining net proceeds, of approximately SEK 70 million, will be used to strengthen Starbreeze's financial position. In Starbreeze's judgment, the additional investments will generate substantial added value for shareholders in the future.

### **E.3** Terms and conditions of the offer

The board of directors of Starbreeze decided on 15 February 2018 to increase the Company's share capital through a new issue of Class A and Class B shares with preferential rights for shareholders in Starbreeze, subject to the subsequent approval of the general meeting. The detailed terms and conditions of the Rights Issue were adopted on 15 March 2018. The extraordinary general meeting held 20 March 2018 approved the decision of the board of directors. Share capital in the Company will increase through the Rights Issue not more than SEK 404,959.64 from the present SEK 6,074,394.77 to not more than SEK 6,479,354.41 through the issue of not more than 20,247,982 new shares. The distribution between the number of Class A shares and Class B shares will be based on the distribution between the share classes at record date. A preliminary estimate is that not more than 3,620,249 Class A shares and not more than 16,627,733 Class B shares will be issued. The subscription price is SEK 7.50 per share.

The record date at Euroclear for determining which parties are entitled to receive subscription rights under the Rights Issue is 22 March 2018. At record date, one (1) share of Class A or Class B in Starbreeze will entitle the holder to (1) subscription right of Class A or Class B, respectively. Fifteen (15) subscription rights of Class A or Class B carry the right to subscribe for (1) new share of Class A or Class B, respectively.

Subscription rights will be traded during the period of 26 March 2017 to 6 April 2018, dates inclusive. The subscription period for the Rights Issue will run from 26 March 2018 to 10 April 2018, dates inclusive..

The board of directors is empowered to extend or curtail the subscription period for the Rights Issue.

Firstly, shares will be allotted to subscribers for new shares with subscription rights (primary preferential right). Secondly, to the shareholders who was a shareholder on the record date (subsidiary preferential right), and in the case of oversubscription, pro rata to the total number of shares held by them and, and to the extent that this is not possible, by drawing of lots. Upon sale of the subscription right (of the primary preferential right), the subsidiary preferential right is also passed on to the new holder. Thirdly, subscribers for new shares without subscription rights, and in the case of oversubscription, pro rata to the new number of shares subscribed for in the application, and to the extent that this is not possible, by drawing of lots.

### **E.4** Material interests and conflicting interests

Director and chief executive officer Bo Andersson Klint controls approximately 24.59 percent of voting power and approximately 9.52 percent of share capital in the Company through Varvtre AB. Director Harold Kim is an employee and representative of Smilegate Holdings Inc., which controls approximately 5.11 percent of voting power and 3.40 percent of share capital in the Company. Senior manager Emmanuel Marquez controls approximately 2.07 percent of voting power and approximately 1.3 percent of share capital in the Company through CBLDN-BFCM FullTX Third Party Asset. Chairman of the board Michael Hjorth controls approximately 1.76 percent of voting power and approximately 0.65 percent of share capital in the Company through Indian Nation AB. All four are considered major shareholders in the Company.

Director Harold Kim is an employee and representative of Smilegate Holdings Inc., which has lent SEK 215 million to the Company through a convertible bond.

Several directors and senior management personnel own shares and/or warrants in the Company. In connection with the employment of Sebastian Ahlskog as Chief Financial Officer, Michael Hjorth issued an employee stock option to Sebastian Ahlskog to buy shares in the Company. The option was exercised in 2016.

The Company has entered into an agreement on financial advisory services with Carnegie Investment Bank AB by reason of this Rights Issue. The level of Carnegie's remuneration under the agreement is dependent upon the types of the outcome of the Rights Issue.

The Company has retained the law firm of Hannes Snellman Advokatbyrå AB, in which former director Christoffer Saidac is a partner, as its legal adviser in several matters during the relevant period. Hannes Snellman Advokatbyrå AB has billed its fees, amounting to SEK 4,434,000, on an ongoing basis.

On 16 July 2015, Starbreeze IP Lux entered into a share transfer agreement with Valhalla S.a.r.l to acquire the Valhalla game engine. Valhalla S.a.r.l is a company controlled by Emmanuel Marquez, who was employed by the Company as Chief Technology Officer at the time of the transfer.

In October 2015, Varvtre AB transferred a 40.4 percent stake in Payday Productions LLC to Starbreeze LA. Varvtre AB is a company controlled by Bo Andersson Klint, who was employed as the Chief Executive Officer of the Company at the time of the transfer.

## Section E – Offer

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- E.4 Material interests and conflicting interests, cont.** In connection with the renegotiation and restructuring of the terms of the convertible bonds issued to Smilegate Holdings Inc., the Company purchased services to a value of SEK 200,000 from Eva Redhe, who was a director of the Company at the time of the transaction. The Company has also entered into an agreement with Eva Redhe's wholly owned company, Redhe Financial Communications AB, under which Redhe will provide consultant services related to e.g., systems, processes and policies for internal control and corporate governance. The consultant fee to Eva Redhe is on market terms. The agreement runs indefinitely unless cancelled by either party upon one month's notice. The agreement is considered to contain customary terms and conditions, including conditions pertaining to the Company's rights to any work product/intellectual property rights, and a non-compete clause effective until the agreement expires.
- Bo Andersson Klint and Emmanuel Marquez invested in an American company incorporated in Delaware, a start-up company in wireless technology, in connection with Starbreeze Ventures' investment in the same company. It cannot be precluded that this could be regarded as a related party transaction, as Bo Andersson Klint and Emmanuel Marquez may have benefited from the advisory services received and paid for by Starbreeze Ventures in connection with the investment. On 19 July 2017, Bo Andersson Klint and Emmanuel Marquez transferred their respective convertible instruments to investment companies controlled by them. Otherwise, the terms and conditions of the convertible instruments are unchanged, with no effect on the convertible instruments.
- E.5 Person or entity offering to sell the securities and lock-up agreements** The Offer refers to newly issued Class A shares and Class B shares in the issuer and no natural or legal persons are offering to sell securities.
- In connection with Smilegate's investment in the Company, Bo Andersson Klint, Emmanuel Marquez and Mikael Nermark entered into lock-up agreements with the Company by which they are not permitted to sell any of their shares in the Company, whether owned directly or indirectly, from time to time. Each is, however, permitted to sell 15 percent of the Class B shares held when the lock-up agreement was made during the period of the lock up. The lock-up commitments will remain in effect until the Company has performed its obligations under the collaboration agreement. At present, it is unclear when these obligations will be met and thus also when the commitment will end.
- In connection with the Company's acquisition of Nozon and Parallaxter, the sellers entered into a lock-up agreement pertaining to a portion of the consideration paid through the issue of shares in Starbreeze. One third of the shares covered by the lock-up commitment will be released annually over four years, counted from the date the agreement was executed. The sellers' lock-up commitment applies from 24 October 2016 to 24 October 2020, dates inclusive. Moreover, certain named key individuals have agreed in the lock-up agreement to immediately transfer all shares covered by the lock-up commitment, on market terms, if at least Tristan Salomé and two other key individuals do not remain involved in the Company during the lock-up period.
- In connection with the Company's acquisition of ePawn, the founders of ePawn made a lock-up commitment to the Company on 30 June 2016 pertaining to a portion of the consideration paid through the issue of shares in the Company. One half of the shares covered by the lock-up commitment will be released from the commitment on 30 June 2017 and the other half will be released on 30 June 2018. The lock-up commitment will thus remain in force until 30 June 2018.
- In connection with the Company's acquisition of Enterspace, the sellers of Enterspace made a lock-up commitment to the Company pertaining to a portion of the consideration paid through the issue of shares in the Company. As regards the founders of Enterspace, two thirds of the shares covered by the lock-up commitment will be released over a period of three years counted from the date the lock-up agreement was executed. As regards other sellers of Enterspace, three quarters of the shares covered by the lock-up commitment will be released over a period of three years counted from the date the lock-up agreement was executed. This means all shares covered by the lock-up commitment will be entirely released from the commitment as of the beginning of the fourth year, counted from the date of execution. Moreover, all sellers have agreed under the lock-up agreement to remain involved in the Company during the period that the shares are covered by the lock-up commitment. If a seller's involvement in the Company ends during the lock-up period, under certain specified circumstances, 50 percent of the sellers' shares still covered by the lock-up commitment as of that date would be subject to sale on the regulated market where the Company's shares are listed at that time.
- E.6 Immediate dilution resulting from the offer** Upon full subscription of the Rights Issue, the total number of shares in the Company will increase from 303,719,737 to 323,967,719, corresponding to an increase of approximately 6.25 percent.
- Shareholders who decline to subscribe for new shares in the forthcoming Rights Issue will sustain a dilutive effect of a maximum of 6.25 percent of share capital and approximately 6.25 percent of total voting power in Starbreeze. The dilutive effect was calculated by dividing the total number of shares and votes that may be issued in the Rights Issue by the maximum total number of shares and votes in the Company after the Rights Issue. Outstanding warrants and convertible bonds in the Company were excluded from the calculation. The dilutive effect was calculated based on a preliminary distribution between the share classes, and the final distribution will be established based on the distribution as it stands upon processing by Euroclear Sweden AB on Record Date.
- E.7 Estimated expenses charged to the investor** *Not applicable.* The company is not charging any fees to investors.

# RISK FACTORS

# RISK FACTORS

## General introduction to the risk section

An investment in securities is associated with risk. Prior to any decision to invest, it is important to carefully analyze the risk factors deemed significant to Starbreeze and the future performance of the shares. The risks deemed significant to Starbreeze are described below, in no particular order. There are risks both with regard to circumstances related to Starbreeze or the industry and such that are of a more general nature, as well as risks associated with the shares. Certain risks are beyond Starbreeze's control.

The following account makes no claims of completeness and all risk factors

cannot be predicted or described in detail, for natural reasons. Consequently, an overall evaluation must also consider other information in the Prospectus and a general assessment of the business environment. The risks and uncertainties described below could have material negative impact on the Company's business, financial position and/or operating results. They could also cause the shares in Starbreeze to decline in value, which could lead to shareholders in Starbreeze losing all or part of their invested capital. Additional risks that are currently unknown to Starbreeze, or which are currently not

deemed to constitute risks, could also have corresponding negative impact.

The Prospectus contains forward-looking statements that could be affected by future events, risks and uncertainties. The Company's actual performance may differ substantially from the performance expected in the forward-looking statements due to many factors, including but not limited to the risks described below and elsewhere in the Prospectus.

If there is any uncertainty regarding risk assessment, advice should be obtained from a qualified adviser.

## Industry and operations-related risks

### Risks related to suppliers

Within the framework of the business, Starbreeze is dependent upon access to certain development tools in the form of software provided by a few or, in certain cases, only one supplier. This means that there is risk that the Company will not always have access to the development tools that the Company needs or that the Company will not gain access to development tools on the terms preferred by the Company. If this were to occur, there would be negative impact on the Company's profitability, operating results and financial condition.

### Risks related to external developers

Within the framework of the Company's publishing business, the Company is dependent upon the capacity to make agreements with external game developers. There is risk that Starbreeze will fail to attract external game developers or that the Company will not be able to make agreements with external game developers on the terms preferred by the Company. If this were to occur, there would be negative impact on the Company's profitability, operating results and financial condition.

### Risks related to distributors

A large portion of the Company's sales are made through a few distributors, primarily Steam, a digital distribution platform operated by Valve Corporation. If any of the Company's distributors were to cancel or limit Starbreeze's access to their respec-

tive platforms, worsen the Company's terms and conditions, particularly with regard to revenue sharing, report erroneous sales figures to Starbreeze, or disadvantage Starbreeze in relation to other game developers, this could have negative impact on Starbreeze's business, operating results and financial condition. If any of the platforms that the Company uses to distribute games were affected by a breakdown in operations, it would entail a short-term loss of income. The Company has a large player base who consume the Company's games via the Steam platform. If Steam were to lose market shares, the Company might also need to establish itself on alternative distribution channels in order to maintain sales and the player base, which could entail costs for the Company and have negative impact on the Company's operating and financial condition.

### Development of new games and improvement of existing games

Starbreeze's continued growth is dependent upon factors including the capacity to develop new games on a regular basis, improve existing games and be engaged as a publisher of externally developed games. The capacity to develop new games and improve existing games entails a great many challenges. These include: successfully competing for Starbreeze's customers' time; predicting and successfully responding to changes in the industry; regularly releasing new games and products on time and within budget;

maintaining the loyalty of Starbreeze's customers to the Company's games and products by improving existing games, for example through developing new features; and being a committed and responsive provider of experiences, for example by quickly dealing with bugs and interruptions in service. If the Company fails to regularly develop new games and improve existing games, there is risk that this could have negative impact on the Company's operating results and financial condition.

### Project delays

Delays in planned and ongoing projects could have negative impact on cash flows, revenues and operating margins. Both internal projects and projects in which external partners are managing development may be subject to delays. Completion of a project may also require more resources than originally estimated. When this occurs and especially in internal projects, the Company commonly must absorb the costs, which could have negative impact on the Company's profitability, operating results and financial condition.

### Low revenues upon release of games or other products

When new games or other products are released, there is risk that they will not be received enthusiastically by the market. This could lead to revenue losses, poorer margins and reduced cash flows. This applies both to internally financed projects and to games for which the Company is acting as the publisher and is responsible

for a significant portion of the financing. There is also risk that capitalized development costs will have to be impaired, which could have negative impact on the Company's financial position.

### **Key individuals**

Starbreeze is a knowledge-intensive company and is dependent upon its continued capacity to employ, train and retain a number of key individuals in order to achieve success in all functions in the locations where Starbreeze operates. This involves matters including commercial experience, understanding of gamer preferences and expertise in game development and technology. The business is also dependent upon key individuals at the senior management level. Due to the high rate of change in the game industry, if one or more key individuals leaves the Company or if the Company cannot find and employ individuals when the need arises, this could have negative consequences on the Company's business and operating results.

### **Capacity to put together project teams**

In connection with project implementation, Starbreeze is dependent upon being able to put together a project team capable of efficiently executing a specific project. As an employer, Starbreeze competes in a global market in which certain skills are in high demand. If Starbreeze is unable to put together an appropriate team for a particular project or if Starbreeze fails to retain an appropriate team during the course of the project, performance of the project could be delayed, become more costly or deliver poorer results than expected, which could have negative impact on the Company's profitability, operating results and financial condition.

### **Technology and product development**

Some of the Company's products are in the early commercialization phase or the development phase. There is risk that supplementary or alternative technical solutions will become necessary. This would require further development work, in addition to that already planned. If this occurs, it could have negative effects on the Company's business and operating results in the form of delayed market introduction and higher costs for the Company. There

is risk that the Company's projects will be abandoned in either early or late stages of development and that the Company's projects will not lead to finished products that can be released on a commercial market, which could have negative impact on the Company's business, revenues and operating results.

The StarVR HMD has not yet achieved widespread use in the market. There is risk that the customers the Company is currently targeting will not use the StarVR HMD but instead use a competing HMD. If this were to occur, there would be negative impact on the profitability, operating results and financial condition of the Company's joint venture.

### **Market and competition**

Starbreeze operates in a global and highly competitive market. The Company is competing not only with other game companies, but also other companies that provide alternative entertainment services, such as films, TV, sports and other experiences that can occupy consumers' time. There is a risk that the Company may be outcompeted by other companies in one or more areas. If this were to occur, there would be negative impact on the Company's profitability, operating results and financial condition.

### **Dependency on partners**

Development and sales in partnership with distributors and other partners is integral to the Company's strategy. The Company also collaborates with suppliers. If existing and future partnerships cannot be established, cannot be entered into, or do not work as intended, there could be negative impact on the Company's commercialization opportunities. There is risk that these partnerships will end, at the initiative of the Company or the other party, before the Company has realized the full benefit of such collaboration, which could have negative impact on the business. There is risk that Starbreeze could be affected if its development partners or suppliers suffer financial or operational problems, price increases, or are unable to deliver in accordance with contract or the Company's expectations for other reasons. Faulty, delayed or non-performed deliveries from development partners or suppliers may cause quality problems or delays for Star-

breeze, which could in turn have negative impact on the Company's business, operating results and financial condition.

### **Financing requirements and capital**

Within the framework of the Company's operations, revenues will often be unevenly distributed over time. The Company experiences peaks when financing is good and valleys when financing is less good. There is thus risk that the Company will need to be capitalized in the future. There is also risk that the Company, at any given time, might not be able to raise additional capital or might not be able to raise capital on terms favorable to existing shareholders. If sufficient capital cannot be raised, this could result in the temporary suspension of development projects and investments, or in Starbreeze being forced to run operations at a slower rate than desired, which could lead to delayed or lost commercialization and revenues.

Access to additional financing is affected by multiple factors such as market conditions, general access to credit and the Company's credit rating and credit capacity. Disruptions and nervousness in the capital and credit markets could also limit access to the capital required to run the business. If Starbreeze fails to raise necessary capital in the future upon reasonable terms for the Company, there could be negative impact on the Company's business, financial position and operating results.

### **Disruptions and downtime**

The Company's IT system or other systems at its suppliers, partners or the equivalent could be affected by disruptions or various interruptions in service. Examples of such disruptions would be disruptions in the supply of electricity or comparable fundamental public services, extreme weather, security issues or system faults. Disruptions of this kind could affect the Company's product development and sales, which in turn could have negative impact on the Company's profitability, operating results and financial condition.

### **IT security**

The Group is vulnerable to various types of cybercrime or disruptions, such as unauthorized system access and viruses and there is risk that outsiders could hack

the Company's IT systems and in so doing access sensitive information or otherwise damage the Company's business. If the Company is the victim of cybercrime or fails to maintain adequate IT protection, this could have negative impact on the Company's business and financial condition.

### **Improper conduct by employees**

There is risk that the Company's employees will fail to comply with the policies and guidelines issued by the Company from time to time. The Company's growth and expansion may have negative impact on the Company's capacity to implement and maintain appropriate internal controls. If the Company's employees or other individuals linked to the Company were to act in breach of the Company's policies and guidelines, this could have negative impact on the Company's business and financial condition.

### **Operational risk**

The Company could incur losses or harm due to deficient internal procedures and/or unforeseen external events. Good internal control is necessary to limit the harm that may arise, which includes the drafting and implementation of internal management documents and policies, efficient administrative systems and on-going skills development for the individuals who are responsible for internal control. Shortcomings in the Company's operational security could have negative impact on the Company's business and financial condition.

### **Intellectual property rights**

Intellectual property rights comprise a significant portion of the Company's assets, primarily in the form of copyright on own games and software, publishing licenses for games whose rights are owned by third parties, patents and patent applications, trademarks and internal specific knowledge and know-how protected under the Swedish Act on the Protection of Trade Secrets (1990:409). It is thus very important that the assets developed within the Group remain the property of Starbreeze.

If the products that the Company develops in the future are not afforded adequate intellectual property protection, or if existing intellectual property protection cannot be upheld or proves inadequate to safeguard the Company's rights and interests, there could be negative impact on the Company's capacity to run its business and on its financial condition and operating results. Furthermore, there is risk that third parties may infringe the

Company's intellectual property rights, or the Company may infringe intellectual property rights owned by another party. If this occurs, the Company could become party to or initiate costly litigation with an uncertain outcome. This in turn could have negative impact on the Company's profitability, operating results and financial condition. If in such litigation, the Company was found to have infringed the intellectual property rights of another, the Company could be ordered to pay significant damages. This could also put the Company at risk of claims under contracts made with various partners. This in turn could have negative impact on the Company's profitability, operating results and financial condition.

### **Confidentiality**

The Company is also dependent upon the capacity to protect such trade secrets that are not covered by patents, patent applications, copyright or other intellectual property rights, including information about concepts that has not yet been made public. There is risk that someone with access to secret business information will disclose or otherwise use this information in a way that harms the Company, which could have negative impact on the Company's business and financial condition.

### **Regulatory changes and regulatory compliance**

Starbreeze operates in several countries all over the world and the Company is consequently exposed to risks related to regulatory compliance. Future amendments to legislation and other regulations could have negative impact on the Company's profitability, operating results and financial condition. New rules aimed at protecting personal data will soon enter into force in the EU. The new regulations could potentially be onerous to the Company and could have negative impact on the Company's ability to collect certain information in order to evaluate behavioral and purchasing patterns among the Company's customers.

Moreover, potential regulatory changes in various jurisdictions regarding games that feature weapons and other tools of war, or other restrictions on content, could affect the Company's capacity to sell and market its games, which could have negative impact on the Company's profitability, operating results and financial condition.

### **Legal disputes**

Within the framework of its operations, Starbreeze or one of its subsidiaries may be embroiled in legal disputes concern-

ing matters such as contractual rights or obligations, product liability and/or intellectual property rights. Litigation can be protracted and costly and the outcome is often uncertain. If Starbreeze is embroiled in disputes, it could have negative impact on the Company's business, profitability and operating results.

### **Product liability**

The Company has product liability for personal injuries caused by using the Company's products. The Company has insurance coverage deemed reasonable and adjusted to the risks of the business. There is, however, risk that the Company's insurance coverage will not suffice to cover any future legal claims that may be made by reason of the Company's product liability. Such claims could have negative impact on the Company, both financial and reputational.

### **Acquisitions and integration**

The Company has historically made a number of acquisitions of companies or business assets and liabilities, and Starbreeze intends to continue its strategy of carefully considered acquisitions of companies and business assets and liabilities in the future. Business acquisitions entail risk. There could be negative impact on the acquired company's relationships with customers, suppliers and key individuals. There is also risk that integration processes might be more costly or time-consuming than estimated and that expected synergies might be partially or entirely unrealized.

### **Risks related to the convertible bond issued by the Company to Smilegate**

On 20 January 2016, Starbreeze entered into an agreement with Smilegate on matters including financing and game development. Within the framework of the agreement, the Company issued a convertible bond of SEK 215,052,000 to Smilegate.

The convertible bond matures on 26 February 2021. If Starbreeze meets the obligations that the Company has towards Smilegate, Starbreeze may call for conversion of the debt to equity. Under certain circumstances, however, the Company may be obliged to repay the loan early. In this connection, this would involve cases where Starbreeze breaches the obligations under the loan agreement, or where the senior management personnel who have entered into lock-up agreements in connection with the investment by Smilegate breach their obligations under those agreements.

### **Financing agreement with Nordea Bank AB (publ)**

In accordance with the amendment agreement made by and between Starbreeze Publishing AB and Nordea Bank AB (publ), where Starbreeze and Starbreeze Production AB are the guarantors, Starbreeze Publishing AB has as of the date of this Prospectus deposited SEK 75 million in a bank account pledged to the benefit of Nordea Bank AB (publ). There is moreover risk that circumstances may occur in the future that would require Starbreeze Publishing AB to deposit additional funds in the pledged account. That a certain portion of the Group's cash and cash equivalents are placed in a bank account pledged to the benefit of Nordea Bank AB (publ) limits the Group's opportunity to exercise unrestricted control over such cash and cash equivalents, which could have negative impact on the Company's operations, financial position and operating results.

### **External factors**

External factors such as supply and demand, economic downturns and booms, inflation and interest rate hikes may affect operating costs and selling prices, among else. There is risk that these factors may have negative impact on Starbreeze's costs and future revenues.

### **Currency risks**

Starbreeze operates in an international market. A large share of Starbreeze's revenues are paid in USD. At the same time, the Company's costs are mainly in SEK, but also in USD and EUR. Starbreeze is therefore exposed to fluctuations in the currency market, where movements in exchange rates can have negative impact on the Company's profitability and operating results.

### **Risk of impairment of goodwill and other intangible assets**

The consolidated balance sheet consists largely of goodwill and other intangible assets, which amounted in total to SEK 1,785,205 thousand on 31 December 2017. The Company monitors relevant circumstances that have impact on the Company's business and the Company's 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. Any significant impairment of goodwill and other intangible assets and associated impairment costs could have significant negative impact on the Company's business, financial position and operating results.

### **Risks related to taxation**

Starbreeze has accumulated tax loss carryforwards. Changes in ownership that entail a change of controlling influence over Starbreeze could entail limitations (in whole or in part) of opportunities to utilize such loss carryforwards in the future. The opportunity to utilize loss carryforwards in the future could also be affected by changes in legislation.

Starbreeze conducts business through subsidiaries in the United States, Luxembourg, Belgium, India and France. The business, including transactions between Group companies, is operated in accor-

dance with the Company's interpretation of applicable tax laws, Starbreeze's internal pricing, tax treaties and statutes in Sweden and the aforementioned countries, and the requirements of the relevant tax authorities. Luxembourg applies a special taxation regime to IP rights. If the tax authority in Luxembourg were to decide that the IP rights held by Starbreeze in Luxembourg do not qualify for this regime, there is risk that Starbreeze will be subject to higher tax costs on future revenues in Luxembourg, in the form of standard corporate tax.

The tax authorities in various countries also want to ensure that the commercial terms between related parties reflect the arm's length prices that would have been agreed between independent parties under comparable circumstances, especially in connection with international transactions. In connection with the transfer or assignment of intellectual property rights, which are normally difficult to value, establishing the correct arm's length price is particularly complicated. There is therefore risk that the tax authorities in the countries where Starbreeze operates could make judgments that differ from the Company's.

There is also risk that the Company's interpretation of applicable laws, tax treaties and statutes or of the relevant authority's interpretation of these, or of administrative practice, is in error, or that such rules will be amended, possibly retroactively. Through decisions by the relevant authorities, Starbreeze's tax situation could therefore change and have negative impact on the Company's financial position and operating results.

## **Risks related to the Rights Issue and the share**

### **Price variations and psychological factors**

Potential investors should consider that an investment in shares is associated with risk and that the shares may both increase and decrease in value. There is therefore risk that an investor will lose all or part of the capital invested. Share price performance is dependent upon multiple factors, some of which are company-specific and others that are connected to the stock market as a whole. Price variations may also arise from changes in buy and sell volumes and may not necessarily have any connection to the Company's underlying value. All decisions to invest in shares

should be preceded by careful analysis.

The stock market in general and the Company's shares in particular may be affected by psychological factors. The Company's shares may be affected in the same way as all other shares regularly traded on Nasdaq Stockholm. Psychological factors and their effects on share prices are often difficult to predict and may have negative impact on the Company's share price.

### **Liquidity**

The liquidity of the share also affects the possibility of trading in the share at the preferred point in time. There is risk that

trading in the shares, paid subscribed shares and warrants that the Company has issued or will issue in the future will not be particularly active, which could make it difficult for shareholders to sell their shares, paid subscribed shares or warrants.

### **Trading in subscription rights and BTA**

Subscription rights and BTA (paid subscribed shares) are expected to be traded on Nasdaq Stockholm for a limited period of time. Trading may also be restricted, and individual holders may consequently be unable to readily sell their subscription rights and/or BTA. There is risk that active trading in subscription rights and BTA will

not develop on Nasdaq Stockholm and that restricted trading may exacerbate the fluctuation in the market price of subscription rights and/or BTA and that the price indication for these instruments may consequently be inaccurate or misleading.

### **Dilution and exercise of subscription rights**

If a shareholder does not exercise their rights to subscribe for shares through payment by 10 April 2018, or does not sell their subscription rights by 6 April 2018, such shareholder's subscription rights will expire worthless and the holder will have no right to any compensation. Consequently, shareholders and nominees must ensure compliance with all necessary instructions pertaining to the exercise of subscription rights. If a shareholder or the shareholder's nominee does not follow the instructed procedure for exercising the subscription rights, the rights will expire, become worthless and cease to exist. Moreover, if a shareholder does not exercise or only partially exercises their rights to subscribe for shares, that shareholder's share in the Company's share capital and share of voting rights will be reduced and diluted.

There is risk that the compensation a shareholder who does not participate in the Rights Issue may obtain by selling subscription rights allotted to that shareholder will not be equal to the financial dilution of the shareholder's ownership in Starbreeze.

### **Sales of shares by current shareholders**

The share price could be adversely affected if current shareholders choose to sell shares in the Company. Sales by current shareholders could also have negative impact on opportunities to issue new shares or utilize other financial instruments.

### **Dividends on shares in the Company may be partially or entirely eliminated**

Under Swedish law, the general meeting decides whether or not to distribute dividends. Dividends may be paid only if Starbreeze has distributable funds and provided that such a decision appears sound with respect to the size of equity in the Company imposed by the nature, scope and risks associated with operations and the Company's consolidation requirements, liquidity and financial position. Furthermore, the main rule is that shareholders cannot decide to distribute a higher dividend than proposed or approved by the board of directors. Apart from the right of minority

shareholders to request a dividend pursuant to the Swedish Companies Act, if the general meeting does not decide to distribute dividends as above, shareholders cannot make any demands regarding dividends and the Company has no obligation to pay any dividend. There are many risks that may have negative impact on the Company's operations and there is therefore a risk that the Company will not be able to generate profits sufficient to allow dividends in the future or that the general meeting will not decide to distribute dividends. Even when the Company generates profits sufficient to allow dividends, the Company is bound by covenants under loan agreements that could limit the Company's capacity to distribute dividends. If the Company were to decide to distribute dividends in breach of the terms and conditions of the loan, the loan could be called for immediate repayment and the Company might become liable for damages.

### **Future new issues of shares or other securities and conversion of already issued convertible bonds or the exercise of options could dilute the holdings of existing shareholders**

The Offer as set forth in this Prospectus entails dilutive effects for existing shareholders who do not participate in the Rights Issue. The Company may decide in the future to issue additional new shares or other securities to raise capital. This Offer and all such further offers could reduce proportional ownership and share of voting power of shareholders in the Company, as well as earnings per share in the Company, and new issues could have negative impact on the market price of the shares. In addition, there are stock options and two convertible bonds outstanding at present. If the holders of the convertible bonds and/or stock options call for conversion or subscription, proportional ownership, share of voting power and earnings per share will be reduced for existing shareholders.

### **Shareholders with significant influence**

By virtue of their shareholdings, the Company's major shareholders have the capacity to exert significant influence in matters that require the approval of shareholders at general meetings, including the appointment and dismissal of directors, decisions on share issues and amendments to the Articles of Association. This influence could be disadvantageous to shareholders whose interests differ from those of the major shareholders.

### **Certain foreign shareholders could be prevented from exercising their preferential rights**

Shareholders who reside in or have a registered address in certain jurisdictions other than Sweden, including shareholders in the United States, could be prevented from exercising their preferential rights attached to the shares they own in the Company in connection with the Rights Issue and future new issues, unless a registration measure or equivalent measures under relevant law in the respective jurisdiction have been taken with regard to such shares, or an exemption from registration requirements or comparable is applicable under relevant law in the respective jurisdiction. The Company may choose to execute new share issues without taking such measures, which would mean that proportional ownership and the share of voting power of shareholders residing in certain jurisdictions other than Sweden could be reduced as a result of future new issues.

### **Rights Issue not fully subscribed**

If the Offer as set forth in this Prospectus is not fully subscribed, the Company will obtain less capital to finance the Company's business plan; in such case, it might be necessary to restrict the Company's operations, which could have negative impact on the Company's financial position and results of operations.

### **Risks related to the trading venue**

The Company's shares are admitted to trading on Nasdaq Stockholm, which is a regulated market. Companies whose shares are traded on a regulated market are subject to certain laws, regulations and criteria that are more comprehensive than the regulations applicable to companies whose shares are listed on a multilateral trading facility. There is risk that the Company might not in the future meet the criteria for its shares to be admitted to trading on Nasdaq Stockholm, which could result in fines or other sanctions being imposed on the Company. By extension, this could result in a delisting of the Company's shares. If any of the aforementioned risks come to pass, this could cause material, negative impact on the value of the Company's shares.

# OFFER TO SUBSCRIBE FOR SHARES

The board of directors of Starbreeze decided on 15 February 2018 to increase the Company's share capital through a new issue of Class A and Class B shares with preferential rights for shareholders in Starbreeze, subject to the subsequent approval of the general meeting. The detailed terms and conditions of the Rights Issue were adopted on 15 March 2018. The extraordinary general meeting held 20 March 2018 approved the decision of the board of directors.

Share capital in the Company will increase through the Rights Issue not more than SEK 404,959.64 from the present SEK 6,074,394.77 to not more than SEK 6,479,354.41 through the issue of not more than 20,247,982 new shares. The distribution between the number of Class A shares and Class B shares will be based on the distribution between the share classes at record date. A preliminary estimate is that not more than 3,620,249 Class A shares and not more than 16,627,733 Class B shares will be issued.

## **Preferential subscription rights**

An offer to subscribe for shares in Starbreeze in accordance with the terms and conditions set forth in the Prospectus is hereby presented to shareholders in Starbreeze. Shareholders will have preferential rights to subscribe for new shares in proportion to their shareholdings as of the record date, 22 March 2018. At record date, one (1) Class A share or one (1) Class B share in Starbreeze will entitle the holder to one (1) subscription right of Class A or Class B respectively. Fifteen (15) subscription rights of Class A or Class B, respectively, carry the right to subscribe for one (1) new Class A share or Class B share, respectively. The subscription period will begin 26 March 2018 and end 10 April 2018 (dates inclusive), or at a later date decided by the board of directors.

## **Offered securities**

The offer refers to purchase of new Class A shares or Class B shares issued in Starbreeze. The subscription price is SEK 7.50 per share, regardless of share class.

## **Dilution**

Share capital in the Company may increase through the Rights Issue by not more than SEK 404,959.6420 (of which a preliminary not more than SEK 72,404.98 is attributable to the increase arising from issue of Class A shares and a preliminary not more than SEK 332,554.66 is attributable to the increase arising from issue of Class B shares), from SEK 6,074,394.77 to not more than SEK 6,479,354.41, and the number of shares in the Company may increase by not more than 20,247,982 shares, from 303,719,737 shares to 323,967,719 shares (of which a preliminary not more than 3,620,249 Class A shares and a preliminary not more than 16,627,733 Class B shares).

Shareholders who choose not to subscribe for shares in the Rights Issue will sustain a dilutive effect of a preliminary 6.25 percent of total voting power in the Company (provided that the Rights Issue is fully subscribed). Shareholders have the option to sell their subscription rights to obtain compensation for the dilution. See also "Risk factors" and "Terms and conditions and instructions".

Starbreeze executed a directed issue of approximately SEK 238 million on 24 January 2018. The completed directed issue of new shares and the Rights Issue are therefore expected to raise capital of approximately SEK 390 million for Starbreeze before issue costs. The Company's issue costs are expected to be approximately SEK 30 million. Provided that the Rights Issue is fully subscribed, the net proceeds of the directed issue and the Rights Issue will amount to approximately SEK 360 million.

An offer is hereby extended to shareholders in Starbreeze to subscribe for new Class A shares and Class B shares, respectively, in the Company in accordance with the terms and conditions set forth in this Prospectus.

*Stockholm 22 March 2018*

Starbreeze AB (publ)  
Board of Directors



# BACKGROUND AND RATIONALE

# BACKGROUND AND RATIONALE

In conjunction with the listing on Nasdaq Stockholm in October 2017, the board of directors of Starbreeze adopted new financial targets, which are linked to the Company's business plan. Starbreeze is in an expansion phase that entails major initiatives in all three business areas, Starbreeze Games, Publishing and VR Tech & Operations, which in the short term have impact on the Company's profitability and cash flow. The initiatives in progress are expected to create substantial value for the Company's shareholders. The Company's target is to achieve revenues of at least SEK 2 billion in 2020 and to generate positive EBITDA for the fourth quarter of 2018 and for every subsequent financial year on an annualized basis.

In connection with the announcement of a directed share issue of SEK 238 million on 24 January 2018, Starbreeze also announced its intention to carry out a rights issue of approximately SEK 152 million. The proceeds of the rights issue, together with the issue proceeds from the directed share issue, will be used to broaden the revenue base and accelerate growth.

Starbreeze identified a number of business opportunities, not included in current business plan, during the second half of 2017 that the Company believes could create significant added value for shareholders. There is large advance interest in the Company's coming game OVERKILL's The Walking Dead (OTWD), as reflected in the media coverage of the initial marketing

of the game. In order to create good conditions for a successful release with high game sales volumes, Starbreeze wants to increase marketing ahead of and during the release of the game.

The Starbreeze strategy is to selectively continue expanding the game portfolio in the publishing business so that more games can be released to the market at a steadier rate, in the short and medium terms, which will reduce the Company's operational and financial risk and generate more stable revenue and profitability over time. The strengthening of cash reserves also provides Starbreeze the opportunity to finalize contracts for a couple of new publishing products with well-established studios in 2018. The Company believes that these investments in publishing would entail an important widening and reinforcement of the publishing portfolio in the Publishing business area.

Starbreeze has also identified attractive business opportunities in the existing game portfolio arising from persistently strong sales and large user numbers for the own game PAYDAY 2. PAYDAY 2 was still one of the most frequently played games on the Steam platform in 2017, worldwide. The initiative includes extending the development plan for PAYDAY 2 to 2019 and expanding the existing game portfolio to new geographies and platforms.

Regarding the game portfolio under development Starbreeze aims to accelerate the production plan for PAYDAY 3

to more rapidly enter the full production phase.

Starbreeze expects to raise approximately SEK 390 million before issue expenses from the completed directed issue and the Rights Issue. The Company's issue expenses are expected to amount to approximately SEK 30 million. Assuming completion of the proposed Rights Issue, the net proceeds of the directed issue and the rights issue of approximately SEK 360 million will be used as follows:

- SEK 75 million to secure the financing of the existing business plan up to the release of OVERKILL's The Walking Dead (OTWD), planned for the autumn of 2018,
- SEK 50 million for intensified marketing of OVERKILL's The Walking Dead (OTWD),
- SEK 50 million in new publishing titles which are not included in the aforementioned business plan,
- SEK 35 million to expand the existing game portfolio to new platforms and geographies,
- SEK 30 million to extend the development plan for PAYDAY 2 to 2019,
- SEK 50 million to accelerate the production plan for PAYDAY 3.

The remaining net proceeds, of approximately SEK 70 million, will be used to strengthen Starbreeze's financial position. In Starbreeze's judgment, the additional investments will generate substantial added value for shareholders in the future.

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The Directors of Starbreeze accept responsibility for the contents of the Prospectus. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Stockholm, 22 March 2018

Starbreeze AB (publ)  
Board of Directors

# TERMS AND CONDITIONS AND INSTRUCTIONS

## Preferential rights and subscription rights

Those parties registered as shareholders in the share register maintained by Euroclear for Starbreeze at 22 March 2018, have preferential rights to subscribe for new shares in relation to the number of shares held on the record date.

On the record date, one (1) share of Class A, respectively Class B, will entitle the holder to one (1) subscription right of Class A, respectively Class B. Fifteen (15) subscription rights entitle the holder to subscribe one (1) new share of Class A, respectively Class B.

The holdings of shareholders who choose not to participate in the rights issue and subscribe for shares will become diluted by 6.25 percent in relation of the number of shares outstanding<sup>1)</sup>.

## Subscription price

The new shares will be issued at a subscription price of SEK 7.50 per share. No commission will be charged.

## Record date

The record date at Euroclear Sweden for determining which parties are entitled to receive subscription rights under the Rights Issue is 22 March 2018. The Company's shares will trade together with subscription rights until 20 March 2018. The Company's shares will be traded ex-subscription rights in the Rights Issue from 21 March 2018.

## Subscription period

Subscription for new shares under the subscription rights is carried out through payment during the period of 26 March 2018 through 10 April 2018. During this period, it is also possible to apply to subscribe for shares without subscription rights. The Board of Directors of the Company reserves the right to extend the subscription period, which if it becomes relevant will be announced by the Company in a press release not later than 10 April 2018. The press release will be available on the Starbreeze website, [starbreeze.com](http://starbreeze.com).

## Issue statement

### Directly registered shareholders

A pre-printed issue statement with an attached payment form will be sent to shareholders, or representatives of shareholders, in the Company who on the record date of 22 March 2018 are registered in the share register maintained by Euroclear Sweden on behalf of the Company. The pre-printed issue statement sets forth, inter alia, the number of subscription rights received and the full number of shares that may be subscribed for. No separate notification will be sent regarding the registration of subscription rights in shareholders' securities accounts. Those parties included in the separate list of pledge holders and trustees maintained in connection with the share register will not receive any issue statement and will be informed separately.

### Nominee registered holdings

Shareholders whose holdings of shares in the Company are nominee-registered at a bank or other nominee will not receive any issue statement from Euroclear Sweden. Instead, application for subscription and payment should be carried out in accordance with the instructions from the respective nominee.

## Trading in subscription rights

Subscription rights will be traded on Nasdaq Stockholm during the period of 26 March 2018 to 6 April 2018, dates inclusive. Carnegie and other securities institutions with the requisite

### Shareholders resident in certain unauthorized jurisdictions

The allotment of subscription rights and the issue of new shares through the exercise of the subscription rights to shareholders who are resident outside of Sweden may be affected by securities legislation in such countries; please read "Important information to investors" for more information. Consequently, subject to certain exceptions, shareholders whose existing shares are directly registered in a securities account and whose registered address is in Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, South Africa, South Korea, Switzerland, USA or any other jurisdiction where participation would require additional prospectus, registration or action other than those arising from Swedish law, will not receive any subscription rights to their respective securities accounts or be allowed to subscribe for new shares. Subscription rights that would have been registered to such shareholders will be sold and the sales proceeds, less a deduction for costs, will be paid to such shareholders, however, amounts less than SEK 100 will not be paid out.

licenses will provide brokerage services in connection with the purchase and sale of subscription rights. The ISIN codes for the subscription rights are SE0011061902 and SE0011061936.

<sup>1)</sup> Calculated on the basis of the maximum number of shares that could come in to existence through the Rights Issue in relation to the maximum number of shares in the Company after the Rights Issue.

## Subscription for new shares with the subscription rights

Subscription for new shares with the subscription rights is carried out through payment during the period of 26 March 2018 through 10 April 2018.

Upon expiry of the subscription period, unexercised subscription rights will lapse and become worthless. After 10 April 2018, unexercised subscription rights will be deleted from holders' securities accounts, without notice from Euroclear Sweden.

To ensure that the value of the subscription rights to subscribe for new shares is not lost, the holder must either:

- exercise the subscription rights to subscribe for new shares no later than 10 April 2018, or according to instructions received from the respective nominee; or
- sell the subscription rights that have not been exercised no later than 6 April 2018.

A subscription of new shares with the subscription rights is irrevocable and the subscriber cannot withdraw or change such subscription of new shares.

### Directly registered shareholders resident in Sweden

Subscription for new shares with the subscription rights is carried out through cash payment, either by use of the pre-printed payment form or a separate application form, with concurrent payment in accordance with one of the following options:

- The payment form is to be used if all subscription rights in the issue statement from Euroclear are to be exercised. No additions or changes may be made to the payment form.
- The application form named "Subscription WITH subscription rights" is to be used if subscription rights have been purchased, sold or transferred from another securities account, or if, for some other reason, the number of subscription rights to be exercised for subscription of new shares differs from the number on the pre-printed issue statement. Payment for the subscribed shares must be made concurrent to submitting the completed application form, which can be carried out in the

same way as for other bankgiro payments, for example through an internet bank, by giro transfer or at a bank branch office. The number of the securities account that holds the subscription rights must be stated together with the payment.

Application forms in accordance with the above may be ordered from Carnegie during office hours by telephone:

+46 (0)8-588 685 10 or downloaded from Carnegie's website, [carnegie.se](http://carnegie.se). Application forms and payments must be received by Carnegie no later than 5:00 p.m. on 10 April 2018.

### Directly registered shareholders not resident in Sweden who are eligible to subscribe of new shares with subscription rights

Directly registered shareholders who are eligible to subscribe for new shares with subscription rights and who are not resident in Sweden, and who are not subject to the restrictions described above under "Shareholders resident in certain unauthorized jurisdictions" and who cannot use the pre-printed payment form, can pay in SEK through a foreign bank in accordance with the instructions below:

Carnegie Investment Bank AB (publ)  
Transaction Support  
SE-103 38 Stockholm  
Sweden  
SWIFT address: ESSESESS  
IBAN: SE3850000000052211000363  
Bank account number: 5221 10 003 63

Upon payment, the subscriber's name, address, securities account number and the reference number on the issue statement must be stated. The final day for payment to be received is 10 April 2018. If the subscription pertains to another number of shares than stated in the issue statement, the following application form should be used instead: "Subscription WITH subscription rights", which can be ordered from Carnegie during office hours by telephone: +46 (0)8-588 685 10 or downloaded from Carnegie's website, [carnegie.se](http://carnegie.se). Payment is to be made in

accordance with the instructions above with the number of the securities account that holds the subscription rights as reference. Application forms (in accordance with the above address) and payments must be received by Carnegie no later than 5:00 p.m. on 10 April 2018.

### Nominee-registered shareholders

Nominee-registered shareholders who wish to subscribe for new shares with subscription rights must apply to subscribe for shares in accordance with the instructions from their respective nominee or nominees.

### Paid subscribed shares (BTA)

After subscription and payment, Euroclear Sweden will distribute a securities notification confirming the registration of the paid subscribed shares (Sw. *betalda tecknade aktier*, "BTA") in the securities account. New shares will be registered as BTA in the securities account until such time as the Rights Issue has been registered with the Swedish Companies Registration Office. Registration of new shares subscribed for with subscription rights is expected to take place at the Swedish Companies Registration Office on or near 18 April 2018. Thereafter, BTA will be converted to shares, which is expected to take place on or near 20 April 2018, without special notification from Euroclear Sweden. Holders of nominee-registered custody accounts will receive BTA in accordance with the procedures of the respective nominee. BTA will be admitted to trading on Nasdaq Stockholm from 26 March 2018 to 16 April 2018, dates inclusive. Carnegie and other securities institutions with the requisite licenses will provide brokerage services in connection with the purchase and sale of BTA. The ISIN code for the BTAs are SE0011061910 and SE0011061944.

## Subscription for new shares without subscription rights

The new shares may also be subscribed for without subscription rights.

### Directly registered shareholders and others

Application for subscription for new shares without subscription rights must be made on the special application form "Subscription WITH subsidiary preferential right or WITHOUT subscription rights". More than one application may be submitted, but only the most recently dated application will be considered. If the application concerns another person than signed, a special form "Guardians and authorised agents" must also be filled in and sent together with the application form "Subscription WITH subsidiary preferential right or WITHOUT subscription rights". Application forms and other forms may be obtained from any of Carnegie's offices in Sweden or downloaded from Carnegie's website, [carnegie.se](http://carnegie.se), as well as from the Starbreeze website, [starbreeze.com/se](http://starbreeze.com/se). The application form may either be sent by post to Carnegie Investment Bank AB, Transaction Support, SE-103 38 Stockholm or be handed in at one of Carnegie's branch offices in Sweden. The application form must be received by Carnegie no later than 5 p.m. on 10 April 2018.

### Nominee-registered shareholders

Holders of custody accounts that wish to subscribe for new shares without subscription rights must apply to subscribe in accordance with the instructions from their nominee or nominees, who will also process allotment notifications and other matters.

### Allotment of new shares subscribed for without subscription rights

Firstly, shares will be allotted to subscribers for new shares with subscription rights (primary preferential right). Secondly, to

the shareholders who was a shareholder on the record date (subsidiary preferential right), and in the case of oversubscription, pro rata to the total number of shares held by them and, and to the extent that this is not possible, by drawing of lots. Upon sale of the subscription right (of the primary preferential right), the subsidiary preferential right is also passed on to the new holder. Thirdly, subscribers for new shares without subscription rights, and in the case of oversubscription, pro rata to the new number of shares subscribed for in the application, and to the extent that this is not possible, by drawing of lots.

On or near 13 April 2018, a contract note will be sent to the subscriber as confirmation of the allotment of new shares subscribed for without subscription rights. Shareholders whose holdings are nominee-registered will receive confirmation of the allotment in accordance with the procedure of the respective nominee. No confirmation will be sent to subscribers who received no allotment. Subscribed and allotted new shares must be paid for in cash as instructed in the contract note sent to the subscriber.

After payment for subscribed and allotted new shares has been made and the new shares have been registered with the Swedish Companies Registration Office, Euroclear Sweden will send a notice as confirmation that the new shares have been registered to the securities account. The subscriber receives new shares directly and no BTA will be posted to the subscriber's securities account. New shares subscribed for without subscription rights are expected to be registered with the Swedish Companies Registration Office on or near 18 April 2018. The registration of new shares on securities accounts is expected to take place on 20 April 2018.

## Trading in new shares

The Company's issued shares are admitted to trading on Nasdaq Stockholm. After the Swedish Companies Registration Office has registered the new shares, the new shares will also be admitted to trading on Nasdaq Stockholm. The first day of trading in new shares subscribed for with subscription rights is expected to be on or near 20 April 2018. Trading in new shares subscribed for without subscription rights is expected to commence on or near 20 April 2018.

### LEI number

As of 3 January 2018, all corporations must have a global identification code, i.e., a Legal Entity Identifier (LEI), to conduct a securities transaction. In order to be entitled to participate in the Rights Issue and to be allotted new shares subscribed for without subscription rights, a corporation must have and state an LEI number.

### Right to dividends on shares

Dividends are paid following a resolution by the annual general meeting of shareholders. Payment of dividends will be administered by Euroclear Sweden or, for nominee-registered shareholdings, in accordance with the procedures of the respective nominee. Entitlement to receive a dividend is limited to shareholders registered in the share register maintained by Euroclear Sweden on the record date. The new shares carry the right to participate in the distribution of dividends for the first time on the dividend record date that occurs immediately following the registration of the new shares with the Swedish Companies Registration Office.

### Irrevocable subscription

The Company is not entitled to revoke the Rights Issue. Subscription of new shares, with or without subscription rights, is irrevocable and the subscriber may not withdraw or change a subscription for new shares, unless otherwise provided in this Prospectus or under applicable law.

### Announcement of the outcome of the rights issue

The outcome of the Rights Issue is expected to be announced on or around 13 April 2018 through a press release from the Company.

## Information about the processing of personal data

Parties who subscribe for, or apply to subscribe for, new shares will submit personal data to Carnegie. Personal data submitted to Carnegie will be processed in computer systems to the extent required to administer the Rights Issue. Personal data obtained from parties other than the party in question may also be processed. The

personal data may also be processed in the computer systems of companies with which Carnegie collaborates. Information pertaining to the processing of personal data can be obtained from Carnegie, which also accepts requests for the correction of personal data.

## Other information

Carnegie is the issuing institution in connection with the Rights Issue. The fact that Carnegie is the issuing institution does not imply that Carnegie views any party that applies to subscribe under the Rights Issue as a customer of Carnegie. In the event that a larger amount than necessary has been paid by a subscriber for new shares, Starbreeze will arrange for the excess amount to be refunded. No interest

will be paid on excess amounts. Incomplete or incorrectly completed application forms may be disregarded. Furthermore, if the subscription payment is made late, is insufficient or is paid incorrectly, the subscription application may be disregarded entirely or allotment may be for a lower amount, in which case, any excess amount will be refunded. No interest will be paid on any such excess amount.

## Taxation

For information pertaining to taxation, please refer to "Certain tax considerations in Sweden".

A dark, stylized illustration of two men in suits. The man on the left has a skull-like face with large, dark eye sockets. The man on the right wears a mask with horizontal stripes. The background is dark with some light effects, possibly representing a night sky or a textured surface.

# PRINCIPAL MARKETS

# PRINCIPAL MARKETS

## General introduction to principal markets

The information related to market development and Starbreeze's market position in absolute numbers or in relation to the competition that is provided in this Prospectus is the Company's overall estimate based on both internal and external sources. The Company is not aware of any specific and available market statistics

that provide a full-coverage and relevant view of the Company's markets which would allow reliable estimation of market shares. The external sources upon which the Company based its estimate comprise mainly information from independent survey institutions and other industry statistics. Information included in the

Prospectus that has been sourced from a third party has been accurately reproduced and as far as Starbreeze is aware and is able to ascertain by comparison with other information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## Introduction

Starbreeze is a global game company whose vision is to be a leading provider in the entertainment industry by creating world-class experiences.

Starbreeze was founded in 1998 and has since evolved into a well-established developer and publisher of PC and console games and VR products aimed at the global market. With offices in Stockholm, Paris, Los Angeles, Barcelona, Brussels, Luxembourg and India, Starbreeze develops high-quality entertainment products based on proprietary and third-party rights, both in-house and in partnership with external game developers. Operations are organized in three business areas: Starbreeze Games for own game development, Publishing, and VR Tech & Operations for technology/software development in VR and operation of VR centers.

Starbreeze has executed a comprehensive development project in recent years aimed at refining the business model. The Company has, for example, reinforced the organization and senior management by recruiting key skills and a number of strategic acquisitions. Having previously operated only as a game devel-

oper and worked with external game publishers, the Company has now started its own publishing business, publishing both in-house and externally developed games in order to widen the game portfolio. The business has also been expanded through ventures in the VR segment including development of a VR headset and location-based VR.

Starbreeze is well-positioned for continued development towards becoming a leading provider in the global entertainment industry by creating world-class experiences.

North America is Starbreeze's main market and accounted for approximately 73 percent of the Company's revenues in 2016, approximately 47 percent in the period of 1 July–31 December 2015 and approximately 55 percent in 2014/2015. The Swedish market accounted for approximately 1 percent of the Company's revenues in 2016, approximately 2 percent in the period of 1 July–31 December 2015 and approximately 1 percent in 2014/2015. The European market, excluding Sweden, accounted for approximately 27 percent of the Company's revenues in 2016, approximately 51 percent of the Com-

pany's revenues in the period of 1 July–31 December 2015 and approximately 44 percent in 2014/2015.<sup>1)</sup>

The global games market<sup>2)</sup> is undergoing strong expansion with estimated annual growth of 6 percent for the period of 2016–2020.<sup>3)</sup> In the Company's judgment, growth drivers include higher penetration within certain target groups, such as more women gamers and older gamers, technical development of hardware and software in areas including VR, and new consumption patterns in which social media platforms such as YouTube and Twitch are playing a key role.

In this section, the games market is divided into three categories: console games, PC games and mobile games. The commercial market for VR is still limited, but strong growth is expected in the future. VR is already part of the console, PC and mobile games markets, with VR headsets available in the market for all three segments.<sup>3)</sup> The global market is broken down in the following section into a number of geographical markets, accompanied by a description of market conditions for the various categories.

<sup>1)</sup>The information about the Company's revenues was taken from the Company's audited annual reports. The geographical distribution is based on the geographical location of the source of Starbreeze's revenues (e.g., Steam, 505 Games, etc.). Accordingly, the geographical distribution does not reflect the home countries of Starbreeze's end customers, i.e., the players.

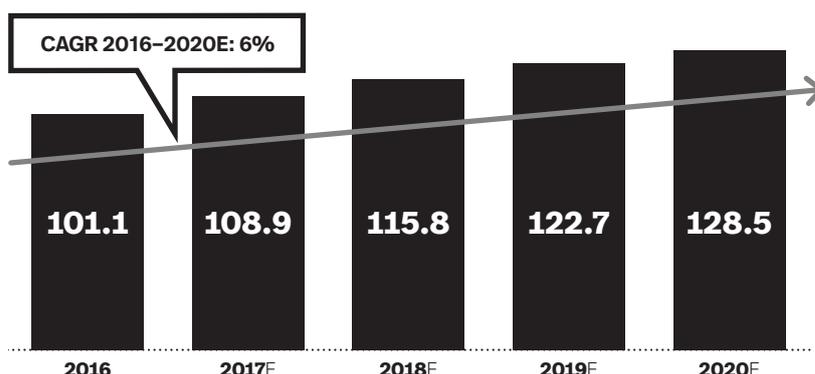
<sup>2)</sup>The global market for PC, console and mobile games (does not include games in the form of betting and casino play).

<sup>3)</sup>Newzoo – 2017 Global Games Market Report: Trends, insights, and projections toward 2020.

## Size and growth of the global games market

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

2015–2019 global games market forecast, 2016–2020, USDBn<sup>4)</sup>



## Geographical distribution of the global games market

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

### Size and growth in various geographical markets

Asia-Pacific is the largest geographical market with more than a billion gamers<sup>2)</sup> and a market share of 47 percent of the global games market in 2017. This market grew by 9 percent between 2016 and 2017, and 55 percent of global growth in 2017 originated in Asia-Pacific. Generally speaking, growth is higher in markets with a low proportion of existing gamers. In spite of the size of the market in Asia-Pacific, gamers make up only 28 percent of the population.

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

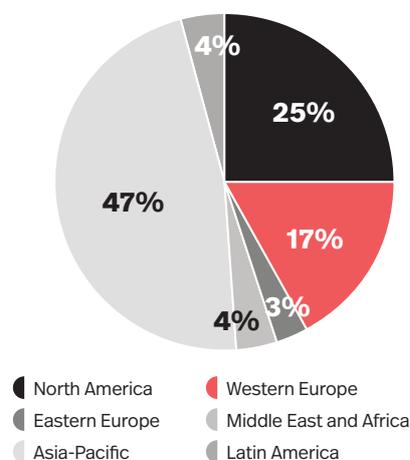
Europe constitutes a total of 20 percent of the global games market. The market grew by 5 percent between 2016 and 2017 and gamers made up 45 percent of the population.

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

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

prices usually paid in the PC and console segments. In the Company's judgment, MMO<sup>3)</sup> games, which are included in the hardcore games category, have a stronger position in Asia-Pacific than in the western world because, like mobile games, this type is often based on in-game purchases.

Geographical distribution of game revenues in the global games market 2017<sup>4)</sup>



### Market data by geographical region, 2017<sup>4)</sup>

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

<sup>1)</sup>A digital distribution platform run by Valve Corporation. See "Definitions and glossary".

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

<sup>3)</sup>MMO: Massive Multiplayer Online games are games played by a very large number of players concurrently, often online. See "Definitions and glossary".

<sup>4)</sup>Newzoo – 2017 Global Games Market Report: Trends, insights, and projections toward 2020

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

## The global games market by segment

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

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

### Console games

Console games are defined as games played on a stationary or handheld console. The games can be purchased in both digital and physical formats. Games developed for console normally have larger production budgets and longer production schedules compared to other types, especially mobile games. Due to these factors, console games are often aimed at hardcore gamers. In 2017, the segment made up 31 percent of the total games market, with revenues of USD 34 billion. The segment is expected to have an annual average growth rate of about 3 percent between 2016 and 2020. Console game revenues in 2020 are forecast at USD 36 billion. The Company expects growth in the segment to originate primarily from digital sales.

### PC games

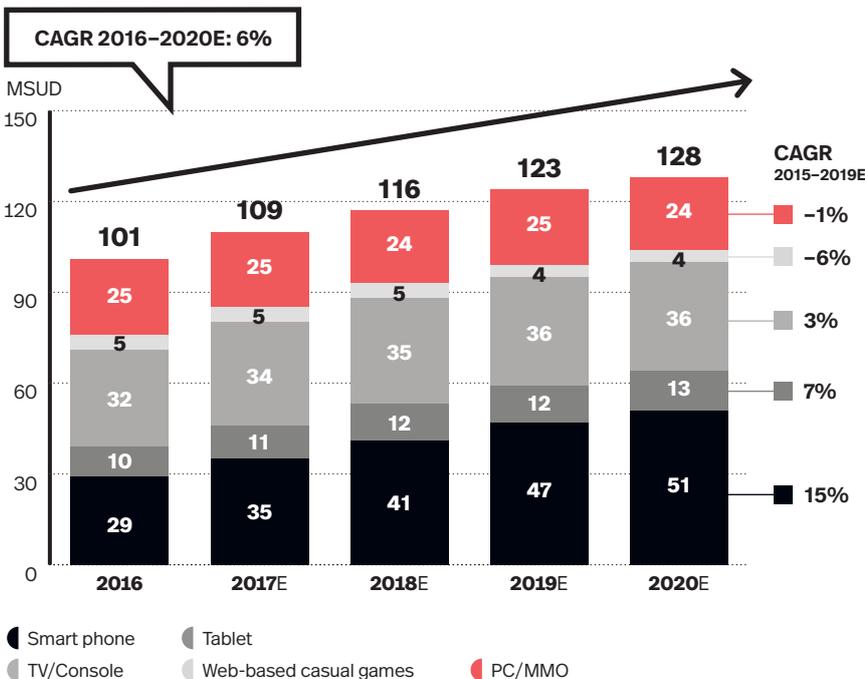
PC games include all games played on a PC and which are purchased in physical or digital format. MMO games are also included in the segment. PC games are often aimed at hardcore gamers. Digital sales are growing steadily and 75 percent of all PC games sold in 2016 were sold via

Steam, the digital distribution platform. In 2017, the segment made up 27 percent of the global games market, with revenues of USD 29 billion. The segment is expected to have an annual average growth rate of about -2 percent between 2016 and 2020. Revenues from PC games/MMO are forecast to amount to USD 28 billion by 2020. The Company expects that the decrease in the segment to originate primarily from decreased physical sales.

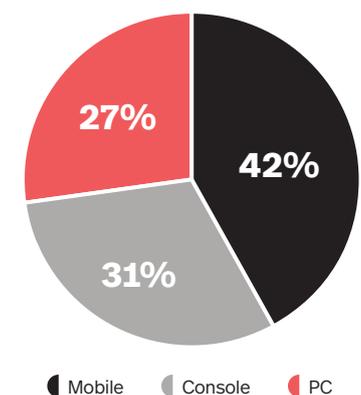
### Mobile games

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

The global games market by segment<sup>7)</sup>



Revenue distribution in the global games market by segment 2017<sup>8)</sup>



<sup>6)</sup> A community is a type of online social meeting place. See "Definitions and glossary".

<sup>7)</sup> Newzoo – 2017 Global Games Market Report: Trends, insights, and projections toward 2020.

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

Games for smart phones and tablets generated USD 21 billion in revenues in Asia-Pacific in 2016, corresponding to 45 percent of total game revenues in the region. This can be compared to the North American and European markets, where mobile games accounted for less than 30 percent of total game revenues. In 2017, the segment made up 42 percent

of the global games market, with revenues of USD 46 billion. Total revenues are expected to amount to USD 64 billion in 2020, based on an average annual growth rate of 14 percent.

#### **Other**

Web-based casual games are games of a more basic type, with narrow action and

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

## **Revenue models**

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

#### **Full-price games**

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

#### **DLC sales**

The increased sales of games via digital distribution channels creates opportunities for merchandising and DLC sales linked to full-price games. DLC bundles

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

#### **Subscription and streaming games**

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

#### **Free-to-play**

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

## **The games industry value chain**

#### **Developers**

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

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

#### **Publishers**

The publisher's role includes commercializing game ideas and taking overall responsibility for the product. This may be accomplished by partially or entirely financing the game development project, monitoring production, quality assurance, adapting the product and, often, distributing and marketing the finished game to resellers.

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

#### **Distributors**

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

#### **Consultants/Outsourcing**

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

parts of the development process to consultants or firms that specialize in specific aspects of game development and whose business model is to act as subcontractors. The acquisition of Dhruva will make the use of temporary contracted personnel in the development process less important to Starbreeze.

### Owners of intellectual property (IP owners)

IP owners are the entities that own the brands upon which games are based. IP owners may be, for example, game developers who own the rights to games they have developed, publishers that

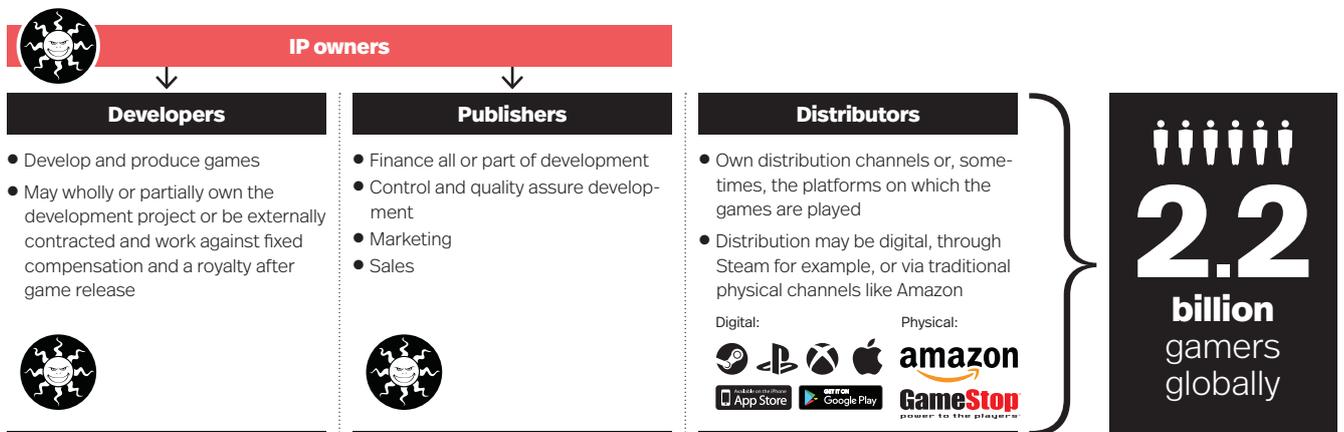
have acquired a portfolio of brands, or the authors of film or book titles upon which games are based. Starbreeze is both an IP owner and cooperating with other IP owners in several game development projects.

### Starbreeze's role in the value chain

Starbreeze is a game developer and publisher of both internally and externally developed games. The company has been working with development, publishing and marketing of its internally developed games since 2011. The games are sold primarily via digital channels, where the largest platform is Steam. Through its own game PAYDAY 2, the Company has one of

the world's biggest player communities on Steam, in which players interact with each other and with the Company. This platform and the Company's expertise and experience laid the foundation for Starbreeze Publishing (Starbreeze's publishing business), where the Company collaborates with other developers to help them with game publication through financing, marketing and distribution. The Company is also pursuing initiatives in the VR segment aimed at developing the ecosystem for VR entertainment and where the Company is on the forefront of development of high-quality VR headsets through StarVR.

### The games industry value chain



## Trends in the games market

### Games with a context

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

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

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

### Microtransactions

Many popular games now offer an additional dimension of gameplay by making it possible for players to collect weapons or clothing, for example, for their characters. Players want to be able to show off and trade in these artifacts. Starbreeze has previously tested microtransactions in PAYDAY 2 and learned lessons about how the microeconomy can work for future titles.

### Technical progress

The development of console games is strongly linked to the technical performance of the consoles for which the games are developed. A new console is normally released every seven years.

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

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

<sup>1)</sup>Newzoo - 2017 Global Esports Market Report.

## VR

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

## Competitive position

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

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

## Consolidation

The games industry is undergoing consolidation, in which the largest providers are taking an increasing share of revenues in the global games market. In 2016, the revenues of the 10 largest game companies amounted to USD 54 billion, corresponding to 54 percent of the global market. The 10 largest companies demonstrated organic and acquired growth of 24 percent between 2015 and 2016.<sup>1)</sup>

## Other

The Company is not aware of any other trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the

Company's prospects beyond that stated in this section and on pages 18-22 in the "Risk factors" section and pages 103-107 in the "Legal matters and supplementary information" section.

The Company is not aware of any governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the Company's operations beyond that stated in this section on pages 18-22 under "Risk factors" section and on pages 103-107 under "Legal matters and supplementary information."

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

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

## Comparable companies

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

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

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

## Virtual Reality

VR and Augmented Reality ("AR")<sup>2)</sup> are two different principles that have different Head-Mounted Displays ("HMDs")<sup>3)</sup> that display a virtual or modified world. When a VR headset is used, the user cannot see through the display, but can only experience the surroundings shown on the display. The display on an AR headset, however, is transparent and the user sees the real world with various modifications. As VR technology progresses, there are

potential market areas beyond the games market. VR might, for example, change how people attend a property viewing or how they see their doctors.

The technical development of PCs, consoles and mobile phones is critical to achieving sufficiently high quality in VR, as higher quality VR experiences presently require high computer capacity and high-resolution screens. The VR market in 2016 was considerably smaller than

the games market, but large investments are being made in the rapidly developing field. JP Morgan<sup>4)</sup> estimates that the HMD market will grow by 52 percent per year during the period of 2016-2020. In 2016, the estimated sales for HMD amounted to USD 2,543 million and the market is expected to grow to USD 13,511 million in 2020.

Technical progress in VR and AR is enabling more segments. In addition to

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

<sup>2)</sup>Augmented reality is a live direct or indirect view of a physical, real-world environment whose elements are augmented by computer-generated sensory input. See "Definitions and glossary".

<sup>3)</sup>Head-Mounted Displays (HMD) are displays worn on the head or are part of a helmet that has one or more displays in front of the eyes. See "Definitions and glossary".

<sup>4)</sup>JP Morgan - Virtual Reality: From virtual to reality, 2016.

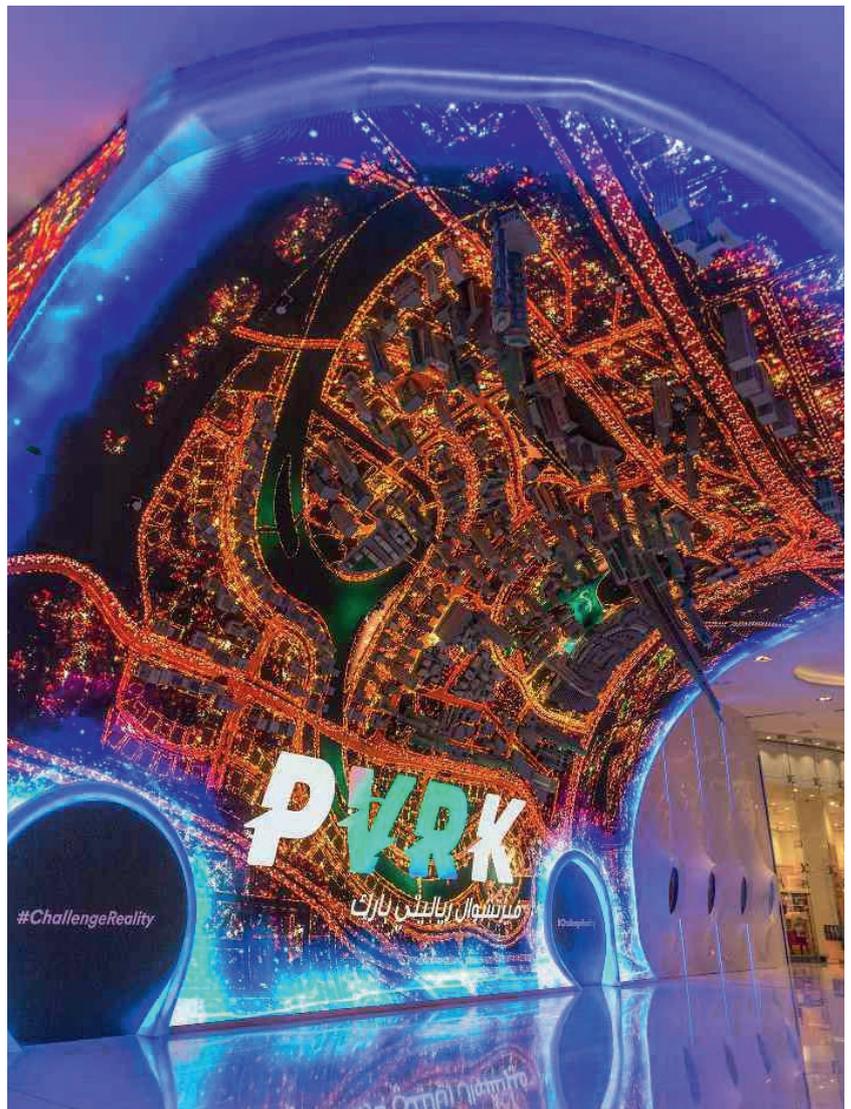
<sup>5)</sup>Goldman Sachs - Virtual & Augmented Reality: Understanding the race for the next computing platform, 2016.

games, VR and AR are expected to constitute a part of the market for, among else, live events, video entertainment, property showings, retail and healthcare.

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

### Location-based VR

Location-based VR is a segment within Virtual Reality where the user visits a VR center outside their home to enjoy VR experiences for one or more users. The type of experience within location-based VR can vary according to parameters such as number of users, time and price. Starbreeze has observed that location-based VR is on the rise and that, going forward, a growing number of VR centers are going to be demanding content adapted to large-scale VR experiences. Greenlight Insights<sup>6)</sup> estimates that the market for location-based VR including virtual reality hardware, software, content, and related services will grow by 50 percent per year during the period 2017–2021. In 2017, the estimated revenue for location-based VR amounted to USD 240 million and the market is expected to grow to USD 1,200 million in 2021.



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

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



# OPERATIONS

# INTRODUCTION

Starbreeze is a global game company whose vision is to be a leading provider in the entertainment industry by creating world-class experiences.

Starbreeze was founded in 1998 and has since evolved into a well-established developer and publisher of PC and console games and VR products aimed at the global market. With offices in Stockholm, Paris, Los Angeles, Barcelona, Brussels, Luxembourg and India, Starbreeze develops high-quality entertainment products based on proprietary and third-party rights, both in-house and in partnership with external game developers. Operations are organized in three business areas: Starbreeze Games for own game development, Publishing, for the publishing business, and VR Tech & Operations for technology/software development in VR and operation of VR centers.

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

Starbreeze is well-positioned for continued development towards becoming a leading provider in the global entertainment industry by creating world-class experiences.

At year-end 2017, the Company had 650 employees, of whom 243 were based in Stockholm. During 2017, the Company had revenues of SEK 361.4 million, of which SEK 120.3 million was generated by the Company's own game PAYDAY 2 and SEK 201.5 million by the publishing contract for Dead by Daylight. During the same period, the Company had EBITDA of SEK -53.5 million, corresponding to an EBITDA margin of -9.0 percent.<sup>1)</sup>

<sup>1)</sup>See the definition of EBITDA margin and the reconciliation of the EBITDA margin on pages 70-71.

# HISTORY

Starbreeze was formed in 1998 and was one of the first game development studios in Europe.

Since then, the Company has built a strong reputation through a number of successful game titles, such as Chronicles of Riddick and The Darkness and since 2013, the Company has undergone major organizational changes to adapt operations to its new business model. The main elements of the change process related to the Company's present business model include the formation of a publishing company, investments in VR and partnerships with external companies. The most important milestones in Starbreeze's history are shown at right.

## 1998

### Formation of Starbreeze Studios

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

## 2003–2004

### Reductions in force due to the bankruptcy of a major customer

Swing Entertainment, one of Starbreeze's biggest customers at the time, was declared bankrupt in 2003 and the Company did not receive any new major development contracts to replace the lost revenues. The Company ended up in a crisis that led to a restart of the business and the replacement of some members of senior management. Twenty-four employees were made redundant in order to adjust costs to the lower business volume.

## 2008–2010

### Canceled projects in the wake of the financial crisis

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

## 2013–2014

### Key game releases and acquisitions and listing on First North

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

## 2016

### Several strategic partnerships and location-based VR

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

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

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

1998

1999

2000

**2000**

**Merger with O3 Games and listing on AktieTarget**

Starbreeze Studios and O3 Games merged in 2000. In conjunction with the merger, Starbreeze was listed on the Aktietorget marketplace.

2001

2002

2003

**2007**

**The Darkness is released**

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

2004

2005

2006

2007

**2012**

**OVERKILL Software is acquired**

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

2008

2009

2010

**2015**

**Project StarVR initiated and publishing business begins**

Starbreeze acquired the Paris-based company InfnitEye in 2015 and announced that the Company had initiated the StarVR project with development of the StarVR HMD<sup>1)</sup>. The Company also began collaborating with Tobii in 2015 in relation to eye-controlled VR technology and established the Publishing business area. The same year, Starbreeze acquired the Valhalla game engine. The Company also entered into a new collaborative agreement with 505 Games in 2015 concerning continued support for the development of PAYDAY 2.

2011

2012

2013

<sup>1)</sup>The HMD that is being developed by the Company, manufactured by Acer and sold and marketed by the Starbreeze/Acer joint venture company, StarVR Corporation. See "Definitions and glossary".

2014

2015

**2017**

**Acquisition of Enterspace and Dhruva**

On 30 June 2017, Starbreeze finalized the acquisition of Enterspace, the Swedish location-based VR company. In December 2017, Starbreeze completed the acquisition of the Indian art production company Dhruva Interactive. Shares in Starbreeze were admitted to trading on Nasdaq Stockholm on 2 October 2017. During 2017 the two major publishing projects Psychonauts 2 and System Shock 3 were signed.

2016

2017

2018

**2018**

**Directed issue**

A directed issue of new shares to Swedish and international investors was executed on 25 January 2018, which raised approximately SEK 238 million for the Company. In February the publishing project 10 Crowns was signed.

# VISION, FINANCIAL TARGETS AND STRATEGY

**Vision:** The vision of Starbreeze is to be a leading provider in the entertainment industry by creating world-class experiences.

## Financial targets

In conjunction with the listing on Nasdaq Stockholm, the board of directors of Starbreeze adopted the following financial targets, which are linked to the Company's strategy.

According to the Company's current business plan, which extends to 2021,

Starbreeze is in an expansion phase that entails major initiatives in all business areas, which in the short term have impact on profitability and cash flow for the Company as a whole. The initiatives in progress are, however, expected to create substantial value for shareholders in the future.

The board of directors estimates that the capital requirement for the business plan will cover the operating activities during the next twelve months through cash flows from operations and the Company's existing cash reserves and bank financing.

### Net sales

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

This significant growth will be driven primarily by the Company's important in-house developed game titles. In addition, the board sees substantial growth potential in continued expansion of the game portfolios within both Starbreeze Games and Publishing, an increased number of distribution channels, new platforms like VR, and new geographical markets.

### Profitability

Starbreeze's target is to generate positive EBITDA for the fourth quarter of 2018 and then on an annual basis for each subsequent financial year. Starbreeze's business model is scalable in several dimensions, which increases revenues while maintaining a relatively constant cost base, and significantly higher profitability is expected as a result. Please see page 81 for further information about the financial target.

### Dividend policy

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

## Business strategy

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

### Be a market leader in own games

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

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

### Drive growth in the existing game portfolio

Starbreeze is concentrating deliberately on extending the lifetime of its games and game revenues. In product development, the Company focuses on rapid and consistent development of new content that is released to the market as product updates ("DLCs"), both paid and free, in order to maintain interest, revitalize game-

play and increase the popularity of the game. The Company has demonstrated its capacity to successfully release DLC bundles through PAYDAY 2, where Starbreeze has released more than 170 paid and free updates that have extended the life of the game and generated substantial revenues for the Company for more than four years. Starbreeze is working actively to build and maintain a dedicated player community, via Steam for PAYDAY 2 for example. The aim is to attach users to the game, heighten loyalty and enable cross-promotion of the Company's other game titles to existing users, without incurring higher marketing costs. PAYDAY 2 has the largest community on Steam, with more than 5.5 million members. In addition, the Company is focusing on reaching more gamers

through continuously further developing games and making them compatible with more platforms and distribution channels in the Company's current and future markets.

### **Grow the game portfolio through the publishing business**

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

### **Establishment on new platforms and geographies for the existing game portfolio**

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

strong local market knowledge that can optimize game distribution.

### **Content is King within VR as well**

Starbreeze has pursued a number of initiatives in recent years aimed at creating an entertainment platform in the rapidly growing VR market. These initiatives include, first and foremost, the development of the first-class StarVR HMD, which is directed at the professional market with corporate customers and VR centers in arcade-like settings. For Starbreeze, location-based VR is the key to the Company's VR strategy and the Company sees great potential in the development of VR arcades that give users access to premium VR experiences. The VR center that opened on 1 March 2018 in Dubai will serve as a flagship VR center and a platform for further deals. Starbreeze's VR strategy is to be a provider of premium content and to deliver first-class VR technology through the joint venture, StarVR Corp.

As the market for game entertainment in the VR segment matures, the Company intends to develop games and related premium experiences for VR to a greater extent, both as a publisher and in-house, which will primarily be adapted to the StarVR HMD and location-based VR centers. For example, the Company has released John Wick Chronicles: Arcade Edition in VR and has a number of projects ongoing with external developers of VR game titles. The long-term ambition is to make more of the Company's titles available in VR.

### **Strategic partnerships**

Starbreeze has continuously invested in strategic partnerships in order to enhance its value proposition. These partners are usually leading companies in their respective markets, such as Acer in the hardware market and Smilegate in the Asian games market. Starbreeze uses these partners to benefit from their specialized expertise and commercial networks in order to strengthen the Company's value proposition and gain leverage in its organization. With its strong position as a game developer and publisher, its good reputation in the market and global network, Starbreeze is in a good starting position to continue entering into key partnerships aimed at securing skills, enabling Starbreeze to focus on its core business

and thus increase the Company's revenues with limited investments of its own resources.

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

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

### **Strategic priorities**

*Starbreeze has the following overall strategic priorities, which affect all aspects of the Company's organization:*

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

# BUSINESS AREAS

The Company's operations are mainly divided into three business areas: Starbreeze Games, Publishing, and VR Tech & Operations.

## Starbreeze Games

The Starbreeze Games business area consists of Starbreeze's in-house developed game portfolio. Game production was previously financed entirely by external publishers. In connection with current development of partially or entirely self-financed games, a larger portion of the revenues generated by the games accrues to the Company. The Company's in-house developed games are published and distributed by Starbreeze internally through digital platforms, while agreements are made with external publishers for games sold through physical distribution.

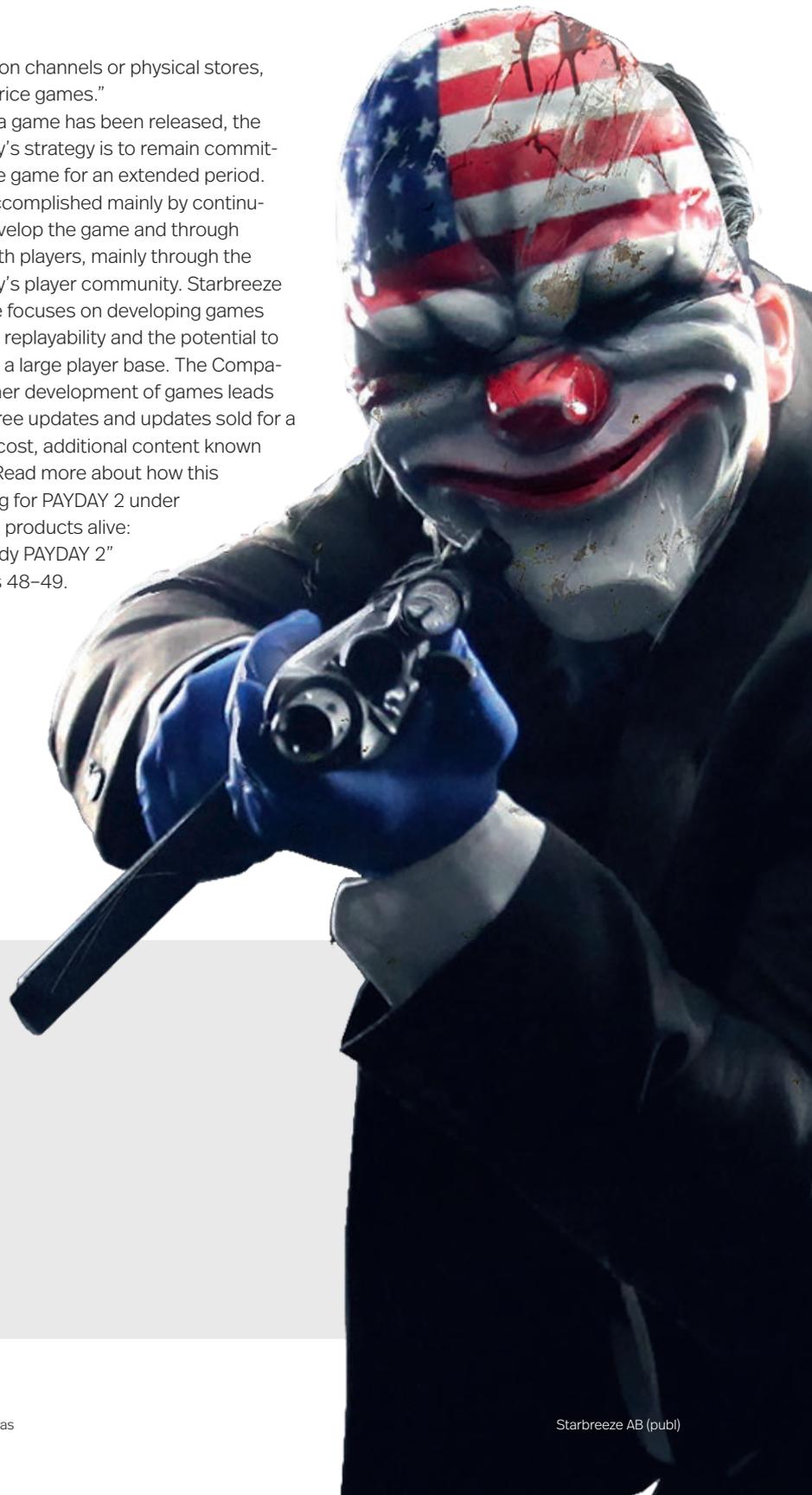
Starbreeze develops games for the platforms PC, console, mobile and location-based VR. The Company's development team consists of a mix of experienced developers and developers of the same age as the majority of the Company's players in order to develop games with interesting content and constantly evolving experiences in the optimal manner. The Company outsources specific parts of certain game development projects, but always has its own development team who ensure and verify that production specifications are met. Fully developed games are normally sold in the price range of SEK 299–699 through digital

distribution channels or physical stores, as "full-price games."

After a game has been released, the Company's strategy is to remain committed to the game for an extended period. This is accomplished mainly by continuing to develop the game and through dialog with players, mainly through the Company's player community. Starbreeze therefore focuses on developing games with high replayability and the potential to generate a large player base. The Company's further development of games leads to both free updates and updates sold for a nominal cost, additional content known as DLC. Read more about how this is working for PAYDAY 2 under "Keeping products alive: Case study PAYDAY 2" on pages 48–49.

## PAYDAY 2

PAYDAY 2 is the Company's most popular product to date, with more than 16 million copies sold. More than four years after its initial release, the product is still generating good revenues.





**Dead by Daylight** is Starbreeze's first publishing project and was released for PC in June 2016. The product was also released for console in June 2017.

## Publishing

The Publishing business area consists of Starbreeze's publishing operations involving externally developed games. Starbreeze's experience in game development has created a network and reputation in the market that puts the Company in a good position to also act as a publishing partner to external game developers. With its experience in game development, the Company can also contribute considerable expertise to its partners' game development projects, so that the game will be as successful as possible, which benefits both Starbreeze and the Company's partners. The Company generally collaborates with companies that develop games of a similar nature to those in Starbreeze's own game portfolio, where the Company's experience is the most useful. After the process, the game developer retains all or a large share of the IP rights.

In 2016, the Company introduced the Starbreeze IndieLabs brand under Publishing. Starbreeze IndieLabs is oriented towards smaller game projects, where the underlying ambition is to find the game studios of tomorrow and the next generation of game ideas.

The majority of net revenues come from sales of games via agreements with digital distributors. In these cases, the payment streams from customers go through the distributor, which according to industry standard charges a percentage of the price the end user pays, before the net revenues reach Starbreeze. When games to which the Company owns the rights are sold, all revenues accrue to the Company, while the Company pays royalties to external developers of the games for which Starbreeze acts as the publishing partner.



StarVR HMD is a premium class VR headset. StarVR HMD is developed by Starbreeze, manufactured by Acer and sold and marketed by StarVR Corporation, a joint venture of Starbreeze and Acer.



## VR Tech & Operations

The VR Tech & Operations business area consists of Starbreeze's technology and software development in VR, which includes the development of the StarVR HMD and the VR film format PresenZ. Revenues and costs for VR centers are also included as of the third quarter of 2017.

### StarVR Corporation

StarVR Corporation is a joint venture with the Taiwanese company Acer, which sells and markets the StarVR headset. StarVR Corporation has put the headset into serialized production in the current version to

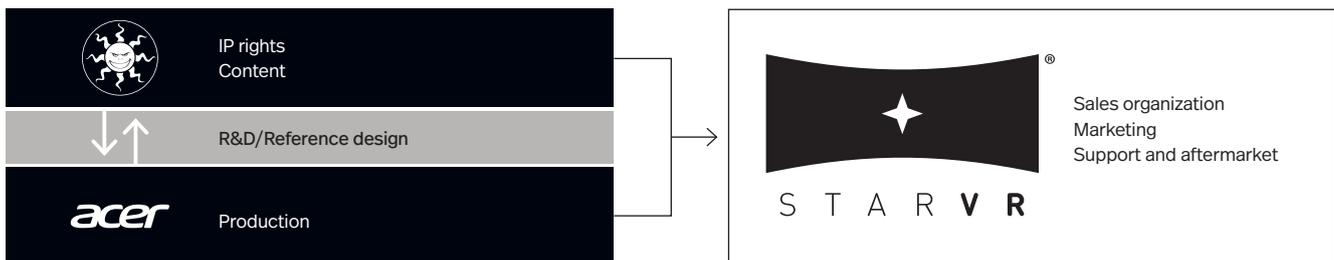
meet the demands of customers such as SEGA and the Dubai VR Park. The next version of our VR headset for a professional customer base will be presented in 2018. The joint venture delivers the VR technology and Starbreeze provides premium VR content.

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

to location-based VR centers, amusement parks and various B2B segments, such as real estate sales, the automobile industry, medical devices and education.

The joint venture is a sales and marketing company that manages the sales organization, support and aftermarket support. Under the terms of the joint venture, Starbreeze owns and controls IP rights related to StarVR, while Acer manufactures the product. R&D and reference design work for the StarVR headset will be carried out jointly by Starbreeze and Acer.

### Starbreeze and Acer's joint venture, StarVR



# PARTNERSHIPS AND COLLABORATIONS

Starbreeze is working actively to create partnerships that generate clear added value for Starbreeze and its partners. A description of current partnerships follows:

## **Partnership with Acer in relation to StarVR HMD**

Through a partnership with the Taiwanese PC manufacturer Acer, the Company has secured production capacity and production quality for the StarVR HMD. Acer has vast expertise and well-adapted facilities to drive the development of VR forward. Starbreeze will continue to collaborate with Acer and the joint venture StarVR Corporation established by Starbreeze and Acer to drive the development of the StarVR HMD.

*acer*

## **Partnership with Smilegate relating to content distribution**

In 2016, Starbreeze commenced a strategic collaboration with the Korean game company Smilegate, by which Starbreeze has a future opportunity to release several game titles in the Asian games market via Smilegate's platform. Game revenues from sales in Asia will be shared between Starbreeze and Smilegate. In addition, a collaboration agreement has been entered into concerning a distribution platform in Asia for VR content for the StarVR HMD.

**Smilegate**



Acer CEO Jason Chen and Starbreeze CEO Bo Andersson Klint.

# MARKETING

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

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

- Strong presence and marketing via the Steam community;
- Collaboration with streamers<sup>1)</sup> active on YouTube and Twitch;
- Strategic releases of new content;
- Influences of and collaboration with well-known individuals and brands;
- Arrangement of events and merchandise sales.

## Steam community

Actively marketing new games and features via Steam and other communication channels ensures that the Company's fans are updated and informed about new products released on the market. The Company's active dialogue with the community combined with a community-friendly game has made PAYDAY 2 the biggest community on Steam, with more than 5.5 million members.<sup>2)</sup> PAYDAY 2 has received approximately 200,000 game reviews on Steam, more than 80 percent positive.<sup>3)</sup> Scores and reviews are hugely

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

## Streamers

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

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

## Keeping products alive: Case study PAYDAY 2

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

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

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

<sup>1)</sup>A person or persons who run media channels with content streamed to the public over the internet. See section "Definitions and glossary".

<sup>2)</sup>Steam, as of 19 February 2018. <https://steamcommunity.com/games/218620>.

<sup>3)</sup>Steam, as of 19 February 2018. <http://store.steampowered.com/app/218620>.



Starbreeze maintains close dialogue with some of the most dedicated players, who stream directly on Twitch or YouTube.



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

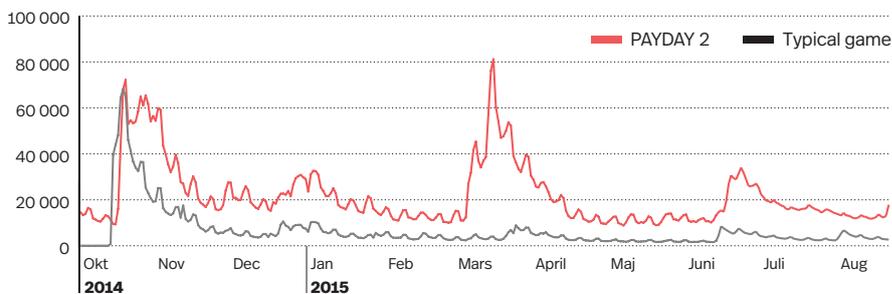
the game in the right direction and with relevant content.

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

### Collaborations

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

### Sales trend for PAYDAY 2 compared to a typical game



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

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

### Events and merchandise

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

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

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



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



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

# ORGANIZATION AND MANAGEMENT STRUCTURE

## Organization

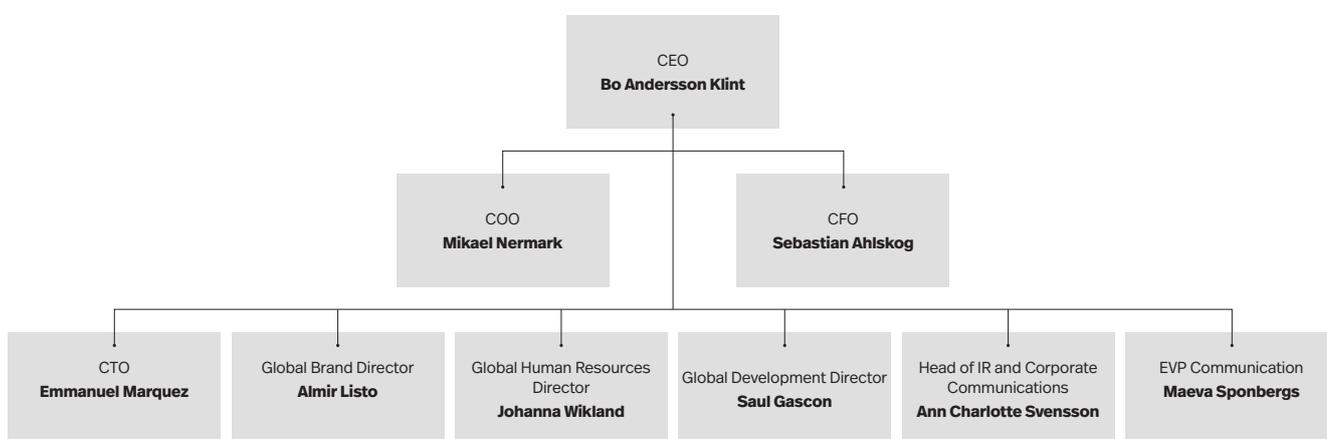
The Company's headquarters are based in Stockholm, Sweden, where 243 of the Company's employees are based. The Company's business is conducted in the parent company Starbreeze AB and the wholly owned subsidiaries Starbreeze Studios AB, Starbreeze Publishing AB, Starbreeze Production AB, Starbreeze USA Inc., Starbreeze LA Inc., Payday

Production LLC, Starbreeze Paris SAS, Starbreeze IP Lux, Starbreeze IP Lux II S.a.r.l., Starbreeze Ventures AB, Starbreeze VR AB, Starbreeze Barcelona S.L., Nozon S.p.r.l. and Parallaxter S.p.r.l..

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

Senior management is composed of

nine individuals. In recent years, Starbreeze has reinforced the senior management team with a number of employees who brought long-term experience in the games industry and other digital industries. All senior managers are based in Stockholm, except for Emmanuel Marquez, who is based in Los Angeles, California.



## Employees

At 31 December 2017, the Company had 650 employees. The corresponding figures were 212 at 31 December 2016. The average number of full-time employees during 2017 was 278 and the corresponding figure for 2016 was 151. The average age as of 31 December 2017 was 31 and the gender breakdown was 88 percent men and 12 percent women, of the total number of employees. In order to maintain and strengthen its market position, the Company is working actively to attract and retain motivated and skilled employees by, for example, offering the Company's employees clear career paths and scope for continuous development. Starbreeze is a multinational and multicultural workplace characterized by an open atmosphere, positive attitude and strong camaraderie.

### Number of employees as of 31 December 2017

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

### Employee key data

	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
Average number of employees	278	151	105	54
Number of employees at the end of the year	650	212	109	76
Proportion of women, %	12	17	12	12
Average age, years	31	34	33	32
Net sales per employee, SEKk	598	2,287	941	3,654

# GAME PORTFOLIO AND GAMES IN DEVELOPMENT

The Starbreeze games portfolio comprises own games and published titles. Own games are games developed by the Company and published by the Company or outside publishers. Publishing titles are games developed by external developers for which the Company is the publisher.

Title	Game outline			Platforms				Distribution		Sales	
	Released	IP ownership	Genre	PC	Console	Mobile	VR	Digital	Physical	Starbreeze's revenues since release, SEKm	Number of copies sold, millions
<b>Starbreeze Games</b>											
PAYDAY: The Heist	2011	100%	Co-op, FPS, Action	■	■	-	-	■	-	100	>2.5
PAYDAY 2	2013	100%	Co-op, FPS, Action	■	■	-	■	■	■	757	>16
OVERKILL's The Walking Dead	In development	0%	Co-op, FPS, Action	■	■	-	-	■	■	-	-
Geminose	In development	100%	Children, Music	-	■	-	-	■	-	-	-
PAYDAY Crime War	In development	100%	PvP, FPS, Action	-	-	■	-	■	-	-	-
Project Crossfire	In development	0%	Co-op, FPS, Action	-	-	-	-	-	-	-	-
STORM	In development	100%	Co-op, FPS, Action	■	-	-	■	-	-	-	-
PAYDAY 3	In development	100%	Co-op, FPS, Action	-	-	-	-	-	-	-	-
<b>Publishing</b>											
Dead by Daylight	2016	0%	Horror, Asymmetric, 4v1	■	■	-	-	■	■	345	>3
John Wick Chronicles	2017	0%	VR, FPS, Action	■	-	-	■	-	-	8	-
Antisphere	2017	0%	Arena shooter, 2v2	■	-	-	-	■	-	-	-
RAID: World War II	2017	50%	Co-op, FPS, Action	■	■	-	-	■	■	-	-
The Raft	2018	50%	VR, Multiplayer, LBE	-	-	-	■	-	-	-	-
APE-X	2018	0%	VR, Action, LBE	-	-	-	■	-	-	-	-
Psychonauts 2	In development	0%	Adventure, platform	■	-	-	-	■	-	-	-
System Shock 3	In development	0%	-	■	-	-	-	-	-	-	-
Deliver Us The Moon	In development	0%	-	■	-	-	-	-	-	-	-
10 Crowns	In development	0%	Strategi	■	-	-	-	-	-	-	-
ElemenTerra	In development	50%	VR, Puzzle	-	-	-	■	-	-	-	-
OVERKILL's The Walking Dead: Outbreak	2016		VR, Action, LBE				■				
The Mummy: Prodigium Strike	2017		VR, Action, LBE				■				
PAYDAY: The VR Heist	2018		VR, Action, LBE				■				
Geminose: The VR Carousel	2018		VR, Children, LBE				■				
Hero	In development	0%	VR, Drama, Puzzle, LBE	-	-	-	■	-	-	-	-
Project Golem	In development	50%	VR, Action, LBE	-	-	-	■	-	-	-	-

- Not announced/defined

## The Starbreeze games portfolio



Platforms  
PC, XBOX One, PlayStation 4, Xbox 360 and PlayStation 3

Genre **Action/Role Play**  
Publisher **Starbreeze**  
Release **August 2013**  
Latest update **18 Aug 2017**  
Official website **crimenet.info**

Average score:  
metacritic.com **79%**      Steam users **82%**

### PAYDAY 2

PAYDAY 2 was released in August 2013 for PC and is a fast-paced co-op<sup>1)</sup> first-person shooter for four players, where the players once again take on the roles of the bank robbers in the PAYDAY gang – Dallas, Hoxton, Wolf and Chains – in a new crimewave across the city of Washington D.C.

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

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

### PAYDAY: The Heist

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

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

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

### PAYDAY 2: Crimewave Edition

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

### PAYDAY 2 | DLC bundles

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

PAYDAY 2: Ultimate Edition, which bundles all previously released content, was released in the summer of 2017.



Platforms **PC and PlayStation 3**  
Genre **Action**  
Publisher **Sony Online Entertainment**  
Release **October 2011**

Official website **overkillsoftware.com/payday**  
Average score:  
metacritic.com **73%**      Steam users **94%**

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

## Dead by Daylight

### Publishing product

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

Dead by Daylight is the first project within the Publishing business area to reach the market. Starbreeze's investment was paid off after the game had been on sale for less than one month. After about a year on the market, the game has sold more than 3 million copies for PC and 10 paid updates have thus far been released for the game.



Platforms	<b>PC, coming soon for Playstation 4 and Xbox One</b>
Genre	<b>Asymmetric horror</b>
Publisher	<b>Starbreeze</b>
Developer	<b>Behaviour</b>
Release	<b>June 2016</b>
Official website	<b>deadbydaylight.com</b>
Average score: metacritic.com	Steam users
<b>72%</b>	<b>72%</b>



Dead by Daylight is the first project within the Starbreeze Publishing business area to reach the market.

## RAID: World War II

### Publishing product

Like PAYDAY, RAID: World War II is a 4-player co-op first person shooter, but with a Second World War theme. The game was released for PC in September 2017 and for console in October 2017. RAID: World War II is Starbreeze's second publishing venture. Reception of the game did not meet expectations and although measures have been implemented, sales have not taken off.



Platform	<b>PC, PlayStation 4 and Xbox One</b>
Genre	<b>Action</b>
Publisher	<b>Starbreeze</b>
Developer	<b>Lion Games Lions</b>
Release	<b>September 2017</b>
Official website	<b>raidworldwar2.com</b>
Average rating: metacritic.com	Steam users
<b>48%</b>	<b>58%</b>

## PAYDAY 2 for Switch

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

## PAYDAY 2 VR

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

## John Wick Chronicles (VR)

### Publishing product

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

## Antisphere

### Publishing product

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

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

## Starbreeze game development in the pipeline

### PAYDAY 2

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

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

PAYDAY 2 has maintained its top ranking as the biggest official player community on Steam, and the membership base is still growing.

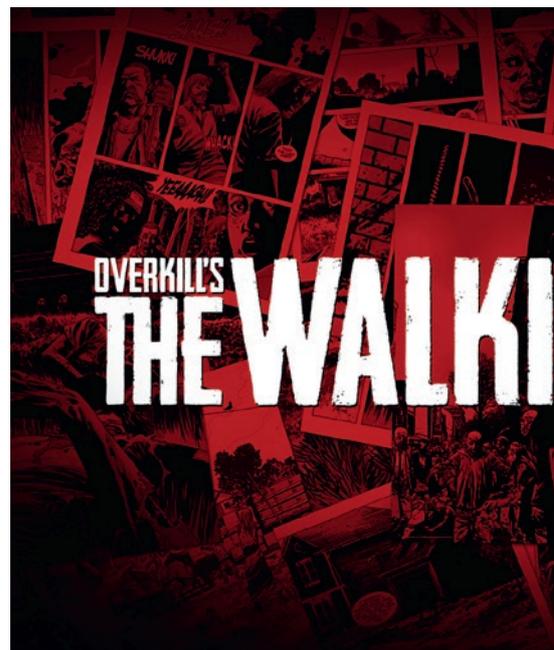
### PAYDAY Crime War

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

### OVERKILL's The Walking Dead

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

Starbreeze has exclusive rights in the first-person shooter genre for all platforms. There is tremendous advance interest in the game and, according to play, Starbreeze will release the game in autumn 2018.



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

The image is from PAYDAY 2, a game that has sold more than 16 million copies.





## Geminose

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

## Project CROSSFIRE

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

## STORM

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



The Company's "Games as a Service" concept is used for Dead by Daylight, which involves development of both free and revenue-generating game updates.

## Dead by Daylight

### *Publishing product*

Dead by Daylight is an ongoing development project, but has been on the market since June 2016 and is being developed by Starbreeze's partner studio, Behaviour. The game is a horror-filled game of hide and seek played four against one, a game concept that can be endlessly replayed. More than 3 million copies of Dead by Daylight for PC and console have been sold. Since the release, 10 paid updates to the game have been released. Per agreement dated 21 March 2018 the game development is performed and paid by Behaviour as of 1 January 2018.

## Psychonauts 2

### *Publishing product*

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



System Shock 3 is a publishing product announced in 2017.

## System Shock 3

### *Publishing product*

Shock 3 is a major publishing collaboration and the project is headed up by Warren Spector, the man behind the modern first-person RPG<sup>1)</sup> genre.

<sup>1)</sup> A role-playing game where the players assume the roles of the characters in a fictional setting. See "Definitions and glossary on page 110.



The image is from the game Psychonauts 2.

## 10 Crowns

### *Publishing product*

10 Crowns is a turn-based strategy game on an epic scale that lets players create the greatest dynasty in world history. The game is being developed by an industry veteran team at Mohawk Games led by Soren Johnson (Lead Designer of Civilization IV) and Dorian Newcomb (Art Director of Civilization V). The 10 Crowns project is currently in prototyping stages of development.

## PAYDAY 3

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



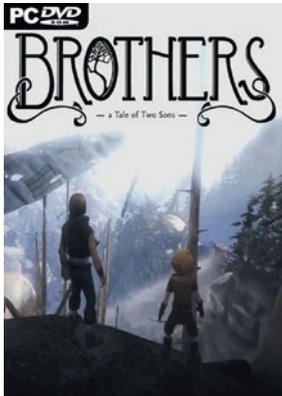
10 Crowns is a publishing product announced in 2018.

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



# Historically developed titles<sup>1)</sup>

## Brothers – A Tale of Two Sons



Platforms  
**PC, Xbox 360, PlayStation 3**

Genre **Adventure**

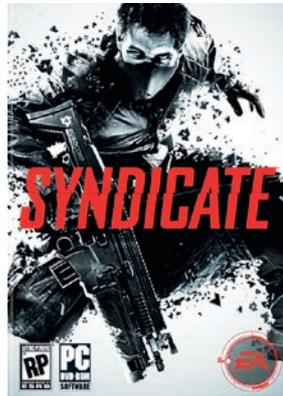
Publisher **505 Games**

Release **August 2013**

Official website  
**brothersthegame.com**

Average score: metacritic.com Steam users  
**87%** **96%**

## Syndicate



Platforms  
**PC, Xbox 360, PlayStation 3**

Genre **Action**

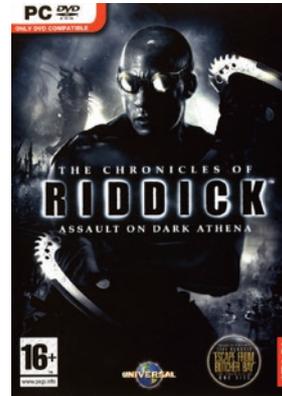
Publisher **Electronic Arts**

Release **February 2012**

Official website **ea.com/syndicate**

Average score, metacritic.com  
**72%**

## The Chronicles of Riddick: Assault on Dark Athena



Platforms  
**PC, Xbox 360, PlayStation 3**

Genre **Action/Adventure**

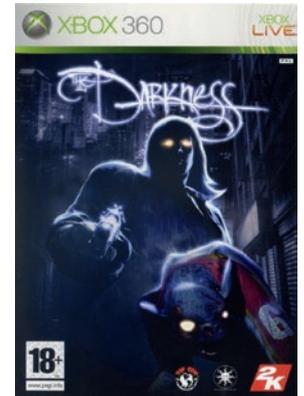
Publisher  
**ATARI, developed in partnership with Tigon Studios**

Release **April 2009**

Official website  
**atari.com/buy-games/fps/chroniclesriddick-assault-dark-athena**

Average score, metacritic.com  
**80%**

## The Darkness



Platforms **Xbox 360, PlayStation 3**

Genre **Action/Adventure**

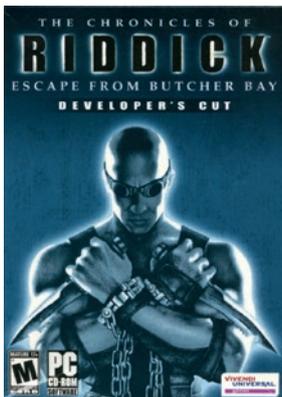
Publisher **2 K Games**

Release **June 2007**

Official website  
**2kgames.com/thedarkness**

Average score, metacritic.com  
**81%**

## The Chronicles of Riddick: Escape from Butcher Bay



Platforms **PC, Xbox**

Genre **Action/Adventure**

Publisher  
**Vivendi Games, developed in partnership with Tigon Studios**

Release **June 2004**

Official website  
**starbreeze.com/games**

Average score, metacritic.com  
**89%**

## Knights of the Temple: Infernal Crusade



Platforms  
**PC, Xbox, PlayStation 2, GameCube**

Genre **Action/Adventure**

Publisher **TDK**

Release **March 2004**

Official website  
**starbreeze.com/games**

Average score, gamerankings.com  
**56%**

## Enclave



Platforms  
**PC, PlayStation 2, Xbox, GameCube**

Genre **Action/Adventure**

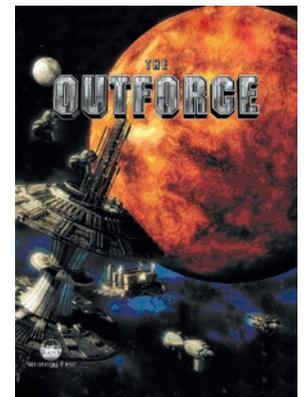
Publisher **ATARI**

Release **July 2002**

Official website  
**starbreeze.com/games**

Average score, gamerankings.com  
**73%**

## The Outforce



Platform **PC**

Genre **Strategy**

Publisher **Pan Interactive**

Release **September 2000**

Official website  
**starbreeze.com/games**

Average score, gamerankings.com  
**59%**

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

# ACQUISITIONS

## **Dhruva** *December 2016*

On 16 December 2016, the Company entered into a share transfer agreement for approximately 90.5 percent of the shares in Dhruva with some of the existing shareholders. On 27 August 2017, the Company and the owners of Dhruva agreed to complete the acquisition. Closing took place in the fourth quarter of 2017. The total consideration consisted

of USD 8.5 million in cash, while part of the seller group acquired newly issued Class B shares in Starbreeze worth USD 1.5 million.

The agreement also contains a five-year earnout capped at USD 0.5 million. Some of the sellers who are considered key individuals will be subject to non-compete restrictions for three years after

closing and a non-solicitation restriction for two years after closing.

On 1 November 2017, Dhruva and Starbreeze Publishing AB entered into a service agreement, according to which Dhruva will provide certain services to Starbreeze Publishing related to the game OVERKILL's The Walking Dead.

<sup>11</sup>Dhruva Infotech Private Limited, an Indian company. See section "Definitions and glossary".

## **Nozon and Parallaxter**

*October 2016*

On 24 October 2016, Starbreeze entered into two agreements on the acquisition of all outstanding shares in Nozon S.p.r.l., a Belgian company (registration number 0462.668.818) and Parallaxter S.p.r.l., a Belgian company (registration number 0564.848.024), from the former owners.

Nozon and Parallaxter were active in developing and commercializing PresenZ Technology, a technology developed by Parallaxter that allows interactive parallax/illusory position shift in pre-rendered 360-degree videos or still pictures and VR content, as well as in post-production and 3D animation. Through these agreements, Starbreeze acquired all outstanding shares in the companies and thus also the rights to the PresenZ Technology.

The purchase consideration was approximately EUR 7 million, of which approximately EUR 4.5 million was paid in cash and EUR 2.5 million was paid through the issue of Class B shares. The sellers also obtained a right to receive an earnout, calculated as a percentage of revenues in excess of EUR 2 million attributable to the PresenZ Technology within ten years of the acquisition date. The earnout is capped at EUR 50 million. In conjunction with the acquisition, the sellers made a lock-up commitment related to the portion of consideration paid through the issue of Class B shares. Under the terms of the agreements, one third of the shares will be released from the lock-up annually. See the table on page 87 under "Lock-up agreements" showing how many shares are covered by the lock-up agreement and the dates upon which they will be released from the lock-up commitment.



Nozon's VR rendering of the short film Construct.

## **Enterspace** *June 2016*

The Company entered into a combined loan and investment agreement with Enterspace and its owners on 8 July 2016, aimed at building a closer relationship and a foundation for collaboration. Enterspace develops software applications for virtual reality. Under the terms of the agreement, the Company will lend approximately SEK 10 million to Enterspace in the initial phase. As agreed, the debt would be converted to equity in Enterspace four months after the date the loan was funded and provided that certain milestones had been achieved. The Company also agreed to invest an additional amount of approximately SEK 10 million, provided that additional milestones were met. The Company extended an additional loan of approximately SEK 10 million in

February 2017. On 9 March 2017, the parties made an amending agreement by which the date of any conversion of the debt to equity was postponed to 31 May 2017.

On 9 March 2017, the Company entered into an agreement to acquire all outstanding shares in Enterspace. The acquisition was finalized on 30 June 2017, whereupon the board of directors of Starbreeze decided to issue new Class B shares pursuant to the authorization by the 2017 annual general meeting based on price per share of SEK 15.87, corresponding to the volume-weighted average price on Nasdaq First North for the Starbreeze Class B share over the ten trading days immediately preceding the date of execution. The total purchase consideration

was SEK 20 million, of which SEK 17 million was paid through the issue of 1,071,203 Class B shares in Starbreeze and SEK 3 million was paid in cash. The 1,071,203 Class B shares issued consequent upon the acquisition are subject to customary lock-up and stay-on clauses.

In connection with the acquisition, Starbreeze's earlier loans to Enterspace of SEK 20 million were converted to equity, which strengthened Enterspace's financial position. The parties have also agreed a three-year capped earnout to the sellers based on Enterspace's future financial performance. The sellers' rights to an earnout will not be triggered until Starbreeze has recouped 120 percent of the SEK 20 million invested in Enterspace through the aforementioned conversion of the debt (and any additional financing of Enterspace provided by the Company). The earnout is capped at SEK 75 million.

### **Cinemaware** *May 2016*

On 12 May 2016, Starbreeze Publishing AB and CW Entertainment USA LLC D/B/A Cinemaware, a company incorporated in Florida, United States, entered into a transfer agreement regarding certain assets. Under the terms of the agreement, Starbreeze Publishing AB acquired certain intellectual property rights related to a retro game portfolio of titles including "Defender of the Crown" and "Wings." The purchase consideration was EUR 525,000.

### **ePawn** *June 2016*

On 30 June 2016, the Company entered into an agreement to acquire 90.5 percent of all outstanding shares in ePawn, a French company (registration number 523 964 823). The remaining 9.5 percent of all outstanding shares in ePawn were acquired by agreement on 7 October 2016. ePawn's operations were primarily in positioning solutions with applications in VR and physical game pieces with their digital counterparts.

The purchase consideration was EUR 1.5 million in cash and EUR 3.5 million paid through the issue of a total of 1,901,656 Class B shares. In addition, the sellers have a right to three earnouts: 1) 10 percent of Starbreeze's net revenues from toys and digital applica-

tions based on the Geminose franchise, which is capped at EUR 5 million; 2) 50 percent of revenues derived from a five-year licensing agreement Starbreeze entered into in 2015; and 3) 25 percent of revenues derived from sales to certain customers specified in the agreement.

Certain sellers also made lock-up commitments regarding a minor portion of the Class B shares they received as consideration. See the table on page 87 under "Lock-up agreements" showing how many shares are covered by the lock-up agreement and the dates upon which they will be released from the lock-up commitment.



The retro game "Wings" was included in Starbreeze's acquisition of Cinemaware in May 2016.

### **Payday Productions** *September 2015*

Payday Productions LLC, an American limited liability company incorporated in Nevada, is a company that holds the rights to make a feature film of a script based on the Starbreeze game "PAYDAY: The Heist" and the related PAYDAY world. The owners of Payday Productions LLC included Varvtre AB, which is controlled by Bo Andersson Klint, CEO of and largest shareholder in Starbreeze, and Starbreeze.

On 8 September 2015, Starbreeze

entered into an agreement to acquire all outstanding shares in Payday Productions LLC not held by Varvtre AB or Starbreeze for purchase consideration of USD 330,000 and a commitment to a capital contribution to Payday Productions LLC of an additional USD 150,000 to be used as a development budget to increase the likelihood that a movie will be financed, produced and released.

In October 2015, Varvtre AB trans-

ferred its interests held in Payday Productions LLC to Starbreeze LA against no monetary consideration. Starbreeze has made a limited tax commitment to the benefit of Varvtre AB connected to the receipt by Starbreeze of the outstanding shares in Payday Productions LLA from Varvtre AB against no monetary consideration. After this transaction, Payday Productions LLC is wholly owned by the Group.

## Valhalla

July 2015

On 16 July 2015, the Company's wholly owned subsidiary Starbreeze IP Lux and Valhalla S.a.r.l., a company incorporated in Luxembourg, entered into an agreement on the acquisition by Starbreeze of Valhalla S.a.r.l.'s commercial activities, which consisted of owning and developing the Valhalla game engine.

The purchase consideration was approximately SEK 74.6 million, paid through the issue of a total of 3,330,000 Class B shares and 1,665,000 Class A shares. SEK 22.40 was paid for each share, corresponding to the last price paid on First North Premier on 28 May 2015.

The Valhalla engine was developed by parties including Emmanuel Marquez (CTO at Starbreeze), who also owned Valhalla S.a.r.l at the time of the acquisition. The transaction was therefore treated as a related-party transaction. The transaction was approved by the required majority at an extraordinary general meeting held 12 June 2015.

## Orange Grove Media

June 2015

On 14 June 2015, the Company entered into a purchase and merger agreement by which Starbreeze acquired all shares in Orange Grove Media LLC, a Nevada-based limited liability company, from the former owners and immediately thereafter merged Orange Grove Media and Starbreeze LA Inc. Starbreeze LA Inc. was the overtaking company in the merger. Orange Grove Media LLC owned the rights to the game ideas "The Hunt – Assault on Mythos" and "The Rockhound."

The purchase consideration was approximately SEK 44.1 million, paid through the issue of a total of 3,600,000 Class B shares. The sellers have made a lock-up commitment for the shares received as consideration for a total of three years, with one third of the shares released from the commitment each year.

## InfiniEye

June 2015

On 12 June 2015, the Company entered into a share transfer agreement by which Starbreeze acquired all shares in InfiniEye VR SAS, a French company (registration number 800 034 365), from the former owners. InfiniEye VR was active in virtual reality technology development and held the rights to InfiniEye's HMD, which was later further developed into the StarVR HMD.

The purchase consideration was USD 2 million, paid in cash. In addition, the sellers have a right to an earnout based on Starbreeze's net revenues from a potential future sale of InfiniEye or the virtual reality development business conducted in InfiniEye within 60 months of the agreement. No earnout has been paid thus far.

## Geminose

September 2014

On 1 September 2014, the Company and Starbreeze USA entered into a transfer and merger agreement by which the Company acquired all outstanding shares in Geminose Inc., from the former owners and immediately thereafter merged Geminose Inc. with Starbreeze USA. Starbreeze USA was the overtaking company in the merger.

The purchase consideration was USD 7 million and was paid through a directed issue of 4,606,778 shares in the Company. In addition, the sellers have the right to receive a maximum earnout of USD 10 million during a five-year period. No earnout has been paid thus far.



# PRINCIPAL INVESTMENTS

## **Investment in American start-up** *September 2016*

On 14 September 2016, Starbreeze Ventures entered into an agreement to acquire convertible instruments in an American company incorporated in Delaware that, in an early stage, is active in the field of wireless technology. Under the terms of the agreement, convertible instruments up to a total amount of USD 5 million may be acquired by Starbreeze Ventures, Bo Andersson Klint and Emmanuel Marquez. Of the total amount, USD 1.5 million was invested in equal shares by Starbreeze Ventures, Bo Andersson Klint and Emmanuel Marquez when the agreement was made. The remaining amount (USD 3.5 million) will be invested by Starbreeze Ventures in installments of USD 0.7 million every six months from the date the agreement was made. As of the publication of this Prospectus, Starbreeze Ventures has invested a total of USD 1.9 million and the next investment will be made, in accordance with the original agreement,

on 9 April 2018. If Starbreeze Ventures does not make the future investments, the start-up company is permitted to sell the convertible instruments that Starbreeze Ventures has the contractual right to acquire to a third party. In addition, the value of Starbreeze Ventures' claims under the already acquired convertible instruments would be reduced by 25 percent as a penalty.

In connection with the acquisition agreement, the founder of the start-up company entered into an agreement that puts restrictions on how the founder is permitted to compete with Starbreeze Ventures.

On 19 July 2017, Bo Andersson Klint and Emmanuel Marquez transferred their respective convertible instruments to investment companies controlled by them. Otherwise, the terms and conditions of the convertible instruments are unchanged, with no effect on the convertible instruments.

## **CMUNE Holding** *June 2015*

On 12 June 2015, the Company entered into an agreement to acquire shares in CMUNE Holding, a company incorporated in Cayman Islands. The Company invested USD 1.4 million and in conjunction, CMUNE Holding agreed to ensure that the invested funds were used to finance development of the Payday Mobile game.

# SALE OF PUBLISHING RIGHTS

Starbreeze decided as of 21 March 2018 to sell the publishing rights to the game *Dead by Daylight* to the developer, Behaviour Interactive Inc (Behaviour). Starbreeze will receive an initial payment of USD 4 million, followed by an additional USD 12 million paid in stages as royalties on 65 percent of game revenues. The deal will accelerate cash flows to Starbreeze from the game, which will strengthen Starbreeze's earnings and free up capital for new projects.

The publishing rights to the game will not be transferred to Behaviour until Starbreeze has been paid the entire consideration of USD 16 million. Until then, Starbreeze will retain control over the game's payment streams and remain

the official publisher of the game, but as per 1 January 2018, Behaviour assumes the obligations of Starbreeze in connection with the game under the Publishing Agreement, including all development and marketing costs. Behaviour has the option to remit final payment of the remaining balance due at any time and thereby take over the rights at an earlier date.

According to the original publishing contract, Starbreeze and Behaviour split net revenues from the game 50/50 after development and marketing costs. Revenues from *Dead by Daylight* amounted to SEK 202 million in 2017, which was split 50/50 with Behaviour. During the same period, Starbreeze incurred costs attributable to the game of SEK 34 million,

resulting in a surplus to Starbreeze for the game of SEK 66 million in 2017. The effect of the deal on Starbreeze's revenues and profit will be determined by how sales of the game develop.

*Dead by Daylight* was initially released for PC in 2016 and the console version was released in 2017. Ten downloadable content (DLC) bundles have since been released. If the game follows the usual trend curve, sales revenues will decline in future years.

Upon expiration of the publishing agreement, Starbreeze will no longer have any rights connected to the game apart from certain rights to further compensation if the game is launched in China before 2020.

# CONVERTIBLE BONDS, JOINT VENTURE COMPANY AND LOAN AGREEMENTS

## **Acer convertible bond**

*September 2016*

On 9 September 2016, an extraordinary general meeting in the Company resolved to issue a convertible bond of SEK 75,515,400 in total. The issue was directed at Acer, which subsequently subscribed and paid the convertible bond. Annual interest of 1 percent accrues on the bond and will be due and payable two years after the date the convertible bond was entered in the Euroclear system. The holder of the convertible bond

has the right to call for conversion of the debt to Class B shares at a price of SEK 17.82 per Class B share. Before the bond matures, the Company also has the right to call for conversion, provided that the conversion price (SEK 17.82) is lower than the relevant, volume-weighted average share price for five trading days up to and including the trading day before the day the Company calls for conversion. A maximum of 4,237,676 new Class B

shares may be added through conversion.

In the event that one of the Company's shareholders or a group of shareholders have, in concerted action, directly or indirectly, acquired the right to cast more than 50 percent of the votes in the Company at a general meeting, Acer has the right to demand early redemption of the convertible bond at face value.

## **Joint venture with Acer**

*June 2016*

On 24 June 2016, Starbreeze and Acer entered into an agreement to establish a Taiwan-based joint venture company. The business of the joint venture company will be to sell and market StarVR and the StarVR HMD. The joint venture, StarVR Corporation, was subsequently established and owned equally by Starbreeze and Acer. In October 2017, Starbreeze and Acer entered into an agreement on a new financing plan for StarVR Corpora-

tion, under which Acer contributed USD 5 million to the joint venture and in so doing increased its stake to 66.7 percent. According to the agreement, Starbreeze was released from its commitment to contribute an additional USD 7.5 million and Starbreeze's stake in StarVR is thus 33.3 percent.

The agreement contains customary transfer restrictions regarding shares in the joint venture company, tag-along

clauses and regulations to resolve situations where the parties cannot reach consensus on matters concerning the joint venture company.

On 8 February 2018, Starbreeze confirmed that the Company and Acer are in talks concerning a possible market listing of StarVR, but no decision has been made in the matter.

## **Smilegate convertible bond and options** *January 2016*

On 20 January 2016, Starbreeze and Smilegate entered into an investment agreement, by which Smilegate agreed to invest a total of SEK 344 million in the Company. The investment was divided into an investment of (i) SEK 129 million in payment for 3,376,016 Class A shares and 6,244,015 Class B shares and (ii) SEK 215 million in payment for a convertible bond. Under the terms of the investment agreement, the Company issued a number of customary guarantees to Smilegate, to the extent this can be legally effected under Swedish law.

The convertible bond accrues annual interest of 2 percent, payable every six months. In addition, if the convertible bond is not exercised for conversion to equity, the Company must, in addition to the ordinary interest, pay additional interest on the loan's maturity date, corresponding to 2 percent per year from the registration date and to the maturity date

of the convertible bond, dates inclusive.

The maturity date of the loan is five years after the registration date of the convertible bond. Under the original terms, the debt could be converted to Class B shares at a conversion price equal to the lower of SEK (i) 13.49 or (ii) the relevant, volume-weighted average share price for 60 trading days up to and including the trading day before the day the conversion is called. However, the minimum conversion price was SEK 9.35 per share. On 16 August 2016, the parties agreed to amend the original terms to the extent that the conversion price was fixed at SEK 13.49 and clauses on possible adjustment of the conversion price were stricken. In order to compensate Smilegate for the less favorable changes to the terms and conditions, the Company issued options to Smilegate. The options convey the right from time to time to subscribe for the

number of shares equal to the difference between the number of shares a conversion under the original terms would have conveyed a right to and the number of shares that a conversion under the new terms will convey a right to.

The Company has agreed to use the funds invested within the framework of the convertible bond to develop the game Crossfire Co-op. Provided that the Company performs certain specified obligations pertaining to game development and release, the Company has the right to call for conversion of the bond.

The terms and conditions contain certain covenants pertaining to financial key figures that the Company must maintain for the duration of the loan. The Company has agreed not to distribute dividends exceeding SEK 0.15 per share per year, to maintain at least SEK 360,000,000 in total equity, to ensure that the Company's

<sup>1)</sup>The financial expenses for the period less interest paid during the relevant period to one Group company (by another Group company) pertaining to cash or investments corresponding to cash.

operating result in relation to net financial expenses<sup>1</sup>) pertaining to certain periods does not fall below the quotient of 1.0 and to maintain a ratio between total equity and total equity including interest-bearing liabilities of 0.5 in accordance with the most recently presented annual report. These commitments limit the Company's opportunities to raise further loans and its opportunities to distribute dividends. If the Company breaches its obligations, it may be obliged to repay the debt prematurely.

Smilegate has the right to request repayment of the loan under circumstances including (i) failure to meet obligations concerning financial key figures, (ii) in the event of a change of controlling owner, (iii) in the event the Company's shares are delisted, (iv) upon a decision to wind up the Company, and (v) at any time after the fourth anniversary, provided that both the Crossfire Co-op game and the Walking

Dead project have not become the object of commercial release prior to the fourth anniversary. Furthermore, Smilegate has the right to call for conversion to Class B shares at any time during the period up to the date that falls 14 days before the final maturity date.

In the event that one or more persons or entities that are not Smilegate or Bo Andersson Klint acquire control over the Company, where control refers to (i) acquisition or control over shares corresponding to more than 30 percent of total voting power in the Company, or (ii) the right to appoint or dismiss all or the majority of the Company's board of directors, Smilegate is entitled to either request early redemption of the convertible bond or exercise its right to conversion at a recalculated conversion price, which is to be set based on certain specific parameters, but shall be no less than the par

value of one share in the Company.

The agreement bundle also contains a lock-up commitment that covers Starbreeze's CEO Bo Andersson Klint, COO Mikael Nermark and CTO Emmanuel Marquez. See the table on page 87 under "Lock-up agreements" showing how many shares are covered by the lock-up agreement and the dates upon which they will be released from the lock-up commitment. Breach of these lock-up commitments could impose an early repayment obligation on the Company.

## **Loan agreement with Nordea August 2017**

On 24 August 2017, Enterspace International AB entered into a loan agreement with Nordea Bank (publ), which also includes Starbreeze and Enterspace as guarantors. Under the terms of the agreement, Enterspace International AB will have access to SEK 40 million, partly in the form of a bank overdraft and partly in the form of an ordinary loan (if there is available credit). The interest on every withdrawal from the overdraft, as well as any ordinary loan, is based on the lower of (i) the applicable STIBOR (Stockholm Interbank Offered Rate) or (ii) 0 percent plus a market-based annual margin. If no applicable STIBOR is available, interest is calculated based on interpolation of STIBOR or based on an average of the internal rates of Swedish banks. The overdraft is available for six months from execution of the agreement. After the possibility of using the overdraft has expired, Enterspace International AB has the option to utilize the ordinary loan for one day. Under the terms of the agreement, Enterspace International AB shall pay certain customary fees and has, jointly with the Company

and Enterspace, made certain customary covenants, provided certain customary guarantees and undertaken certain customary obligations.

Furthermore, on 24 August 2017 Starbreeze Publishing AB entered into a loan agreement with Nordea Bank (publ), which also includes Starbreeze and Starbreeze Production AB as guarantors. Under the terms of the agreement, Starbreeze will have access to a general line of credit of SEK 150 million in multiple currencies, which can be drawn down as ordinary debt or a bank overdraft. The interest for each withdrawal from the line of credit is based on the applicable Interbank Offered Rate, depending upon the choice of currency, plus a market-based margin. If no Interbank Offered Rate is available, interest is calculated based upon (i) interpolation of the Interbank Offered Rate for the selected currency or (ii), if interpolation is impossible, that the loan is raised in SEK and the term of the loan coincides with the interest period for the loan. The line of credit is available for three years from execution of the agreement. Under the terms

of the agreement, Starbreeze Publishing must pay certain customary fees and has, jointly with the Company and Starbreeze Production AB, made certain customary covenants, provided certain customary guarantees and undertaken certain customary obligations.

On 22 February 2018, Starbreeze Publishing AB and Nordea Bank AB (publ) entered into an amendment agreement that requires Starbreeze and Starbreeze Production AB, in the capacity of guarantors, to deposit SEK 125 million in a bank account pledged to the benefit of Nordea Bank AB (publ). According to the amendment agreement, Nordea AB (publ) must approve the partial release of amounts specified in the agreement if and when certain specified circumstances occur. Under certain circumstances, Starbreeze Publishing AB may be obligated to deposit additional funds in the pledged account. As of the date of this Prospectus, SEK 50 million has been released from the pledged account and SEK 75 million remains on deposit in the bank account, which is pledged to Nordea Bank AB (publ).

# INTELLECTUAL PROPERTY RIGHTS

The Group's business is largely dependent upon the intellectual property rights held by the Group, primarily in the form of copyright on own games and software, publishing licenses for games whose rights are owned by third parties, patents and patent applications, trademarks and internal specific knowledge and know-how protected under the Swedish Act on the Protection of Trade Secrets (1990:409).

Except for the games in the PAYDAY game series and the Geminose game, the rights to the majority of the games published by Starbreeze are owned either by a licensor, an external game developer, or jointly by Starbreeze and the game developer. In cases where external game studios supply Starbreeze with new games, Starbreeze is generally granted an exclusive, global, transferable and

sublicensable publishing license to the game that is covered by the agreement. Starbreeze has the right to reproduce, sell, publish and distribute the games in the languages and via the platforms specified in the respective agreements. In some cases, games have been developed by external game studios under "work for hire" agreements, according to which all rights (including copyright) to the game or games covered by the agreement are transferred to Starbreeze.

The Group holds certain patents and pending patent applications attributable to StarVR and technologies related to image analysis and location-based games.

The Group has a number of established brands in relevant markets, registered trademarks in the United States and pending trademark applications in

other relevant markets. The trademarks and trademark applications apply to the Group's most important trademarks, including STARBREEZE, OVERKILL, PAYDAY, Geminose and STARVR, as well as various names and characters in the PAYDAY game series and the Geminose game.

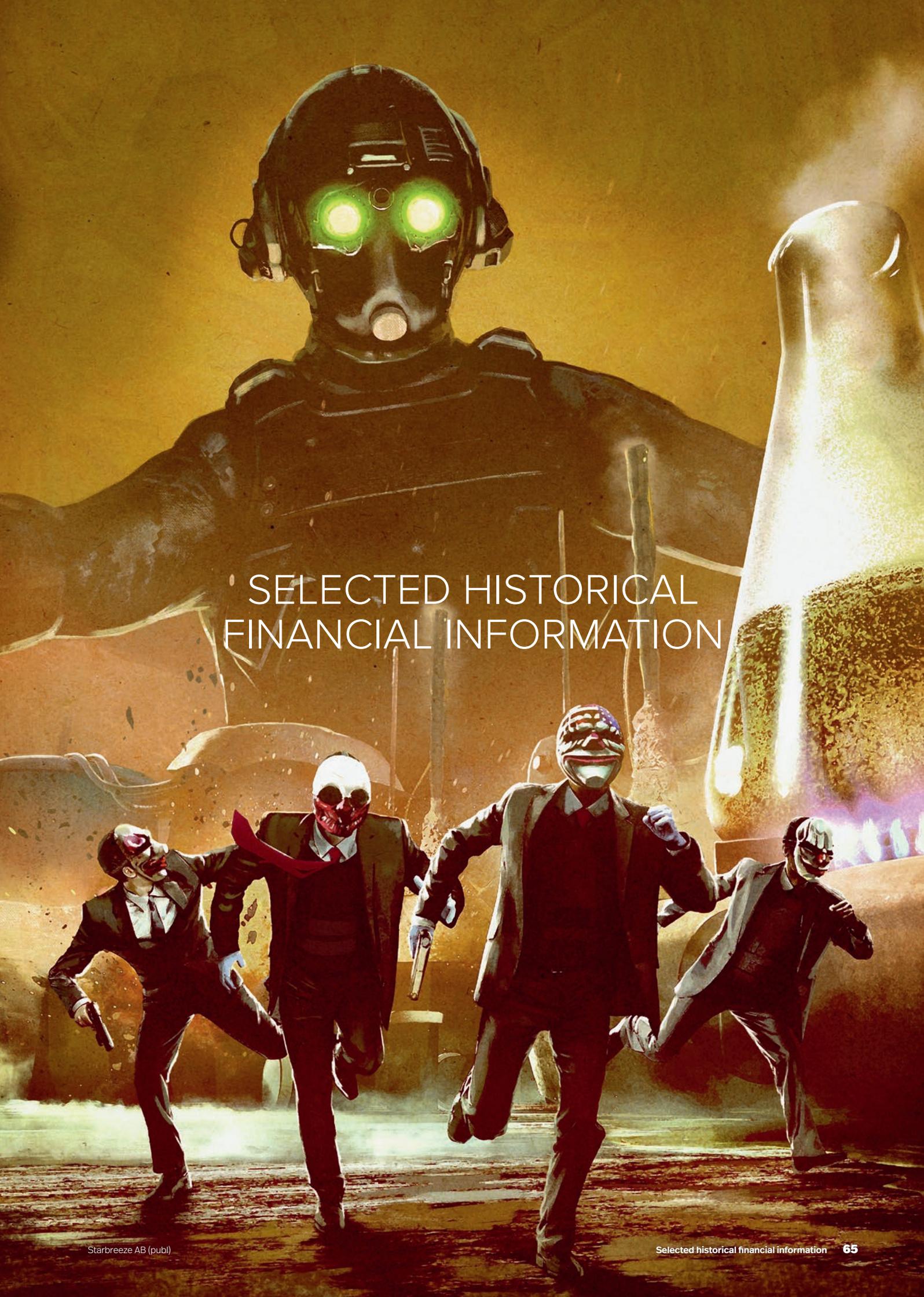
Starbreeze owns a number of domain names and top domains connected to these names, including starbreeze.com, overkillsoftware.com and starvr.com.

The Group's registered patents and patent applications are shown on the table below. Patent protection for a product is 20 years from the registration date. Patent protection for a design patent varies from country to country, but the term is at least ten years.

## The Group's registered patents and patent applications

Company	Simplified description of the patent	Project	Publication number	Countries (granted)	Countries (pending)
Starbreeze Paris SAS	Connection in real-time of several mobile elements to a computer system	RFid technology	WO2012028827	FR, US, JP, CN	KR, EP <sup>1)</sup> , BR
Starbreeze Paris SAS	Device for aiding the location in real time of a self-powered mobile element	RFid technology	WO2013182778	FR, US, JP	KR, EP <sup>1)</sup> , CN
Starbreeze Paris SAS	Determination of the interaction surface of a mobile device with a host device	RFid technology	WO2014072622	FR, US	EP <sup>1)</sup> , CN
Starbreeze Paris SAS	Control of a host station through movement of a moving device	RFid technology	WO2014106718	FR	US, EP <sup>1)</sup>
Starbreeze Paris SAS	Control of a remote device by a logon device for mobile devices	RFid technology	WO2014106719	FR	US, EP <sup>1)</sup>
Starbreeze Paris SAS	Device and system for generating and automatically controlling a force for moving a movable element located in real time	RFid technology	WO2014167229	FR	US, JP, EP <sup>1)</sup> , CN
Starbreeze Paris SAS	Method and device for locating mobile elements provided with standard NFC tags	RFid technology	WO2015075370	FR	US, KR, JP, EP <sup>1)</sup> , CN
Starbreeze Paris SAS	Method and device for extending detection surfaces interfacing a plurality of mobile entities with a computer system	Floor technology	EP3187989 – US20170195851	US	FR, KR, JP, EP <sup>1)</sup> , CN, BR
Starbreeze Paris SAS	Hybrid mobile entity, method and device for interfacing a plurality of hybrid mobile entities with a computer system, and a set for a virtual or augmented reality system.	Floor technology	EP3185110 – US20170184387 – FR3046261	-	FR, US, KR, JP, EP <sup>1)</sup> , CN, BR
Parallaxter	Method for collecting image data for producing immersive video and method for viewing a space on the basis of the image data	PresenZ	WO2016061640	BE	US, KR, JP, EP <sup>1)</sup> , CN, CA, AU, NZ
Starbreeze IP Lux II	VR Head-Mounted Display	StarVR	WO2017108211	LU	-
Starbreeze IP Lux II	VR headset	StarVR	DM/091 147	AM, EM <sup>1)</sup> , JP, MD, NO, TW, CN, KR	BJ, BZ, CI, GA, KP, MA, ML, NE, SN, SR, AL, AZ, BA, BN, BW, CH, EG, GE, GH, IS, KG, KR, LI, MC, ME, MK, MN, NA, OA, OM, RS, RW, SG, ST, SY, TJ, TM, TN, TR, UA, US
Starbreeze IP Lux II	Eye tracking system for Head-Mounted Display	StarVR	LU100354	LU	-
Starbreeze IP Lux II	Virtual Reality display unit (for DK3 model)	StarVR	TW106303523-CN201730392843.5-US29/613,751	-	TW, CN, US

<sup>1)</sup>EP and EM = Europe



SELECTED HISTORICAL  
FINANCIAL INFORMATION

# SELECTED HISTORICAL FINANCIAL INFORMATION

The following summarized financial information regarding the financial years of 2014/2015, 1 July–31 December 2015 and 2016 was taken from Starbreeze's audited consolidated financial statements, which were prepared in accordance with IFRS and have been audited by the Company's statutory auditors. The information pertaining to 2017 was taken from Starbreeze's interim reports and was prepared in accordance with IFRS. The interim report Q2 and Q4 2017 have been reviewed by the Company's statutory auditors.

The Company's condensed financial statements presented below should be read together with Starbreeze's audited consolidated financial statements and explanatory notes for the years of 2014/2015, 1 July–31 December 2015 and 2016, and Starbreeze's interim reports for 1 January–31 December 2017. See the Swedish version of the prospectus under "Historisk finansiell information."

The annual general meeting held in November 2015 resolved to change the financial year from a split financial year

to the calendar year, effective 1 January 2016. Accordingly, the financial information in this section presents figures from the following financial years: July 2014–June 2015 (split financial year), July 2015–December 2015 (short financial year) and January 2016–December 2016 (financial year coinciding with the calendar year). Readers of the Prospectus should take particular note of this change of financial year, which impedes comparisons between financial years.

## Condensed consolidated statement of comprehensive income

SEKk	Unaudited	Audited		
	Full year 2017	Full year 2016	1 Jul 2015–31 Dec 2015	1 Jul 2014–30 Jun 2015
<b>Operating revenue</b>				
Net sales	361,447	345,463	98,830	197,332
Capitalized development costs	231,934	154,450	50,248	28,135
Other operating revenue	-	23,132	481	6,846
<b>Total</b>	<b>593,381</b>	<b>523,045</b>	<b>149,559</b>	<b>232,313</b>
<b>Operating expenses</b>				
Other external expenses	-415,780	-292,106	-65,391	-116,407
Employee benefits expense	-229,938	-148,517	-59,712	-56,227
Amortization of intangible assets	-82,294	-20,600	-670	-11,807
Depreciation of property, plant and equipment	-15,642	-4,166	-1,905	-927
Other operating expenses	-1,186	-1,202	-847	-483
<b>Operating profit (-loss)</b>	<b>-151,459</b>	<b>56,454</b>	<b>21,034</b>	<b>46,462</b>
Financial income	10,105	17,511	286	391
Financial expenses	-30,631	-18,196	-128	-275
Share of profit or loss from holdings recognized using the equity method of accounting	-4,200	131	-	-
<b>Profit (-loss) before tax</b>	<b>-176,185</b>	<b>55,900</b>	<b>21,192</b>	<b>46,578</b>
Income tax	20,855	1,191	613	-12,428
<b>Net profit (-loss) for the period</b>	<b>-155,330</b>	<b>57,091</b>	<b>21,805</b>	<b>34,150</b>
<b>Other comprehensive income that may subsequently be reclassified to profit and loss</b>				
Exchange differences	1,402	-4,375	921	7,125
<b>Total comprehensive income</b>	<b>-153,928</b>	<b>52,716</b>	<b>22,726</b>	<b>41,275</b>
<i>Total comprehensive income for the period attributable to:</i>				
Owners of the parent	-154,022	52,716	22,726	41,275
Non-controlling interests	94	-	-	-
Average number of shares, basic	280,309,967	255,276,469	230,001,583	217,025,086
Average number of shares, diluted	280,309,967	257,234,798	234,090,261	226,340,695
Basic earnings per share, SEK	-0.55	0.22	0.09	0.16
Diluted earnings per share, SEK	-0.55	0.22	0.09	0.15

## Condensed consolidated balance sheet

1 January–31 December, SEKk	Unaudited	Audited		
	31 Dec 2017	31 Dec 2016	31 Dec 2015	30 Jun 2015
<b>Assets</b>				
<b>Non-current assets</b>				
<i>Intangible assets</i>				
Goodwill	544,971	404,530	74,314	38,806
Other intangible assets	597,467	594,728	200,202	114,772
Capitalized costs for game and technology development	642,767	303,763	114,913	30,787
<i>Financial assets</i>				
Financial assets	38,156	31,971	15,623	13,480
Investments in joint venture	41,890	8,638	-	-
Deferred tax assets	108,153	30,712	5,252	-
<i>Property, plant and equipment</i>				
Computers and other equipment	98,901	23,458	16,773	9,688
<b>Total non-current assets</b>	<b>2,072,305</b>	<b>1,397,800</b>	<b>427,077</b>	<b>207,533</b>
<b>Current assets</b>				
Inventories	22	2	2	426
Trade and other receivables	27,821	25,576	33,000	18,578
Prepaid expenses and accrued income	125,259	56,183	22,697	34,234
Cash and cash equivalents	233,757	669,380	85,354	110,606
<b>Total current assets</b>	<b>386,859</b>	<b>751,141</b>	<b>141,053</b>	<b>163,844</b>
<b>Total assets</b>	<b>2,459,164</b>	<b>2,148,941</b>	<b>568,130</b>	<b>371,377</b>
<b>Equity and liabilities</b>				
Share capital	5,661	5,538	4,607	4,350
Reserves	5,073	3,671	8,046	7,125
Other capital contributions	1,243,573	1,175,563	257,352	135,561
Retained earnings including net profit for the year	27,748	185,451	128,360	106,555
Non-controlling interests	344	-	-	-
<b>Total equity</b>	<b>1,282,399</b>	<b>1,370,223</b>	<b>398,365</b>	<b>253,591</b>
<b>Liabilities</b>				
Non-current liabilities, earnouts <sup>1)</sup>	347,862	307,099	8,227	8,281
Deferred tax liability	169,346	119,135	42,356	-
Other non-current liabilities	466,557	265,535	-	39,603
<b>Total non-current liabilities</b>	<b>983,765</b>	<b>691,768</b>	<b>50,583</b>	<b>47,884</b>
<b>Current liabilities</b>				
Trade and other payables	122,396	41,990	53,923	36,473
Accrued expenses and deferred income	70,604	44,960	65,259	33,429
<b>Total current liabilities</b>	<b>193,000</b>	<b>86,950</b>	<b>119,182</b>	<b>69,902</b>
<b>Total equity and liabilities</b>	<b>2,459,164</b>	<b>2,148,941</b>	<b>568,130</b>	<b>371,377</b>

<sup>1)</sup>Agreed conditional earnouts to the sellers of acquired companies may potentially be higher than the amounts reported on the balance sheet.

## Condensed consolidated statement of cash flows

SEKk	Unaudited	Audited		
	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
<b>Operating activities</b>				
Cash flow from operations	-11,167	8,868	50,349	59,935
Interest paid	-5,325	-2,682	-129	-3
Interest received	9	5,410	60	426
Income taxes paid	-4,603	3,695	-3,590	-23,607
<b>Cash flow from (-used in) operating activities</b>	<b>-21,086</b>	<b>15,291</b>	<b>46,690</b>	<b>36,751</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	-87,338	-9,449	-8,946	-8,885
Investments in subsidiaries, less acquired cash and cash equivalents	-59,076	-60,412	-4,305	-18,445
Purchase of intangible assets	-	-15,354	-525	-
Investment in other financial assets	-61,590	-9,668	-1,956	-12,420
Investments in capitalized costs for games development	-412,103	-194,871	-67,317	-28,134
<b>Cash flow from (-used in) investing activities</b>	<b>-620,107</b>	<b>-289,754</b>	<b>-83,049</b>	<b>-67,884</b>
<b>Financing activities</b>				
New issues	-	554,906	10,579	460
Payments for stock options	43,073	14,128	-	-
Increase in non-current liabilities	169,209	284,945	-	-
Repayment of loans	-3,369	-516	-	-
<b>Cash flow from financing activities</b>	<b>208,913</b>	<b>853,463</b>	<b>10,579</b>	<b>460</b>
<b>Cash flow for (-used in) the period</b>	<b>-432,280</b>	<b>579,000</b>	<b>-25,780</b>	<b>-30,673</b>
Cash and cash equivalents at the beginning of the period	669,380	85,354	110,606	136,566
Exchange differences in cash and cash equivalents	-3,343	5,026	528	4,713
<b>Cash and cash equivalents at the end of the period</b>	<b>233,757</b>	<b>669,380</b>	<b>85,354</b>	<b>110,606</b>

## Net sales per segment

The Company has elected to report revenues and operating results segmented into three business areas: Starbreeze Games, Publishing and VR Tech & Operations. The segment reports contain the Company's own figures and have not, unless otherwise specified, been audited, but were calculated based on figures audited by the Company's statutory auditor for the financial years of 2014/2015, 1 July–31 December 2015 and 2016, and reviewed by the Company's statutory auditor for the interim period of Q2 and Q4 2017.

SEKk	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
<b>Starbreeze Games</b>				
Net sales	122,074	162,455	98,830	197,332
Capitalized development costs	148,196	82,733	50,248	28,135
Other operating revenue	-	11,977	481	6,846
<b>Total</b>	<b>270,270</b>	<b>256,862</b>	<b>149,559</b>	<b>232,313</b>
<b>Operating profit</b>	<b>-550</b>	<b>85,534</b>	<b>21,034</b>	<b>46,462</b>
<b>Publishing</b>				
Net sales	219,925	176,142	-	-
Capitalized development costs	26,137	32,440	-	-
Other operating revenue	-	7,951	-	-
<b>Total</b>	<b>246,062</b>	<b>216,533</b>	<b>-</b>	<b>-</b>
<b>Operating profit (-loss)</b>	<b>-42,465</b>	<b>64,590</b>	<b>-</b>	<b>-</b>
<b>VR Tech &amp; Operations</b>				
Net sales	3,883	-	-	-
Capitalized development costs	57,601	39,264	-	-
Other operating revenue	-	5,983	-	-
<b>Total</b>	<b>61,484</b>	<b>45,247</b>	<b>-</b>	<b>-</b>
<b>Operating profit (-loss)</b>	<b>-411</b>	<b>-31,906</b>	<b>-</b>	<b>-</b>
<b>Other</b>				
Net sales	15,565	6,879	-	-
Capitalized development costs	-	303	-	-
Other operating revenue	-	-2,779	-	-
<b>Total</b>	<b>15,565</b>	<b>4,403</b>	<b>-</b>	<b>-</b>
<b>Operating profit (-loss)</b>	<b>-108,033</b>	<b>-61,764</b>	<b>-</b>	<b>-</b>
<b>Total</b>				
Net sales	361,447	345,463	98,830	197,332
Capitalized development costs	231,934	154,450	50,248	28,135
Other operating revenue	-	23,132	481	6,846
<b>Total</b>	<b>593,381</b>	<b>523,045</b>	<b>149,559</b>	<b>232,313</b>
<b>Operating profit (-loss)</b>	<b>-151,459</b>	<b>56,454</b>	<b>21,034</b>	<b>46,462</b>

There are no revenues from transactions with other operating segments and the net sales presented thus refer to revenues from external customers.

## Key data for the Group (including definitions)

### Key performance measures according to IFRS

The following calculations of key performance measures according to IFRS have been audited by the Company's statutory auditor for the financial years of 2014/2015, 1 July–31 December 2015 and 2016, and reviewed by the Company's statutory auditor for the interim periods of Q2 and Q4 2017.

#### Key performance measures according to IFRS

	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
<b>Revenue</b>				
Net sales, SEKK	361,447	345,463	98,830	197,332
<b>Share data</b>				
Basic earnings per share, SEK	-0.55	0.22	0.09	0.16
Diluted earnings per share, SEK	-0.55	0.22	0.09	0.15
Average number of shares, basic	280,309,967	255,276,469	230,001,583	217,025,086
Average number of shares, diluted	280,309,967	257,234,798	234,090,261	226,340,695

### Alternative Performance Measures not measured according to IFRS

Unless otherwise specified, the following table showing financial key data contains certain financial and operational key figures that are not generally accepted measures of financial performance or position under IFRS. The information below concerning the financial years of 2014/2015, 1 July–31 December 2015, 2016 and 2017 are of substantive value to investors because they enable better evaluation of the Company's financial position and operating results. Unless otherwise specified, the key figures have not been audited, but were calculated based on figures audited by the Company's statutory auditor for the financial years of 2014/2015, 1 July–31 December 2015 and 2016, and reviewed by the Company's statutory auditor for the interim periods of Q2 and Q4 2017. See "Definitions of Alternative Performance Measures not measured according to IFRS" for definitions of key data.

#### Alternative Performance Measures not measured according to IFRS

	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
<b>Margins</b>				
EBITDA margin, %	-9.0	15.5	15.8	25.5
EBIT margin, %	-25.5	10.8	14.1	20.0
Profit margin, %	-29.7	10.7	14.2	20.1
<b>Capital structure</b>				
Equity to assets ratio, %	52.1	63.8	70.1	68.3
<b>Share data</b>				
Number of shares at the end of the period, basic	283,037,940	276,879,720	230,361,091	217,477,987
Number of shares at the end of the period, diluted	306,443,723	304,352,451	234,449,769	226,793,596
<b>Employees</b>				
Average number of employees	272	151	105	66
Number of employees at the end of the period	650	212	109	76

## Definitions of Alternative Performance Measures not measured according to IFRS

	Definition	Reason
<b>EBITDA margin</b>	EBITDA as a percentage of net sales.	The measure is relevant to create an understanding of operational profitability, and because the measure excludes depreciation and amortization, the margin gives stakeholders a clearer view of the Company's core profitability.
<b>EBIT margin</b>	EBIT as a percentage of net sales.	The measure is relevant to measuring operational profitability after depreciation and amortization.
<b>Profit margin</b>	Operating profit after financial income and financial expenses as a percentage of net sales.	The measure provides a clear view of profitability regardless of the corporate tax rate.
<b>Equity to assets ratio</b>	Equity as a percentage of total assets.	The measure is an indicator of the Company's gearing for financing of the Company.

## Reconciliation of Alternative Performance Measures

SEKk	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
<b>EBITDA margin</b>				
Operating profit (-loss)	-151,459	56,454	21,034	46,462
<i>Reversed:</i> Amortization of intangible assets	- 82,294	-20,600	-670	-11,807
<i>Reversed:</i> Depreciation of property, plant and equipment	-15,642	-4,166	-1,905	-927
EBITDA	-53,523	81,220	23,609	59,196
<i>Divided by:</i> The sum of net sales and capitalized development costs	593,381	523,045	149,559	232,313
<b>EBITDA margin, %</b>	<b>-9.0</b>	<b>15.5</b>	<b>15.8</b>	<b>25.5</b>
<b>EBIT margin</b>				
Operating profit (-loss)	-151,459	56,454	21,034	46,462
<i>Divided by:</i> The sum of net sales and capitalized development costs	593,381	523,045	149,559	232,313
<b>EBIT margin, %</b>	<b>-25.5</b>	<b>10.8</b>	<b>14.1</b>	<b>20.0</b>
<b>Profit margin</b>				
Profit (-loss) before tax	-176,185	55,900	21,192	46,578
<i>Divided by:</i> The sum of net sales and capitalized development costs	593,381	523,045	149,559	232,313
<b>Profit margin, %</b>	<b>-29.7</b>	<b>10.7</b>	<b>14.2</b>	<b>20.1</b>
<b>Equity to assets ratio</b>				
Total equity, SEKk	1,282,399	1,370,223	398,365	253,591
<i>Divided by:</i> Total equity and liabilities, SEKk	2,459,164	2,148,941	568,130	371,377
<b>Equity to assets ratio, %</b>	<b>52.1</b>	<b>63.8</b>	<b>70.1</b>	<b>68.3</b>



# OPERATING AND FINANCIAL REVIEW

# COMMENTS ON FINANCIAL PERFORMANCE

The information presented below should be read together with the section “Selected historical financial information” and the Company’s audited consolidated financial statements for the period of 2014–2016 and the interim reports for the periods of 1 January–31 December 2017 have been prepared in accordance with IFRS. The interim reports for Q2 and Q4 2017 have been reviewed by the Com-

pany’s statutory auditors.. The following information contains forward-looking statements that are associated with various risks and uncertainties. The Company’s actual results may differ significantly from the results predicted in these forward looking statements due to many different factors, including but not limited to those described in the section “Important information” under the heading

“Forward looking statements and market data” and elsewhere in the Prospectus, as they are described in the “Risk factors” section. The Company’s audited consolidated financial statements for the period of 2014–2016 and the interim reports for the periods of 1 January–31 December 2017. The interim reports for Q2 and Q4 2017 have been reviewed by the Company’s statutory auditors.

## Business overview

Starbreeze is a global game company whose vision is to be a leading provider in the entertainment industry by creating world-class experiences.

Starbreeze was founded in 1998 and has since evolved into a well-established developer and publisher of PC and console games and VR products aimed at the global market. With offices in Stockholm, Paris, Los Angeles, Barcelona, Brussels, Luxembourg and India, Starbreeze develops high-quality entertainment products based on proprietary and third-party rights, both in-house and in partnership with external game developers. Operations are organized in three business areas: Starbreeze Games for own game development, Publishing, and VR Tech & Operations for technology/

software development in VR and operation of VR centers.

Starbreeze has executed a comprehensive development project in recent years aimed at refining the business model. The Company has, for example, reinforced the organization and senior management by recruiting key skills and a number of strategic acquisitions. Having previously operated only as a developer for external game publishers, we now own our internal product development and have a successful publishing business, in which we are publishing externally developed games to widen the portfolio. The business has also been expanded through ventures in the Virtual Reality (VR) segment, including development of

the StarVR headset, and through taking a position in the location-based VR market. Starbreeze is well-positioned for continued development towards becoming a leading provider in the global entertainment industry by creating world-class experiences.

At year-end 2017, the Company had 650 employees, of whom 243 were based in Stockholm. During 2017, the Company had revenues of SEK 361.4 million, of which SEK 120.3 million was generated by the own game PAYDAY 2 and SEK 202.5 million by the publishing contract for Dead by Daylight, resulting in EBITDA of SEK -53.5 million, corresponding to an EBITDA margin of -9.0 percent.

## Factors affecting the comparability of financial information

### Acquisitions

On 10 September 2014, Starbreeze acquired all shares in Geminose Inc. for USD 7 million through a new issue of shares in the Company. As the acquisition was made through a non-cash issue, the effect on consolidated cash flow was acquired cash and cash equivalents of SEK 0.1 million less acquisition costs of SEK 1.3 million. Acquisition costs amounted to SEK 1.3 million and were charged against profit for the first quarter of the financial year of 1 June 2014–31 July 2015.

On 12 June 2015, Starbreeze acquired all shares in InfinitEye VR for USD 2 million. Acquisition costs amounted to about SEK 0.2 million and were charged against profit in the financial year of 1 June 2014–31 July 2015.

On 10 July 2015, Starbreeze took ownership of the acquired game studio Orange Grove Media, in which the Company acquired 100 percent of the shares for SEK 44.1 million through a non-cash issue. As the acquisition was made through a non-cash issue, the effect on consolidated cash flow was acquired cash and cash equivalents of SEK 0.7 million less acquisition costs of SEK 2.1 million. Acquisition costs amounted to SEK 2.1 million, of which SEK 0.3 million was charged against profit during the financial year of 1 July 2015–31 December 2015.

The imminent acquisition of outstanding shares in PAYDAY Production LLC was announced on 1 July 2015. The majority interest was acquired on 18 September 2015 and the remaining minority interest

was acquired during the second quarter of the financial year of 1 July 2015–31 December 2015. Acquisition costs amounted to SEK 2.2 million, of which SEK 2.0 million was charged against profit and loss during the financial year of 1 July 2015–31 December 2015.

The imminent acquisition of ePawn was announced on 30 June 2016. Ownership was transferred on 30 June 2016 and 100 percent of the shares were acquired for SEK 84.3 million, through newly issued shares to a value of SEK 37.8 million and cash consideration of SEK 14.2 million. The effect of the acquisition on cash flow in the second quarter of the 2016 financial year amounted to SEK 12.5 million, comprising cash consideration of SEK 12.9 million, acquisition costs of SEK

2.4 million and acquired cash and cash equivalents of SEK 2.8 million. Acquisition costs amounted to SEK 2.4 million and were charged to consolidated profit and loss during the 2016 financial year. During the financial year, ePawn contributed revenues of SEK 0.8 thousand and a loss after tax of SEK -21.5 million.

The Company acquired 100 percent of equity in the companies Nozon and Parallaxter on 24 October 2016 for SEK 343.8 million through new issue shares valued at SEK 24.2 million and cash consideration of SEK 44.9 million. In addition, there is a conditional earnout linked to future revenue, which has been estimated at EUR 27.9 million and may be triggered in the next ten years. EUR 27.9 million is the present value of the maximum earnout of EUR 50.0 million, calculated at a discount rate of 15 percent. The effect of the acquisition on cash flow in the second quarter of the 2016 financial year was SEK 42.6 million, comprising cash consideration of SEK 44.9 million, acquisition costs of SEK 1.2 million and acquired cash and cash equivalents of SEK 3.5 million. Acquisition costs amounted to SEK 1.2 million and were charged against consolidated profit and loss for the financial year of 2016. During the financial year, the acquisition of Nozon and Parallaxter contributed revenues of SEK 6.8 million and profit after tax of SEK 0.8 million.

On 30 June 2017, 100 percent of the shares in Enterspace were acquired for preliminary consideration of SEK 66.8 million through a non-cash issue of 1,071,203 new Class B shares in Starbreeze AB worth SEK 17.0 million, cash consideration of SEK 3.0 million and a conditional earnout linked to future revenues, which is estimated at SEK 46.8 million and may be triggered within the next six years. The effect of the acquisition on consolidated cash flow in the second quarter of the 2017 financial year was SEK 0.2 million, comprising cash consideration of SEK 3.0 million, acquisition costs of SEK 0.5 million and acquired cash and cash equivalents of SEK 3.3 million. Preliminary costs for the acquisition of SEK 0.5 million have been charged to consolidated profit in the 2017 financial year and are included in "Other external expenses."

On 16 December 2016, the Company entered into a share transfer agreement for approximately 90.5 percent of the shares in Dhruva with some of the existing shareholders. Starbreeze announced on 28 August 2017 that the parties had agreed to finalize the acquisition. Starbreeze took possession of 90.5 percent of equity in Dhruva during the fourth quarter of 2017. The cash consideration amounted to USD 8.5 million, and some of the sellers have acquired newly issued Class B shares in Starbreeze to a value of

approximately SEK 11.9 million. The share transfer agreement also contains a conditional earnout, which is valued at SEK 4.1 million and may be triggered during the next four years. The effect of the acquisition on cash flow at the consolidated level totals SEK -60.85 million, comprising cash consideration of SEK 59.5 million, acquisition costs of SEK 1.4 million and acquired cash and cash equivalents of SEK 0.05 million. Preliminary costs for the acquisition of Dhruva of SEK 1.4 million have been charged to consolidated profit and are included in "Other external expenses."

### Change of financial year

The annual general meeting held in November 2015 resolved to change the financial year from a split financial year to the calendar year effective 1 January 2016. Consequently, the financial information provided in the section "Selected historical financial information" presents figures from the following financial years: July 2014–June 2015 (split financial year), July 2015–December 2015 (short financial year) and January 2016–December 2016 (financial year coinciding with the calendar year). Readers of the Prospectus should take particular note of this change of financial year, which impedes comparisons between financial years.

## Comparison of the 2016 and 2017 financial years

### Total revenues and capitalized development costs

The sum of consolidated revenues and capitalized development costs for 2017 amounted to SEK 593 million, compared to SEK 523 million for 2016. Net sales increased by 5 percent to SEK 361 million, compared to SEK 345 million in 2016, of which PAYDAY2 generated revenues of SEK 120 million and Dead by Daylight generated revenues of SEK 202 million. The figures for 2016 were SEK 162 million and SEK 144 million, respectively. The growth is primarily attributable to the release of Dead by Daylight for console, and sale of the game's physical console rights for SEK 22 million. Capitalized development costs amounted to SEK 232 million in 2017, an increase from SEK 154 million in 2016.

The Starbreeze Games business area reported net sales of SEK 122 million in 2017, compared to SEK 162 million in 2016. Of that amount, PAYDAY2 generated

SEK 120 million, compared to SEK 162 million in the preceding period. Capitalized development costs within Starbreeze Games amounted to SEK 148 million, compared to SEK 82 million in the preceding period, mainly due to staff increases in the Company's in-house games development team.

The Publishing business area reported net sales of SEK 220 million in 2017, compared with SEK 176 million in 2016, of which Dead by Daylight accounted for SEK 202 million and John Wick: Chronicles for SEK 8 million of revenues, compared to SEK 144 million and SEK 0 million, respectively, in 2016. Capitalized development costs in Publishing amounted to SEK 26 million, compared to SEK 32 million in 2016.

The VR Tech & Operations business area reported net sales of SEK 4 million in 2017. VR Tech & Operations was still in a development phase in 2016, and conse-

quently did not report net sales for the period. Capitalized development costs amounted to SEK 58 million during the period, compared to SEK 39 million for the corresponding period in the preceding year. The increase was driven mainly by a higher level of activity within StarVR.

### Operating profit or loss (EBIT)

Consolidated EBIT in 2017 amounted to SEK -151 million, compared to SEK 56 million in 2016. The reduction in EBIT was driven in part by other external expenses, which increased to SEK 416 million (292), of which SEK 90 million (68) in royalties to partners in the publishing business, and in part by costs for purchased services related to game development, which increased to SEK 178 million (110) and employee benefits expense, which rose by 54.8 percent to SEK 230 million (149). Employee benefits expense increased primarily due to acquisitions during the

period, but also to staff additions in game development in Stockholm, where production of OVERKILL's The Walking Dead, Project Crossfire and PAYDAY is in progress.

The Starbreeze Games business area reported EBIT of SEK -1 million in 2017, compared to SEK 86 million in 2016.

The Publishing business area reported EBIT of SEK -42 million in 2017, compared to SEK 65 million in 2016. EBIT was affected by an increase of activity in the business area due to a significantly larger game portfolio in 2017 compared to 2016.

The VR Tech & Operations business area reported EBIT of SEK -411 thousand in 2017 compared to SEK -32 million in 2016.

### Tax

Consolidated tax in 2017 made a contribution to operating results of SEK 21 million,

compared to SEK 1 million in 2016.

### Net profit (-loss) for the period

The consolidated loss in 2017 amounted to SEK 155 million, compared to a profit of SEK 57 million in 2016.

### Cash flow from operating activities

Cash flow from operating activities in 2017 generated an outflow of SEK 21 million, compared to an inflow of SEK 15 million during 2016.

### Cash flow from investing activities

Cash flow from investing activities in 2017 generated an outflow of SEK 620 million, compared to an outflow of SEK 290 million in 2016. The increase is attributable mainly to increased capitalized development costs. Capitalized development costs increased from SEK 195 million in

2016 to SEK 412 million in 2017. This was an effect of an increase in the number of development projects, as well as higher activity in the OVERKILL'S The Walking Dead and StarVR projects. Investments in financial assets also increased by SEK 52 million to SEK 62 million (10). The increase is due to an investment of SEK 38 million in the Company's company, StarVR Corporation, and investment in loan receivables in Enterspace.

### Cash flow from financing activities

Cash flow from financing activities in 2017 generated an inflow of SEK 209 million, compared to SEK 853 million in 2016. The high inflow during 2016 was due to proceeds received by the Company of SEK 555 million through new issues and SEK 215 million through the issue of a convertible bond to Smilegate.

## Comparison of the 2016 financial year (12 months) and the short financial year of 1 July–31 December 2015 (6 months)

The 2016 financial year (1 January–31 December 2016) comprises twelve months and the financial year of 1 July–31 December 2015 comprises six months, which affects the comparability of the periods.

### The sum of revenues and capitalized development costs

The consolidated total of revenues and capitalized development costs amounted to SEK 523 million in 2016, compared to SEK 150 million in 1 July–31 December 2015. The Starbreeze-published game Dead by Daylight was released in 2016, which increased revenues by SEK 143.7 million. PAYDAY 2 also continued to generate revenues in 2016, providing SEK 159.6 million, a downturn from SEK 209.4 million for the full year of 2015.

### Operating profit or loss (EBIT)

Consolidated EBIT in 2016 amounted to SEK 56 million, compared to SEK 21 million for the period of 1 July–31 December 2015, corresponding to a decline in the EBIT margin from 21.3 percent to 10.8 percent. The decline in the EBIT margin is related primarily to higher costs attributable to expenditures for a larger number of major game developments, the Valhalla game engine, StarVR and the Company's publishing business in 2016. Other external expenses for the Group amounted to SEK 292 million in 2016, compared to SEK 65 million for the period

of 1 July–31 December 2015, arising mainly from increased costs for external services. Consolidated employee benefits expense amounted to SEK 149 million in 2016, compared to SEK 60 million for the period of 1 July–31 December 2015. Consolidated amortization of intangible assets amounted to SEK 21 million in 2016, compared to SEK 1 million for the period of 1 July–31 December 2015. Consolidated depreciation of property, plant and equipment amounted to SEK 4 million in 2016, compared to SEK 1 million for the period of 1 July–31 December 2015.

### Tax

Consolidated tax contributed SEK 1 million to profit in 2016, compared to SEK 1 million for the period of 1 July–31 December 2015. The positive tax effect is attributable to the tax effect of loss carryforwards recognized in the consolidated balance sheet.

### Operating results

Net profit for the year amounted to SEK 57 million in 2016, compared to SEK 22 million for the period of 1 July–31 December 2015.

### Cash flow from operating activities

Cash flow from operating activities in 2016 generated an inflow of SEK 15 million, compared to an inflow of SEK 47 million for the period of 1 July–31 Decem-

ber 2015. The reduction is related to lower cash flow from operating activities, which was affected by large investments in assets. Cash flow from operating activities in 2016 was also negatively affected by expenditures for the acquisition of Nozon and Parallaxter.

### Cash flow from investing activities

Cash flow from investing activities in 2016 generated an outflow of SEK 290 million, compared to an outflow of SEK 83 million for the period of 1 July–31 December 2015. The change is attributable primarily to increased investments in subsidiaries, which amounted to SEK 60 million in 2016 compared to SEK 4 million in the period of 1 July–31 December 2015, as well as higher investments in capitalized costs for game and technology development, which amounted to SEK 195 million in 2016 compared to SEK 67 million during the period of 1 July–31 December 2015.

### Cash flow from financing activities

Cash flow from financing activities in 2016 generated an inflow of SEK 853 million, compared to an inflow of SEK 11 million for the period of 1 July–31 December 2015. The increase is attributable primarily to two directed share issues executed in 2016.

## Comparison of the financial years of 1 July–31 December 2015 (6 months) and 2014/2015 (12 months)

The financial year of 1 July–31 December 2015 comprises six months and the 2014/2015 financial year (1 July 2014–30 June 2015) comprises twelve months, which affects the comparability of the periods.

### The sum of revenues and capitalized development costs

The consolidated total of revenues and capitalized development costs amounted to SEK 150 million for 1 July–31 December 2015, compared to SEK 232 million in 2014/2015. PAYDAY 2 generated revenues of SEK 99 million during the period of 1 July–31 December 2015, compared to SEK 187 million in 2014/2015. Capitalized development costs amounted to SEK 50 million for the period of 1 July–31 December 2015, an increase from SEK 28 million in 2014/2015.

### Operating profit or loss (EBIT)

Consolidated EBIT for 1 July–31 December 2015 amounted to SEK 21 million, compared to SEK 46 million in 2014/2015, corresponding to a decline in the EBIT margin from 23.5 percent to 21.3 percent. The reason for the decline in the EBIT margin is that the Company had large costs during the period of 1 July–31 December 2015 related to an expansive phase of heavy development. The reason that the decline in the EBIT margin was not greater

is that the Company maintained good cost control and selective expansion. Other external expenses for the Group amounted to SEK 65 million for the period of 1 July–31 December 2015, compared to SEK 116 million in 2014/2015. Consolidated employee benefits expense amounted to SEK 60 million for the period of 1 July–31 December 2015, an increase from SEK 56 million in 2014/2015. Amortization of intangible assets amounted to SEK 1 million for the period of 1 July–31 December 2015, compared to SEK 12 million in 2014/2015. Depreciation of property, plant and equipment amounted to SEK 2 million for the period of 1 July–31 December 2015, compared to SEK 1 million in 2014/2015.

### Tax

Consolidated tax contributed SEK 1 million to profit for the period of 1 July–31 December 2015, compared to a tax expense of SEK –12 million in 2014/2015. The positive tax effect for the period of 1 July–31 December 2015 is attributable to the tax effect of loss carryforwards recognized in the balance sheet.

### Operating results

Profit for the year amounted to SEK 22 million for the period of 1 July–31 December 2015, compared to SEK 34 million in 2014/2015.

### Cash flow from operating activities

Cash flow from operating activities in the period of 1 July–31 December 2015 generated an inflow of SEK 47 million, compared to an inflow of SEK 37 million in 2014/2015. The increase is primarily attributable to a reduction in income tax paid, which amounted to SEK 4 million for the period of 1 July–31 December 2015, compared to SEK 24 million in 2015/2015.

### Cash flow from investing activities

Cash flow from investing activities in the period of 1 July–31 December 2015 generated an outflow of SEK 83 million, compared to an outflow of SEK 68 million in 2014/2015. The change is primarily attributable to increased investments in capitalized costs for game and technology development, which amounted to SEK 67 million for the period of 1 July–31 December 2015, compared to SEK 28 million in 2014/2015. Investments in subsidiaries declined to SEK 4 million for the period of 1 July–31 December 2015, from SEK 18 million in 2014/2015.

### Cash flow from financing activities

Cash flow from financing activities in the period of 1 July–31 December 2015 generated an inflow of SEK 11 million, compared to an inflow of SEK 0 million in 2014/2015. The increase is attributable to new issues and exercise of options.

# CAPITAL RESOURCES, DEBT AND OTHER FINANCIAL INFORMATION



## Equity and liabilities

As of 31 December 2017, Starbreeze had non-current liabilities of SEK 984 million and current liabilities of SEK 193 million.

### Equity and liabilities

SEKk	31 December 2017
<b>Total current liabilities</b>	<b>193,000</b>
Against guarantee or surety	-
Against collateral	-
Without guarantee/surety or collateral	193,000
<b>Total non-current liabilities</b>	<b>983,765</b>
Against guarantee or surety	-
Against collateral	141,007
Without guarantee/surety or collateral	842,758
<b>Total equity</b>	<b>1,282,399</b>
Share capital	5,661
Statutory reserve	-
Other reserves	1,276,738

## Investments

The table below summarizes investments made in intangible assets and property, plant and equipment for the periods presented. Starbreeze has financed the investments mainly through internally generated cash flows, equity capital infusions and borrowing. In recent years, Starbreeze has increased the rate of investment in the business in order to take advantage of attractive growth opportunities in all business areas, which are expected to generate substantial added value for shareholders in the future.

Total investments in 2017 amounted to SEK 620 million. These investments consisted mainly of capitalized costs for game development, which amounted to

## Net debt

As of 31 December 2017, Starbreeze had interest-bearing debt for borrowing from banks or credit institutions of SEK 141 million. The Company is financed by cash flows from operations and the Company's existing cash reserves and bank financing.

Starbreeze's net debt as of 31 December 2017 is summarized in the following table. The Company has no indirect debt or contingent liabilities.

## Working capital statement

In Starbreeze's judgment, existing working capital is sufficient to cover requirements for ongoing operations during the twelve-month period following the date of the Prospectus. In this section, "working capital" means Starbreeze's capacity to meet its payment obligations as they become due for payment.

SEK 412 million, investments in financial non-current assets of SEK 62 million and investments in property, plant and equipment of SEK 87 million, primarily explained by the Company's acquisition of Dhruva during the period.

Total investments for the 2016 financial year amounted to SEK 298.8 million. The investments consisted mainly of investments in intangible assets, comprising capitalized costs for game development of SEK 194.9 million and business acquisitions of SEK 60.4 million.

Total investments in the financial year of 1 July 2015–31 December 2015 amounted to SEK 83.0 million. The investments consisted mainly of capitalized costs for

## Net debt<sup>1)</sup>

SEKk	31 December 2017
(A) Cash	
(B) Other cash equivalents	233,757
(C) Marketable securities	-
<b>(D) Total Liquidity (A)+(B)+(C)</b>	<b>233,757</b>
<b>(E) Current receivables</b>	<b>-</b>
(F) Short-term bank debt	-
(G) Current portion of non-current liabilities	-
(H) Other current financial liabilities	-
<b>(I) Total current liabilities (F)+(G)+(H)</b>	<b>-</b>
<b>(J) Net current debt (I)-(E)-(D)</b>	<b>-233,757</b>
(K) Long-term bank loan	141,007
(L) Issued bonds	-
(M) Other non-current loan debt	842,758
<b>(N) Non-current liabilities (K)+(L)+(M)</b>	<b>983,765</b>
<b>(O) Net debt (J)+(N)</b>	<b>750,008</b>

<sup>1)</sup>The table shows only interest-bearing liabilities.

game development, which amounted to SEK 67.3 million.

Total investments in the financial year of 1 July 2014–30 June 2015 amounted to SEK 67.9 million. The investments consisted mainly of investments in intangible assets, comprising capitalized costs for game development of SEK 28.1 million and business acquisitions of SEK 18.4 million.

The Company continuously capitalizes development costs based on a number of criteria, depending on whether the development cost is related to software maintenance or to software products (usually game development projects).

## Summary of investments made in intangible assets and property, plant and equipment

	Full year 2017	Full year 2016	1 Jul 2015– 31 Dec 2015	1 Jul 2014– 30 Jun 2015
<b>Investments</b>				
Capitalized costs for game and technology development	-412,103	-194,871	-67,317	-28,134
Investments in subsidiaries	-59,076	-60,412	-4,305	-18,445
Investment in other financial assets	-61,590	-9,668	-1,956	-12,420
<b>Total investments in intangible assets and property, plant and equipment, excluding acquisitions</b>	<b>-532,769</b>	<b>-264,951</b>	<b>-73,578</b>	<b>-58,999</b>
<b>Investments through acquisitions</b>				
Purchase of intangible assets	-	-15,354	-525	-
Property, plant and equipment	-87,338	-9,449	-8,946	-8,885
<b>Total investments through acquisitions in intangible assets and property, plant and equipment</b>	<b>-87,337</b>	<b>-24,803</b>	<b>-9,471</b>	<b>-8,885</b>
<b>Total investments in intangible assets and property, plant and equipment, including acquisitions</b>	<b>-620,107</b>	<b>-289,754</b>	<b>-83,049</b>	<b>-67,884</b>

## Ongoing investments

The majority of the Company's present and expected future investments are related to the continued development of own games and financing of ongoing development projects with external game developers, as well as investments in the joint venture company, StarVR. The Company is in a phase in which significant initiatives are being carried out in all busi-

ness areas. Consequently, the Company estimates that the rate of investment will remain high in the next twelve months. The board of directors has assessed that all ongoing investment commitments can be financed with available cash flows, cash and cash equivalents and existing credit facilities.

## Intangible assets

Starbreeze's intangible assets consist mainly of goodwill, other intangible assets and capitalized costs for game and technology development. As of 31 December 2017, intangible assets comprised goodwill valued at SEK 544,971 thousand, other intangible assets valued at SEK 597,467 thousand and capitalized costs for game and technology development valued at SEK 642,767 thousand.

### The 2017 financial year compared to the 2016 financial year

Consolidated intangible assets amounted to SEK 1,785,205 thousand as of 31

December 2017, compared to SEK 1,303,201 thousand as of 31 December 2016, a change by 37 percent. The change is primarily attributable to the acquisition of Enterspace and Dhruva, own game development and investments in publishing projects.

### The 2016 financial year compared to the financial year of 1 July–31 December 2015

Consolidated intangible assets amounted to SEK 1,303 million as of 31 December 2016, compared to SEK 389 million as of 31 December 2015, an increase of 235

## Property, plant and equipment

Starbreeze's property, plant and equipment consists mainly of computers and other equipment. As of 31 December 2017, property, plant and equipment comprised approximately 4.0 percent of total assets.

percent. The change is primarily attributable to capitalized costs for game development and business acquisitions.

### The financial year of 1 July–31 December 2015 compared to 1 July 2014–31 June 2015

Consolidated intangible assets amounted to SEK 389 million as of 31 December 2015, compared to SEK 184 million as of 30 June 2015, an increase of 111 percent. The change is primarily attributable to increased capitalized costs for game development.

## Financial risk management

Through its business activities, the Group is exposed to various types of financial risks, such as market risks (primarily currency risks and interest rate risks), credit risks and liquidity risks. The Group's general risk management policy is focused on the unpredictability of the financial markets and aims to minimize potentially deleterious effects on the Group's operating results.

The frameworks that apply to exposure, management and monitoring of financial risks were approved by the board of directors in a risk management policy adopted at the board meeting held 11 May 2017. The risk management policy was also adopted by the boards of all subsidiaries of Starbreeze. In the risk management policy, the board of directors has delegated certain responsibilities for daily risk management to the Company's CEO and the accounting department.

A description of how the Group manages various financial risks follows.

### Market risks

#### Currency risk

The Group is exposed to currency risk by reason of its international operations. Currency risk refers to the risk that fair value or future cash flows will fluctuate due to movements in exchange rates. Exposure to currency risk originates primarily from payment flows in foreign currency, i.e., transaction exposure. A large share of Starbreeze's revenues are paid in USD. The Company also has costs in EUR and SEK. Fluctuations in the currency market can therefore have negative impact on the Company's profitability and operating results.

The Group's objective is to manage its currency risk in order to achieve long-term stability and mitigate the negative effects of changes in exchange rates. The Company manages currency risks in connection with every contract entered into that generates a commitment in foreign currency by requiring the CEO or

CFO of the Company to discuss matters related to currency hedges with the board of directors. The Group's basic premise is that currency hedging should not be used, but purchase or sale contracts may be currency hedged against the date that the cash flow is expected. Accordingly, currency hedging during the hedge horizon may be used and, in such case, connected to work in progress, purchase or sale contracts and trade receivables or trade payables.

The Company does not generally conduct currency hedging. Each change to such decisions must be approved by the board of directors. To the greatest possible extent, the Company must attempt to balance incoming and outgoing cash flows in foreign currencies, i.e., create natural hedges. Furthermore, the Company must monitor, measure and follow-up transaction exposures in the Group.

### **Interest rate risk**

At present, the Company has interest-bearing debt in the form of convertible bonds. The bonds accrue interest at a fixed rate and payment plan, which means that the interest risk is low.

In order to manage the Group's interest rate risks, the risk management policy establishes that the average remaining fixed interest period for interest-bearing investments must not exceed 18 months.

### **Credit risks**

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 manages credit risks by various means, including ongoing assess-

ments of the counterparty's credit rating, e.g., when new business relationships are entered into or existing relationships extended. The Group also manages credit risks by accepting only banks and financial institutions that have been given an "A" credit rating or better by an independent appraiser. According to the risk management policy, the Group must also endeavor to achieve low credit risk in all investments.

### **Liquidity risks**

Liquidity risk refers to the risk of being unable to meet payment obligations at each due date. Access to long-term financing is critical to the capacity to manage liquidity risk in an acceptable manner.

In order to manage liquidity risk, the Company prepares cash flow projections for the Group as a whole and the finance

department prepares and continuously evaluates projections off the Group's liquidity reserves. Senior management of the Group and the board of directors also continuously evaluate various financing alternatives. Furthermore, the Group policy is that any placements must be safe, low risk and of short duration, which reduces the risk of liquidity shortfalls. According to the risk management policy, the Company must also support its subsidiaries when a financing need arises.

Historically, the Company's operations have been financed through a combination of internally generated cash flow from sold games, advance royalties from partners and various types of equity capital market transactions. Going forward, operations will continue to be financed in this way, but may be augmented by external loan financing.

## **Significant events after 31 December 2017**

The following events significant to Starbreeze have occurred subsequent to 31 December 2017.

- On 25 January 2018, Starbreeze executed, supported by the authorization of the 2017 AGM, a directed issue to Swedish and international institutional investors. The issue of 20,681,797 new Class B shares was priced at SEK 11.52 per share, corresponding to the closing price on 24 January 2018. The issue was oversubscribed and raised approximately SEK 238 million for the company before transaction costs. In addition, on 15 February 2018, the board of directors decided to offer existing shareholders the opportunity to participate in a rights issue of approximately SEK 150

million, subject to the approval of the subsequent general meeting. The purpose of the issues is to secure financing of the current business plan in the amount of about SEK 75 million until the release of OTWD. The company has also identified several business opportunities in addition to the current business plan, which it has assessed will create substantial value for shareholders.

- On 5 February 2018, Starbreeze AB signed a publishing agreement with Mohawk Games regarding the project currently under the working title 10 Crowns. Starbreeze will invest USD 7.7 million to bring the game to PC.
- On 21 March 2018 the Company announced that Starbreeze has decided

to sell the publishing rights to the game Dead by Daylight to the developer, Behaviour Interactive Inc. Starbreeze will receive an initial payment of USD 4 million, followed by an additional USD 12 million paid in stages as royalties on 65 percent of game revenues. The deal will accelerate cash flows to Starbreeze from the game, which will strengthen Starbreeze's earnings and free up capital for new projects.

# FINANCIAL TARGET

Starbreeze do not provide any forecasts, but in conjunction with the listing on Nasdaq Stockholm, the board of directors of Starbreeze adopted financial targets on 29 September 2017, which are linked to the Company's strategy.

Starbreeze's profitability target is to generate positive EBITDA for the fourth quarter of 2018 and for every subsequent financial year on an annualized basis. An account follows of the key assumptions upon which the financial profitability target is based. The section contains forward-looking statements that reflect Starbreeze's plans, estimates and assessments. Actual outcomes may differ significantly from that expressed in such forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, that stated below in this section and in other part of the Prospectus including the sections under "Risk factors".

## **The factors that Starbreeze can affect are primarily:**

- Marketing costs
- Employee benefits expense
- Central administrative expenses

## **The factors that are partially beyond Starbreeze's control are primarily:**

- Customer loyalty
- Royalty costs

## **The factors that are beyond Starbreeze's control are primarily:**

- Interest in playing games.
- Changes in the SEK/USD exchange rate.
- The actions of competitors.
- Account of the key assumptions upon which the financial profitability target is based.
- The Company's financial profitability target of generating positive EBITDA in the fourth quarter of 2018 is based on the Company's internal budget for 2018, prepared by group management, and upon estimates of the Company's expected revenues and costs. The budget was prepared in accordance with accounting policies that are consistent in all material respects with the

accounting policies applied by the Company in 2018. The accounting policies are described in Starbreeze's audited annual report for 2016. As of 2018, Starbreeze applies the new standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. The effects of the transition to IFRS 15 are described in the year-end report for 2017.

- Expected revenues include release of the game OVERKILL's The Walking Dead, which is in development, in the autumn of 2018, and assume that the following products will still be active in the market in the fourth quarter of 2018;
  - PAYDAY 2: Ultimate Edition (PC),
  - PAYDAY 2 for PlayStation 4, Xbox One and Nintendo Switch,
  - PAYDAY Crime War (mobile),
- The acceleration of expected costs of production, personnel and other external costs of operating the business is expected to slow down in 2018 in relation to the preceding year.
- Outcomes for the part of the year that has passed were taken into account and all known costs and revenues were considered.

# THE AUDITOR'S REPORT ON PROSPECTIVE FINANCIAL INFORMATION

To the Board of Directors in Starbreeze AB (publ), corporate identity number 556551-8932

We have audited how the financial target set out on page 44 in Starbreeze AB (publ)'s prospectus dated March 22, 2018 has been prepared.

## **The Board of Directors' and the Managing Director's responsibility**

It is the Board of Directors' and the Managing Director's responsibility to prepare the financial targets, together with the material assumptions upon which it is based, in accordance with the requirements of the Commission Regulation (EC) No 809/2004.

## **The auditor's responsibility**

It is our responsibility to provide an opinion required by Annex 1 item 13.2 of the Prospectus Regulation (EC) No 809/2004. We are not required to, nor do we, express an opinion on the possibility of achievement of result or on the assumptions on which the preparation of the financial target is based. We do not accept any responsibility for any financial information previously reported on and used in the compilation of the financial targets beyond that responsibility we have for auditor's

reports regarding historical financial information issued in the past.

## **Work performed**

We performed our work in accordance with FAR's Recommendation RevR 5 Examination of Prospectuses. This recommendation requires that we comply with FAR's ethical requirements and have planned and performed the audit to obtain reasonable assurance that the financial statements are free from material misstatements. The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of Starbreeze AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Our work included an evaluation of the procedures undertaken by the Board of Directors and the Managing Director

in compiling the financial target and the accounting policies used when compiling the financial target compared to those policies adopted by the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to obtain reasonable assurance that the financial target has been compiled based on the basis stated on page 44.

Since the financial target and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the financial target. Differences may prove to be material.

## **Opinion**

In our opinion the financial target has been compiled on the basis stated on page 44 and in accordance with the accounting principles applied by the company.

*Stockholm 22 March 2018*

Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg  
Authorised auditor



# SHARE CAPITAL AND OWNERSHIP STRUCTURE

## Shares and share capital

The Company's shares were issued in accordance with Swedish law (the Companies Act, 2005:551) and are denominated in Swedish kronor (SEK). There are two share classes: Class A shares and Class B shares.

According to the registered Articles of Association, the lowest permitted share capital is SEK 3,000,000 and the highest permitted share capital is SEK 12,000,000, divided among not less than 150,000,000 and not more than

600,000,000 shares. As of the date of the Prospectus, the Company's registered share capital amounted to SEK 6,074,394.77 divided among 303,719,737 shares. Shares of each class may be issued up to an amount corresponding to a total of 100 percent of share capital. As of the date of the Prospectus, 54,170,260 Class A shares and 249,549,477 Class B shares had been issued. The shares have a par value of SEK 0.02. All shares are fully paid.

According to the Articles of Association, Class A shares shall be converted to Class B shares upon request of the shareholder. The Articles of Association contain no specific provisions on redemption. All shares are freely transferable.

The Starbreeze share is not, and has not been, the target of an offer made due to mandatory bid, redemption right or redemption obligation. Nor have there been any takeover bids as regards shares in Starbreeze.

## Certain rights attached to the shares

Certain rights attached to the shares are described below. These rights may be modified through amendment of the Articles of Association.

### Right to attend and vote at the annual general meeting

Shareholders wishing to attend the general meeting must be found on a printed copy or other presentation of the register of shareholders reflecting circumstances five (5) days before the meeting and must notify the Company of intent to participate no later than the day specified in the notice of meeting. The last-mentioned day cannot be a Sunday, other public holiday, Midsummer's Eve, Christmas Eve or New Year's Eve and cannot be earlier than five (5) weekdays before the meeting.

Each Class A share entitles the holder to ten votes and each Class B share entitles the holder to one vote. Every person eligible to vote is entitled to vote at the general meeting for the full number of voting shares owned and represented with no limitation to voting rights.

### Preferential rights to new shares

Preferential rights to new shares, warrants and convertible securities are regulated in Starbreeze's Articles of Association.

If the Company decides to issue new

shares of Class A and Class B through a cash issue or offset issue, owners of Class A and Class B shares shall have preferential rights to subscribe for new shares of the same share class pro rata to the number of shares previously owned (primary preferential rights). Shares that not subscribed under primary preferential rights shall be offered to all shareholders for subscription (subsidiary preferential rights). If shares thus offered do not suffice for the subscription under subsidiary preferential rights, the shares shall be allocated among the subscribers pro rata to the number of shares they previously owned and, to the extent this is impossible, through the drawing of lots.

If the Company decides to issue new shares of only Class A or only Class B through a cash issue or offset issue, all shareholders, regardless of whether their shares are Class A or Class B, shall have preferential rights to subscribe for new shares pro rata to the number of shares previously owned.

If the Company decides to issue warrants or convertible securities by means of a cash issue or offset issue, shareholders have preferential rights to subscribe for warrants, as if the issue applied to the shares that may be newly subscribed on the basis of the warrant right or prefer-

ential right, respectively, to subscribe for convertible securities as if the issue applied to the shares against which the convertible securities may be exchanged.

That stated in the foregoing shall not imply any restriction to the option to resolve in favor of a cash issue with a waiver of the shareholders' preferential rights.

If the Company decides to increase share capital through a bonus issue, new shares of each share class shall be issued pro rata to the previously existing number of shares of the same class. In that connection, previously existing shares of a particular class shall convey the right to new shares of the same class. That stated in the foregoing shall not imply any restriction to the option to issue shares of a new class by means of a bonus issue and subsequent to the requisite amendment to the Articles of Association.

### Right to dividend and surplus in connection with liquidation

Rights to dividends are conferred upon those registered as shareholders in the register of shareholders kept by Euroclear on the record date set by the annual general meeting. All shares convey equal rights to a share of the Company's assets and profit, as well as to any surplus upon liquidation.

## Euroclear affiliation

Starbreeze's Articles of Association include a record day provision and the Company's shares are affiliated with the digital securities system with Euroclear as the central securities depository (Euroclear Sweden AB, Box 191, 101 23 Stockholm, Sweden). The Company has also

made an agreement with Euroclear for the latter to keep the Company's register of shareholders.

The Class A share ticker is STAR A, ISIN code SE0007158928 and the Class B share ticker is STAR B, ISIN code SE0005992831.

Shareholders in the Company are not issued physical share certificates. All transactions involving the shares are executed digitally through authorized banks and other central securities depositories.

## History of share capital

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

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

For information about the convertible bonds issued to Acer and Smilegate, see pages 62-63 under "Acer convertible bond" (September 2016)" and "Smilegate convertible bond and options (January 2016)." For information about current warrant programs, see page 88 under "Incentive programs."

## Share price performance

Performance of Starbreeze Class A and Class B shares from 1 January 2015 to 12 January 2018



## Ownership structure

The Swedish Financial Instruments Trading Act (1991:980), ("FITA") contains rules on mandatory notification of certain changes in shareholders in companies whose shares are admitted to trading on a regulated market ("flagging"). Under Ch. 4 s. 5 FITA, notification of a change in a shareholding must be filed when a shareholder acquires or disposes of shares and, as a result, either reaches, exceeds or falls below 5, 10, 15, 20, 25, 30, 50, 66 2/3 or 90 percent of the total number of shares or the number of votes attached to these shares.

The following table shows the shareholders in Starbreeze whose holdings were notifiable according to information provided by Euroclear as of 30 December 2017, and subsequent known changes.

### Shareholders as of 30 December 2017

Owner	Number of Class A shares	Number of Class B shares	Share of voting power, %	Share of equity, %
Bo Andersson Klint <sup>1)</sup>	18,718,667	5,377,886	24.30	7.93
Försäkringsaktiebolaget, Avanza Pension	2,754,668	22,080,835	6.26	8.18
Swedbank Robur fonder <sup>2)</sup>	500,000	44,488,011	6.24	14.81
Hsbc-Fund Serv Clients A/C 006-Kr <sup>3)</sup>	3,376,016	6,244,015	5.05	3.17
Första AP-fonden	0	33,159,934	4.18	10.92

<sup>1)</sup> Shareholdings in Starbreeze, directly and indirectly through Varvtre AB.

<sup>2)</sup> Swedbank Robur Ny Teknik BTI, Swedbank Robur Smålandsfond Sverige and Swedbank Robur Smålandsfond Norden.

<sup>3)</sup> Smilegate Holdings Inc.

## Dilution upon fully subscribed Rights Issue

Upon full subscription of the Rights Issue, the total number of shares in the Company will increase from 303,719,737 to 323,967,719, corresponding to an increase of approximately 6.25 percent. Shareholders who decline to subscribe for new shares in the forthcoming Rights Issue will sustain a dilutive effect of a maximum of 6.25 percent of share capital and approximately 6.25 percent of total voting power in Starbreeze. The dilutive effect was calculated by dividing the total number of shares and votes that may be issued in the Rights Issue by the maximum total number of shares and votes in the

Company after the Rights Issue. Outstanding warrants and convertible bonds in the Company were excluded from the calculation.

The dilutive effect was calculated based on a preliminary distribution between the share classes, and the final distribution will be established based on the distribution as it stands upon processing by Euroclear Sweden AB on Record Date.

## Shareholder agreements

As far as the board of directors of the Company is aware, there are no shareholder agreements or other agreements between the Company's shareholders intended to exercise concerted influence upon the Company. Nor is the board of directors of the Company aware of any agreement or the equivalent that might lead to a change in control over the Company.

## Lock-up agreements

In connection with Smilegate's investment in the Company, Bo Andersson Klint, Emmanuel Marquez and Mikael Nermark entered into lock-up agreements with the Company by which they are not permitted to sell any of their shares in the Company owned directly or indirectly from time to time. Each is, however, permitted to sell 15 percent of the Class B shares held when the lock-up agreement was entered into during the period of the lock up. The lock-up commitments will remain in effect until the Company has performed its obligations under the collaboration agreement. At present, it is unclear when these obligations will be met and thus also when the commitment will end.

In connection with the Company's acquisition of Nozon and Parallaxter, the sellers entered into a lock-up agreement pertaining to a portion of the consideration paid through the issue of shares in Starbreeze. The lock-up commitment covers all shares during the first year and thereafter, one third of the shares covered by the lock-up commitment will be released annually over two years, counted from the date the agreement was executed. As of the beginning of the fourth year, counted

from the date of execution, no shares will be covered by lock-up commitments. The sellers' lock-up commitment applies from 24 October 2016 to 24 October 2019, dates inclusive. Moreover, certain named key individuals have agreed in the lock-up agreement to immediately transfer all shares covered by the lock-up commitment, on market terms, if at least Tristan Salomé and two other key individuals do not remain involved in the Company during the lock-up period.

In connection with the Company's acquisition of ePawn, the founders of ePawn made a lock-up commitment to the Company on 30 June 2016 pertaining to a portion of the consideration paid through the issue of shares in the Company. One half of the shares covered by the lock-up commitment will be released from the commitment on 30 June 2017 and the other half will be released on 30 June 2018. The lock-up commitment will thus remain in force until 30 June 2018.

In connection with the Company's acquisition of Enterspace, the sellers of Enterspace made a lock-up commitment to the Company pertaining to a portion of the consideration paid through the issue

of shares in the Company. As regards the founders of Enterspace, two thirds of the shares covered by the lock-up commitment will be released over a period of three years counted from the date the lock-up agreement was executed. As regards other sellers of Enterspace, three quarters of the shares covered by the lock-up commitment will be released over a period of three years counted from the date the lock-up agreement was executed. This means all shares covered by the lock-up commitment will be entirely released from the commitment as of the beginning of the fourth year, counted from the date of execution. Moreover, all sellers have agreed under the lock-up agreement to remain involved in the Company during the period that the shares are covered by the lock-up commitment. If a seller's involvement in the Company ends during the lock-up period, under certain specified circumstances, 50 percent of the sellers' shares still covered by the lock-up commitment as of that date would be subject to sale on the regulated market where the Company's shares are listed at that time.

Lock-up agreements	Number of shares covered by lock-up	Duration of the lock-up period
<b>Smilegate Holding</b>	14,387,352 Class A shares and 13,080,396 Class B shares.	The lock-up commitments will remain in effect until the Company has performed its obligations under the collaboration agreement. At present, it is unclear when these obligations will be met and thus also when the commitment will end.
<b>Nozon and Parallaxter</b>	1,048,842 Class B shares.	The lock-up commitment covers all shares during the first year and thereafter, one third of the shares covered by the lock-up commitment will be released annually over two years counted from the date the agreement was executed. As of the beginning of the fourth year, counted from the date of execution, no shares will be subject to lock-up commitments. The sellers' lock-up commitment applies from 24 October 2016 to 24 October 2020, dates inclusive.
<b>ePawn</b>	158,470 Class B shares, of which 79,235 Class B shares are still covered by the lock-up commitment.	Half of the shares covered by the lock-up commitment will be released from the commitment on 30 June 2017 (i.e., 79,235 Class B shares) and the other half will be released on 30 June 2018. The lock-up commitment will thus remain in force until 30 June 2018.
<b>Enterspace</b>	The founders received 916,673 Class B shares and other sellers received 154,530 Class B shares.	As regards the founders of Enterspace, two thirds of the shares (i.e., 611,115 shares) covered by the lock-up commitment will be released over a period of three years counted from the date the lock-up agreement was executed. As regards other sellers of Enterspace, three quarters of the shares (i.e., 115,897 shares) covered by the lock-up commitment will be released over a period of three years counted from the date the lock-up agreement was executed. This means all shares covered by the lock-up commitment will be entirely released from the commitments as of the beginning of the fourth year, counted from the date of execution, i.e., 30 June 2017.

## Dividends and dividend policy

Decisions to distribute dividends are made by the general meeting. Payment is executed by Euroclear. Rights to dividends are conferred upon those registered as shareholders in the register of shareholders kept by Euroclear on the record date set by the annual general meeting. If shareholders cannot be reached through Euroclear, the shareholder's claim on the Company for that amount of the dividend persists and is limited only through statutes of limitation. If the limitation period expires, the amount of the dividend accrues to the Company. There are no restrictions on distribution of dividends to or special procedures for shareholders who are

non-resident in Sweden. However, Swedish coupon tax is normally levied on shareholders whose tax domicile is not in Sweden. See pages 108-109 under "Certain tax considerations in Sweden."

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

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

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

No dividends were distributed to shareholders for the periods of 1 July 2014 to 30 June 2015, 1 July 2015 to 31 December 2015 or 1 January 2016 to 31 December 2016.

## Incentive programs

### Employee stock option program 2014/2018

The extraordinary general meeting held 15 May 2014 resolved to establish an employee stock option program through a directed issue of 6,250,000 warrants to Starbreeze Studios (conferring rights to subscribe for 9,375,000 Class B shares after the bonus issue executed in 2015). Of the 6,250,000 warrants issued, 5,000,000 were used as underlying warrants in the employee stock option program and 1,250,000 were issued to secure employee social security costs in terms of cash flow. A total of 4,775,000 employee stock options were issued against no monetary consideration to employees and these will vest during a period of 1, 2 and 3 years respectively, provided that the employee is still employed by the Group and provided that set performance requirements are met. Of the 5,000,000 underlying warrants in the employee stock option program, 3,601,643 have been exercised to subscribe for shares, and of the 1,250,000 warrants issued to secure employee social security costs in terms of cash flow, 1,217,334 have been exercised. The maxi-

mum dilution effect of this program is 2.81 percent. The dilution effect of the issued employee stock options is approximately 2.71 percent, of which approximately 0.56 percent remains to be exercised for subscription of shares by holders of employee stock options. The maximum dilutive effect was calculated based on full subscription of the Offer.

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

### Warrants programs 2015/2018 and 2015/2019

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

tain other key individuals against payment of the market value of the warrants established in accordance with a Black & Scholes options pricing formula from time to time.

Half of the warrants may be exercised up to 30 November 2018 at a strike price of 200 percent of the average share price during the ten trading days subsequent to 12 November 2015 (SEK 29.10). The other half of the warrants may be exercised up to 30 November 2019 at a strike price of 240 percent of the average share price during the ten trading days subsequent to 12 November 2015 (SEK 34.92). As of 31 December 2016, 1,780,000 warrants had been allocated to senior management personnel and other key individuals, of which 1,750,000 warrants expire in November 2018 and 30,000 warrants expire in November 2019. None of the warrants issued in the warrant programs for 2015/2018 and 2015/2019 have yet been exercised. The maximum dilution effect of this program is approximately 1.23 percent. The dilution effect for the issued warrants is approximately 0.01 percent, of which approximately 0.01 percent remains to be exercised for subscription of shares by warrant holders.

## Bonus program

The board of directors has decided to institute a bonus program for all employees of the Group, effective 1 January 2018. The fundamental prerequisites for the program are i) that Starbreeze is profitable, ii) that the bonus is capped at 5 percent of net profit, and iii) that the bonus to senior

management personnel is capped at 50 percent of base pay (in accordance with the guidelines adopted by the annual general meeting). The bonus fund will comprise 2 percent of profit per product after certain deductions and will be allocated to employees based on their affiliation

with a particular category. Employees are put into various categories based on their performance in relation to objectives. Bonuses are earned quarterly and paid to qualified employees at the beginning of the next calendar year.

## Authorizations

At the extraordinary general meeting on March 20, 2018, it was resolved to authorize the board of directors to, on one or more occasions before the next annual general meeting, to decide to issue, with or without waiver of shareholders' preferential rights, new Class A and Class B shares, or convertible securities or warrants conferring the right to purchase Class A and/or Class B shares, corresponding (in connection with the planned exercise of such convertible securities or options where applicable) to a maximum of 10 percent of the number of shares outstanding from time to time, against cash consideration, settlement of debt, or non-cash consideration. The purpose of the authorization and the reason for the waiver of shareholders' preferential rights is to make it possible for the Company to issue shares in connection with acquisitions of companies or businesses and to carry out directed issues aimed at raising capital for the Company, in connection with financing game production for example. The issue price must not be lower than the market price. Other terms and conditions will be decided by the board of directors and must be market-based.

# BOARD OF DIRECTORS, SENIOR MANAGEMENT AND AUDITORS



## Board of Directors



### Michael Hjorth

*Chairman of the board since 2013 (director since 2007)*

**Born:** 1963.

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

**Principal occupation:** CEO of the wholly owned investment firm Indian Nation AB and an Executive Producer in Film and TV.

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

**Previous assignments (previous five years):**

Chairman of the board of Tre Vänner Film AB and director of Tre Vänner AB, Paradox Entertainment AB, Sensori AB and SF Studios Production AB. Alternate director of Fifi Holding AB and DigiStrat AB.

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

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



### Ulrika Hagdahl

*Director since 2017*

**Born:** 1962

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

**Principal occupation:** Board service.

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

**Previous assignments (previous five years):**

Director of Industrial and Financial Systems, IFS Aktiebolag and Anoto Group AB.

**Holdings in the Company:** -

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



### Hyung Nam Kim (Harold Kim)

*Director since 2016*

**Born:** 1977

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

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

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

**Previous assignments (previous five years):** -

**Holdings in the Company:** -

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



## **Bo Andersson Klint**

*Director since 2012*

**Born:** 1976

**Education:** Studies in strategy and organization, Linköping University.

**Principal occupation:** Chief executive officer of the Company.

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

**Previous assignments (previous five years):** Chairman of the board and chief executive officer of Grin AB and chief executive officer of OVERKILL Software.

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

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



## **Matias Myllyrinne**

*Director since 2013*

**Born:** 1974

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

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

**Other assignments:** Head of Development at Wargaming Ltd.

**Previous assignments (previous five years):** CEO of Remedy Entertainment Ltd.

**Holdings in the Company:** -

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



## **Eva Redhe**

*Director since 2014*

**Born:** 1962

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

**Principal occupation:** Investor, company director and advisor.

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

**Previous assignments (previous five years):** Director of Temaplan Asset management Holding AB, T.A.M. Group AB, Fastighets AB Glaskronan 1, D. Carnegie & Co Aktiebolag, PledPharma AB, Probi AB, Orc Software, MQ Holding AB and Fastighets AB GK 1.

**Holdings in the Company:** Directly or indirectly owns 350,500 Class B shares.

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

## Senior management



### **Bo Andersson Klint**

*CEO of the Company*

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



### **Sebastian Ahlskog**

*CFO since 2015*

**Born:** 1970

**Education:** Business Administration, Stockholm University.

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

**Other assignments:** Partner in Ahlskog & Partners Handelsbolag.

**Previous assignments (previous five years):** Director of Tradera Sweden AB and external authorized signatory for Ooyala AB.

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



### **Saül Gascon Barba**

*Global Development Director since 2015*

**Born:** 1981

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

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

**Other assignments:** –

**Previous assignments (previous five years):** Senior Producer for Gameloft and Game and Design Director for FL4RE Inc.

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



### **Almir Listo**

*Global Brand Director & Producer since 2015*

**Born:** 1986

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

**Background:** Project manager for 10 years.

**Other assignments:** Director of ISBIT GAMES AB and director and CEO of Corelisto AB.

**Previous assignments:** –

**Holdings in the Company:** Directly or indirectly owns 129,001 Class B shares and 90,000 warrants.



### **Emmanuel Marquez**

*CTO since 2014*

**Born:** 1971

**Education:** BAC E, Lycee Louis Armand, DUT, IUT de Haute Alsace and Master in computer Science, EPITA Graduate School for Computer Science, France.

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

**Other assignments:** Director of StarVR Corp.

**Previous assignments:** –

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



### **Mikael Nermark**

*Deputy CEO since 2009 (CEO 2011–2013)*

**Born:** 1970

**Education:** Business, Stockholm University.

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

**Other assignments:** Director of Enterspace and director of all other Swedish subsidiaries of the Company.

**Previous assignments (previous five years):** CEO of Spelplan-ASGD AB and director of the non-profit association Mälarhöjden/Bredäng Hockey.

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



### **Maeva Sponbergs**

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

**Born:** 1980

**Education:** IT Project Management, IHM Business School.

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

**Other assignments:** Alternate director of Board Nexus Sweden AB.

**Previous assignments (previous five years):** Head of Operations for Exertis Ztorm AB.

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



### **Ann Charlotte Svensson**

*Head of Investor Relations and Corporate Communications since 2017*

**Born:** 1973

**Education:** Master of Economics, Stockholm University.

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

**Other assignments:** Owner of PRIR, a private firm.

**Previous assignments (previous five years):** Alternate director of Streamience AB.

**Holdings in the Company:** –



### **Johanna Wikland**

*Global Human Resources Director since 2016*

**Born:** 1977

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

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

**Other assignments:** –

**Previous assignments (previous five years):** –

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

## External auditors

The annual general meeting held 11 May 2017 reappointed auditing firm Öhrlings PricewaterhouseCoopers AB, (Torsgatan 21, 113 21, Stockholm, Sweden) as the Company's statutory auditor for the period until the end of the 2018 annual

general meeting. Öhrlings PricewaterhouseCoopers AB was also the Company's statutory auditor for 2015, 2016 and the period prior to the 2017 annual general meeting. 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.

## Further information about directors and senior management

For at least the previous five years, no directors or members of senior management have been convicted in relation to fraudulent offenses or been subject to official public incrimination and/or sanctions by statutory or regulatory authorities. Including designated professional bodies, or been disqualified from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Except for the related party transactions reported on page 106 in the section "Legal matters and supplementary information," there are no potential conflicts of interest for directors or members of senior management in the Company in relation to their duties to the Company. However, several directors and members of senior management have financial interests in the Company in the form of holdings of shares and/or warrants and/or stock options.

No service contracts have been made between the Company and the chairman of the board, any director or senior man-

ager providing benefits or remuneration upon termination of employment.

Nor are there any family relationships between members of senior management. Except as specified below, no restrictions have been agreed with members of senior management on the disposal of their holdings in the Company's securities.

In connection with Smilegate's investment in the Company (see page 62 under "Smilegate convertible bond and options (January 2016)" for further information about the transaction), Bo Andersson Klint, Emmanuel Marquez and Mikael Nermark issued lock-up commitments to the Company and Smilegate. Pursuant to the lock-up commitments, Bo Andersson Klint, Emmanuel Marquez and Mikael Nermark agreed not to sell, directly or indirectly, shares in the Company that they may come to own, directly or indirectly, during the lock-up period, except for 15 percent of the Class B shares that they already owned upon entering into the commitment. The lock-up period extends to the date the Company has performed its obligations under the collaboration

agreement with Smilegate. Breach of these lock-up commitments could impose an early repayment obligation on the Company.

No directors or members of senior management have been associated with any bankruptcies, receiverships or liquidations, except as specified below:

Bo Andersson Klint was the chairman of the board and chief executive officer for Grin AB on 11 June 2013 when bankruptcy in the said company was finalized.

All directors and members of senior management may be reached via the Company's address, c/o Starbreeze Studios AB, Box 7731, 103 95 Stockholm, Sweden.



# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

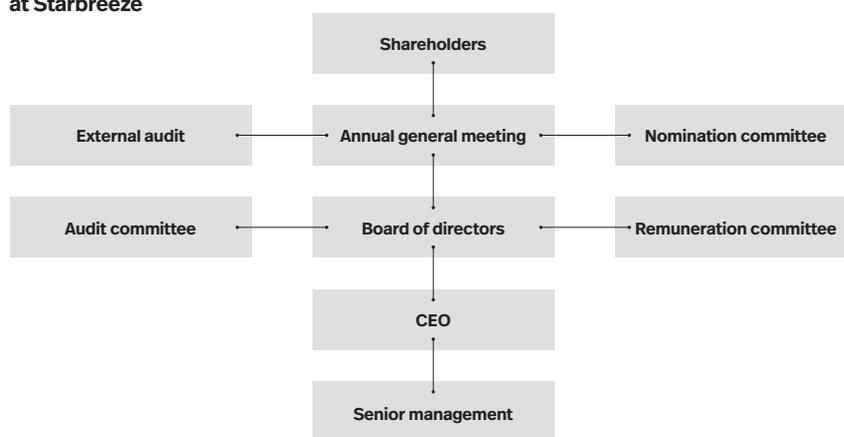
## About corporate governance in general

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

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

Companies that apply the Code are not

The corporate governance structure at Starbreeze



required to comply with all rules set out in the Code at all times. The company is free to choose an alternative solution if it determines such is better suited to the Company's particular circumstances, as long as the Company openly reports the

deviation, describes the alternative solution it has chosen and explains its reasons for doing so (under the principle of "comply or explain"). Any deviations from the Code will be reported in the Company's corporate governance statement

## Annual General Meeting

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

pany's board of directors. Such requests shall normally be received by the board of directors in sufficient time for the item to be included in the notice of meeting.

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

The board of directors may call an extraordinary general meeting when it deems there is reason to hold a meeting before the next annual general meeting. The board is also required to call an extraordinary general meeting if the statutory

auditor or a shareholder minority representing at least ten percent of the Company's shares so requests in order to address a specific matter.

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

During the 2017 financial year, the annual general meeting was held on 11 May 2017. During the 2018 financial year, one extraordinary general meeting has been held thus far. The next annual general meeting is planned for 9 May 2018.

## Nomination committee

According to the Code, the Company must have a nomination committee whose remit is to prepare and draft a proposal on election of directors, the chairman of the board, the chairman of the annual general meeting and statutory auditors. The nomination committee is also to present proposals on remuneration of directors and auditors. The chairman of the board nor any other director is permitted to chair the nomination committee. The term of service for the appointed nomination committee shall extend to the date a new nomination committee is appointed. Fees may be paid to the members of the nomination committee if so resolved by the general meeting.

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

According to this procedure, the nomination committee will be composed of the chairman of the board and no more than four members, who must represent the largest shareholders or shareholder groups in terms of voting rights. The four largest shareholders in terms of voting rights will be contacted on the basis of the Company's list of registered shareholders, provided by Euroclear, as of the last banking day in August. A shareholder who is not registered with Euroclear and wishes to be represented on the nomina-

tion committee must notify the chairman of the board thereto by 1 September and must be able to prove the ownership status. In connection with determining which shareholders are the four largest in terms of voting rights, a group of shareholders will be regarded as constituting one owner if they (i) have been organized as a group in the Euroclear system, or (ii) publicly announced and notified the Company in writing that they have reached written agreement to take a long-term, unified position in matters of management of the Company through coordinated exercise of voting rights. As soon as practicable after the end of August, the chairman of the board is to invite the four largest shareholders in the Company in terms of voting rights to form a nomination committee. If any of the four largest shareholders in terms of voting rights waives their right to appoint a member of the nomination committee, the next-largest shareholder will be offered the opportunity to appoint a member, but no more than ten shareholders must be queried. Unless the members agree otherwise, the chairman of the nomination committee is to be the member who represents the largest shareholder. The names of the committee members and the names of the shareholders who appointed them, as well as contact details for the nomination committee, must be published as soon as the nomination committee has been

appointed, which must occur no later than six months before the annual general meeting.

The nomination committee's term of service is to extend until a new nomination committee has been appointed. Fees will not be paid to the members of the nomination committee. The Company will, however, pay reasonable costs associated with the nomination committee's performance of its remit.

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

The members of the nomination committee must be publicly announced on the Company's website no later than six months before the annual general meeting.

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

## Board of Directors

### The tasks of the board of directors

The board of directors has ultimate responsibility for the Company's organization and managing the Company's affairs in the interests of the Company and all shareholders. The principal tasks of the board of directors include managing strategic issues related to operations, financing, business establishments, growth, financial performance and position, and regularly reviewing the Company's financial situation. The board must also ensure that there are appropriate systems for follow-up and control of the Company's operations and ensure that the Company's external communications are charac-

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

### Composition of the board

According to Starbreeze's Articles of Association, the board must be composed of no fewer than four and no more than eight directors and no more than two alternate directors. The directors are normally elected at the annual general meeting for a term of service ending at the close of the next annual general meeting, but additional directors may be elected during the year at an extraordinary general meeting.

The board of is composed of six regular directors: Michael Hjorth (chairman),

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

Redhe has declined re-election.

According to the Code, a majority of directors are to be independent of the Company and its management. At least two of the directors who are independent of the Company and management should also be independent in relation to major shareholders in the Company. In addition, no more than one director may be a

member of senior management of the Company or a subsidiary of the Company. The table below shows the service of directors on various board committees, when the directors' service began and the board's assessment of each director's independence.

The board has assessed Michael Hjorth, Matias Myllyrinne, Eva Redhe and

Ulrika Hagdahl as independent in relation to the Company, its management and major shareholders. The composition of the board thus meets the Code's independence requirement. The directors of the Company are presented in greater detail in the section "Board of directors, senior management and auditors" on pages 90–94.

Name	Audit committee and remuneration committee	Has held position since	Independent in relation to the Company/management	Independent in relation to the Company's major shareholders (>10%)
Michael Hjorth	Audit committee and remuneration committee	2007, chairman since 2013	Yes	Yes
Matias Myllyrinne	–	2013	Yes	Yes
Eva Redhe	Audit committee (chair) and remuneration committee	2014	Yes	Yes
Bo Andersson Klint	–	2012	No	No
Ulrika Hagdahl	Audit committee and remuneration committee (chair)	2017	Yes	Yes
Harold Kim	–	2016	No	No

## Chairman of the board

The tasks of the chairman of the board include organizing and presiding over the work of the board and ensuring that it is conducted efficiently and that the board fulfills its obligations. Through interaction with the chief executive officer, the chairman must be provided the information necessary to monitor the Company's position, financial planning and performance. The chairman must also consult with the chief executive officer concerning strategic matters and verify that the board's decisions are effectively implemented.

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

The chairman of the board is elected by the annual general meeting.

### Board procedures

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

junction with the first meeting of the board after the annual general meeting.

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

### Board committees

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

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

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

During the 2017 financial year, the audit committee held seven meetings. Attendance was 100 percent.

#### Remuneration committee

The main tasks of the remuneration committee are to prepare issues concerning remuneration and other terms of employment for the CEO and other senior management personnel. The remuner-

ation committee is also to monitor and evaluate programs for variable remuneration to senior management personnel and to monitor and evaluate application of guidelines for remuneration to senior management personnel adopted by the annual general meeting. During the 2017 financial year, the remuneration committee submitted recommendations to the board of directors concerning the remuneration structure for the chief executive officer and the Company's possible need for incentive programs for employees including senior management. The remuneration has also prepared matters for board decision in relation to bonus systems and stock option programs for the Company's employees.

Since the first board meeting after the 2017 annual general meeting, the mem-

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

During the 2017 financial year, the remuneration committee held three meetings. Attendance was 100 percent.

### Remuneration to directors

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

In addition to the specified remuneration for committee service set out above, the annual general meeting held 11 May 2017 decided that additional fees of no more than SEK 300,000 may be paid for committee service.

Consequently, total fees paid to the board of directors (including fees for committee service) may not exceed SEK 2,400,000. Directors are permitted to invoice directors' fees via a company only if it is determined in advance that (i) this is cost-neutral to the Company and (ii) tax-related conditions for invoicing are met. If such occurs, the invoiced fee must be increased by an amount corresponding to social insurance contributions as required by law and value added tax as required by law.

## CEO and other senior management personnel

### Tasks of the CEO and other senior management personnel

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

uals who are responsible for significant areas of operation within Starbreeze.

### Remuneration to the CEO and senior management personnel

Total salaries, variable pay and other benefits were paid in the 2016 financial year to senior management personnel, including the CEO, in the amount of SEK 14,373 thousand (3,826). Share-based pay amounted to SEK 7,189 thousand (3,936). Defined contributions to pension plans were paid for senior management personnel corresponding to costs under the ITP plan. Costs for stock options allotted to employees and two directors were charged against profit and loss for the year in the amount of SEK 9,701 thousand (17,837).

### Guidelines for remuneration to senior management personnel

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

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

The Company is to offer market-based terms that make it possible to recruit and retain skilled personnel. Remuneration to senior management is to consist of fixed pay, pension benefits and other customary benefits. In addition, the board

Board & senior management personnel 2016	Base pay/ director's fee, SEKK	Variable pay, SEKK	Other benefits, SEKK	Pension expense, SEKK	Share- related pay ,SEKK	Total, SEKK	Allocated employee and director stock options	Remaining employee and director stock options	Allocated warrants	Remaining warrants
Michael Hjorth, director/ chairman	900 <sup>1)</sup>	-	-	-	-	900	-	-	-	-
Matias Myllyrinne, director	200	-	-	-	52	252	267,000	-	-	-
Christoffer Saidac, director	300	-	-	-	-	300	-	-	-	-
Eva Redhe, director	300	-	-	-	36	336	267,000	-	267,000	-
Bo Andersson Klint, CEO/director	2,669	1250	25	206	83	4,233	400,000	133,334	991,766	-
Mikael Nermark, Deputy CEO	2,422	-	89	215	30	2,756	-	-	-	-
Other senior management per- sonnel; average of 6 individuals, 6 individuals at year-end	6,989	487	442	679	150	8,747	705,000	368,336	572,435	341,666
	<b>13,780</b>	<b>1,737</b>	<b>556</b>	<b>1,100</b>	<b>351</b>	<b>17,524</b>	<b>1,639,000</b>	<b>501,670</b>	<b>1,831,201</b>	<b>341,666</b>

<sup>1)</sup>SEK 900k comprises both the director's fee and fee for committee service for the 2016 financial year.

is to evaluate on an annual basis whether share-based or share price-based incentive programs should be proposed to the annual general meeting.

As a main rule, fixed pay is reviewed annually and the review must take the individual's qualitative performance into account. Remuneration to the chief executive officer and other senior management personnel must be market-based. The board of directors is furthermore empow-

ered to decide on variable remuneration in the form of a cash bonus in an amount that does not, on an annual basis, exceed fifty percent of the fixed yearly salary for the senior manager in question.

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

The chief executive officer is required

to give six months' notice of resignation and the Company is required to give nine months' notice of termination. Notice periods for other senior management personnel range from three to nine months. There are no agreements on severance pay.

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

## Auditing and control

### External auditor

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

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

### Remuneration to the auditor

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

### Internal auditing and control

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

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

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

### Control environment

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

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

### Risk assessment and control activities

A clear organization and decision-making procedures are intended to generate high risk awareness among employees and carefully considered risk-taking. Embedded internal control points are also intended to minimize the risk of misstatements in the accounts. Likewise, there are documented procedures for the management of the Company's finance and consolidation system. Ongoing monitoring and follow-up are applied to maintain good internal control and thus prevent and detect risks. During the 2016 financial year, the activities of the audit committee included consulting with the Company's auditors concerning accounting estimates. The audit committee also proposed measures regarding its ongoing internal control in response to the Group's expanding operations, and submitted recommendations to the board in preparation for upgrading internal control within the framework of the planned listing switch.

### Risk management

Significant risks that affect internal control of financial reporting and operational controls are identified and managed at the Group, business area and subsidiary levels. The board audit committee is responsible for ensuring that material financial risks and risks of misstatements in financial reporting are identified and prepared for board decision, where applicable, on corrective measures to ensure

accurate financial reporting. Special priority is awarded to identifying processes where the risk of material misstatement is relatively higher due to the complexity of the process or in contexts that involve high monetary values.

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

have been performed. The results, analysis and measures in connection with this process are reported directly to the audit committee and board of directors as outlined below.

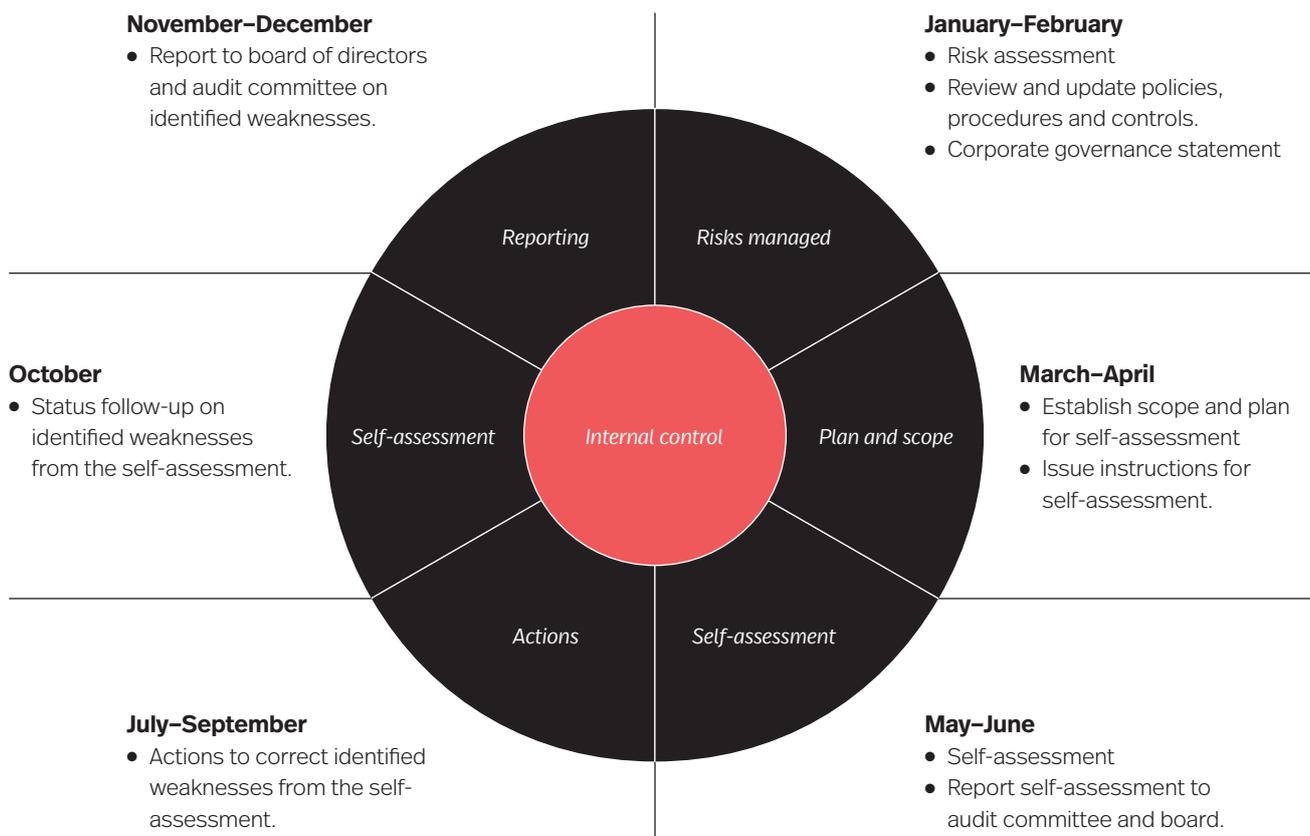
**Monitoring and follow-up**

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

the audit committee receives a final report on the outcomes and status of internal control. This is aimed at creating an overall view of the situation and preparing proposals to the board of directors regarding improvement measures. This is an ongoing process, as illustrated below.

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

**Starbreeze’s annual cycle for audit and internal control**



# ARTICLES OF ASSOCIATION

## 1. Name of the company

The name of the company is Starbreeze AB (publ).

## 2. Registered office

The board of directors shall have its registered office in the municipality of Stockholm, Sweden.

## 3. Objects of the company

The business of the company shall be, directly and through subsidiaries or associations, joint ventures or other partnerships, to develop, market, license, publish, sell and/or distribute software, equipment and/or brands related to interactive entertainment and/or products and services in the area of virtual reality, both for consumers and professional users, and to conduct related business.

## 4. Share capital

Share capital shall be not less than SEK 3,000,000 and not more than SEK 12,000,000.

## 5. Shares

### 5.1

The number of shares in the company shall be not less than 150,000,000 and not more than 600,000,000. Shares may be issued in two classes: Class A shares and Class B shares. Shares of each class may be issued up to an amount corresponding to a total of 100 percent of share capital. Each Class A share shall carry ten (10) votes and each Class B share shall carry one (1) vote. Otherwise, Class A shares and Class B shares carry equal rights to a share in the company's assets and profits.

### 5.2

If the company decides to issue new Class A and Class B shares through a cash issue or offset issue, owners of Class A and Class B shares shall have preferential rights to subscribe for new shares of the same class, pro rata to the number of shares the shareholder previously owned (primary preferential rights). Shares that are not subscribed under primary preferential rights shall be offered to all shareholders for subscription (subsidiary

preferential rights). If shares thus offered do not suffice for the subscription under subsidiary preferential rights, the shares shall be allocated among the subscribers pro rata to the number of shares they previously owned and, to the extent this is impossible, through the drawing of lots.

If the company decides to issue only Class A shares or only Class B shares through a cash issue or offset issue, all shareholders, regardless of whether their shares are of Class A or Class B, shall have preferential rights to subscribe for new shares, pro rata to the number of shares previously owned.

If the company decides to issue warrants or convertible securities through a cash issue or offset issue, shareholders have preferential rights to subscribe for warrants, as if the issue applied to the shares that may be newly subscribed on the basis of the warrant right or preferential right; respectively, shareholders shall have preferential rights to subscribe for convertible securities as if the issue applied to the shares against which the convertible securities may be exchanged.

That stated in the foregoing shall not imply any restriction to the option to resolve in favor of a cash issue or offset issue with a waiver of the shareholders' preferential rights.

If share capital is increased through a bonus issue, new shares of each share class shall be issued pro rata to the previously existing number of shares of the same class. In that connection, previously existing shares of a particular class shall convey the right to new shares of the same class. That stated in the foregoing shall not imply any restriction to the option to issue shares of a new class by means of a bonus issue and subsequent to the requisite amendment to the Articles of Association.

### 5.3

Upon request of the shareholder, Class A shares shall be converted to Class B shares. The request for conversion shall be made in writing to the board of directors and shall specify the number of Class A shares to be converted to Class B shares and, if the request does not refer

to the entire holding, specify the Class A shares to which the conversion refers. The company shall immediately notify the conversion to the Swedish Companies Registration Office for registration in the companies register. The conversion is executed once the registration is complete and has been entered in the CSD register.

## 6. Board of directors

The board of directors shall be composed of no fewer than four (4) directors and no more than eight (8) directors and no more than two (2) alternate directors.

## 7. Statutory auditor

The company shall have one (1) or two (2) statutory auditors. Registered audit firms may be appointed as the statutory auditor.

## 8. Notice and registration to attend general meetings

Notices of general meetings must be made through advertisement in *Post- och Inrikes Tidningar* and by posting the notice on the company's website. When notice is made, the company shall advertise in *Dagens Industri* that notice to attend has been issued.

Shareholders wishing to attend the general meeting must be found on a printed copy or other presentation of the register of shareholders reflecting circumstances five (5) days before the meeting and must notify the company of intent to participate no later than the day specified in the notice of meeting. The last-mentioned day cannot be a Sunday, other public holiday, Midsummer's Eve, Christmas Eve or New Year's Eve and cannot be earlier than five (5) weekdays before the meeting.

## 9. Financial year

The company's financial year shall begin 1 January and end 31 December.

## 10. CSD clause

The company's shares shall be registered in a CSD register pursuant to the Swedish Financial Instruments (Accounts) Act (1998:1479).

# LEGAL MATTERS AND SUPPLEMENTARY INFORMATION

## General information about the Company and the Group

The Company's legal and commercial name is Starbreeze AB (publ), registration number 556551-8932. The Company was formed on 12 January 1998 and registered with the Swedish Companies Registration Office on 22 January 1998 under the name AB Arapten 2252. On 11 May 1998, the Company changed its name to O3 Sweden AB, which was subsequently changed to O3 Games AB. The Company changed its name to Starbreeze AB (publ) in 2002. The Company is a Swedish public limited company regulated by the Swedish Companies Act (2005:551). The Company is domiciled in the municipality of Uppsala, Sweden. Company headquarters are in Stockholm. The address is c/o Starbreeze Studios AB, Box 7731, 203 95 Stockholm, Sweden and the telephone number is +46 (0)8 20 92 08. The Company's website address is [starbreeze.com](http://starbreeze.com).

The majority of the Company's employees are based at the Company's headquarters in Stockholm. The Company has offices/operations in Sweden, France, Belgium, the United States, Spain, Luxembourg and India. Senior management is composed of nine individuals. In recent years, Starbreeze has reinforced the senior management team with a number of employees who brought long-term experience in the games industry and other digital industries to the Company.

The Company is the parent company of 17 subsidiaries that are directly or indirectly wholly or partially owned, as shown on the organization chart below.

The Company has ownership interests corresponding to 100 percent in the following 15 subsidiaries:

- Starbreeze Production AB, reg. no. 556292-1063, a Swedish limited company incorporated and domiciled in Sweden,
- Starbreeze Publishing AB, reg. no. 556779-9654, a Swedish limited company incorporated and domiciled in Sweden,
- Starbreeze Studios AB, reg. no. 556558-4496, a Swedish limited company incorporated and domiciled in Sweden,
- Starbreeze Ventures AB, reg. no. 559055-2666, a Swedish limited company incorporated and domiciled in Sweden,
- Starbreeze VR AB, reg. no. 559055-2658, a Swedish limited company incorporated and domiciled in Sweden,
- Enterspace AB, reg. no. 559042-4064, a Swedish limited company incorporated and domiciled in Sweden,
- Starbreeze Paris SAS, reg. no. 523 954 823, a French limited company incorporated and domiciled in France,
- Nozon S.p.r.l., reg. no. 0462.668.818, a Belgian limited company incorporated and domiciled in Belgium,
- Parallaxter S.p.r.l. reg. no. 0564.848.024, a Belgian limited company incorporated and domiciled in Belgium,
- Starbreeze Barcelona S.L., reg. no. B66837527, a Spanish limited company

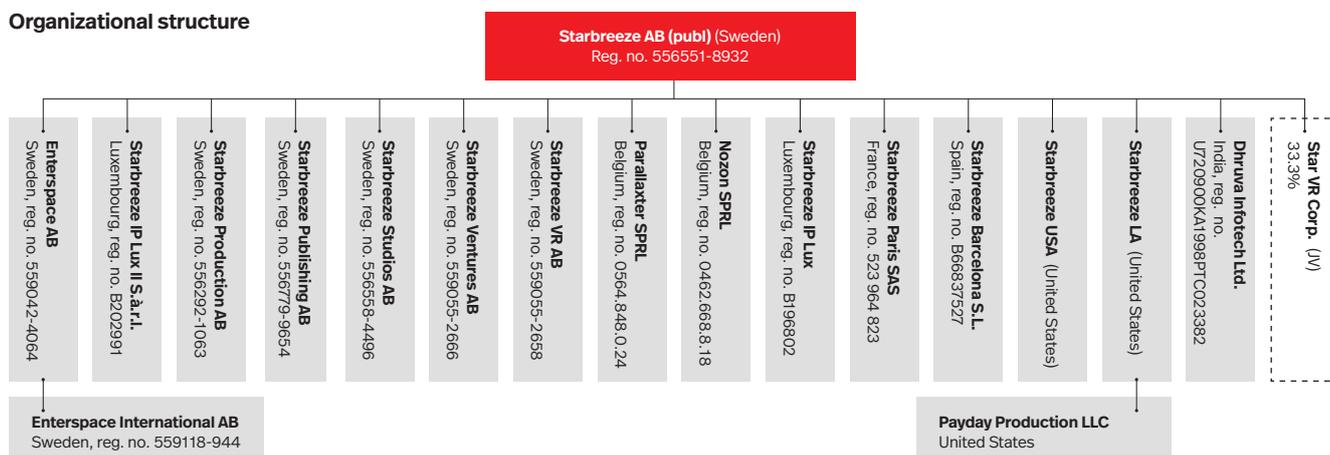
incorporated and domiciled in Spain,

- Starbreeze LA Inc., an American limited company incorporated and domiciled in the United States,
- Starbreeze IP Lux, reg. no. B196802, a Luxembourgian limited company incorporated and domiciled in Luxembourg,
- Starbreeze Lux II S.à.r.l., reg. no. 202991, a Luxembourgian limited company incorporated and domiciled in Luxembourg,
- Starbreeze USA Inc., an American limited company incorporated and domiciled in the United States.

Enterspace International AB is a wholly owned subsidiary of Enterspace and Payday Production is a wholly owned subsidiary of Starbreeze LA. It should be noted, however, that Parallaxter owns one share in Nozon and Nozon owns one share in Parallaxter, as required under applicable law.

The Company also owns a 33.3 percent interest in the Taiwan-based company StarVR Corporation (incorporated as a joint venture by the Company and Acer). Starbreeze Production also owns about 6 percent of CMUNE Holding, a company located in Cayman Islands that specializes in mobile games. The Company's investment in CMUNE Holding was made when Starbreeze and CMUNE Holding entered into partnership to take PAYDAY to mobile platforms. Starbreeze owns 90.5 percent of the equity in the Indian production company Dhruva.

## Organizational structure



## Material contracts

The Group has entered into several contracts with third parties pertaining to development and/or release of games. In most cases, games are commercialized in collaboration with a developer, publisher and/or licensor of the necessary rights to develop the game. Collaboration agreements normally contain a model for revenue sharing between the parties. The agreements presented in summary below are considered material contracts that Starbreeze has entered into during the immediately preceding two financial years, or agreements under which the Group has an obligation or entitlement that is material to the Group as of the date of this Prospectus. In addition to these agreements, the Group has entered into agreements in the ordinary course of business; see in particular agreements pertaining to acquisitions on pages 58-60 under "Acquisitions" and the collaboration agreement with Acer pertaining to StarVR on page 62 under "Joint venture with Acer (June 2016)."

### Material contracts pertaining to games developed by Starbreeze PAYDAY

Starbreeze developed and owns all rights to the PAYDAY game series. Starbreeze has granted exclusive publishing rights to the first game in the series, PAYDAY: The Heist, to a third party for the console platforms PlayStation 3, PlayStation Network and PlayStation Now. Starbreeze has a right to royalties on the publisher's net sales on such platforms and retains publishing rights to the other platforms (e.g., PC).

Development of the second game in the series, PAYDAY 2, was partially financed by 505 Games, which in return was granted exclusive publishing rights to the game and future PAYDAY games. The parties have since agreed that the publishing rights to the PC and mobile platforms for PAYDAY 2 and all publishing rights to future games in the PAYDAY series will revert to Starbreeze. However, 505 Games retains the publishing rights to PAYDAY 2 on the console platforms PlayStation 3, PlayStation 4, Xbox 360 and Xbox One. Starbreeze has a right to royalties on 505 Games' net sales on such platforms.

Starbreeze had entered into several licensing agreements with third parties regarding the in-licensing of the right to use the intellectual property rights of

such third parties for development and commercialization of additional content ("downloadable content" or "DLCs") to the PAYDAY 2 game. The licensing agreements contain revenue sharing models that give the licensor a right to royalties on net sales of the DLC in question.

In connection with reversion of the publishing rights to PAYDAY 2, Starbreeze and 505 Games agreed that 505 Games will have a right to an initial share of future revenues attributable to the commercialization of the next title in the game series, PAYDAY 3, which Starbreeze is developing. The revenue sharing will expire when 505 Games has received a maximum of USD 40 million, provided that Starbreeze does not release a fourth PAYDAY game in the series within three years of the release of PAYDAY 3.

### OVERKILL's The Walking Dead

Starbreeze, Robert Kirkman and the American company Skybound Interactive have entered into a licensing and development agreement by which Starbreeze has acquired the right to develop and release OVERKILL's The Walking Dead, a game based on the intellectual property rights owned by the author, Robert Kirkman, and Skybound Interactive. The collaboration is regulated on market terms, including a publishing right to Starbreeze in exchange for payment of customary royalties to the licensors. Starbreeze's profits will depend upon how future games are received by the players. The release window for the game has been postponed to the second half of 2018.

Starbreeze and 505 Games have entered into a publishing agreement regarding OVERKILL's The Walking Dead. Under the agreement, 505 Games has publishing rights to the console versions of the game. Starbreeze has a right to royalties on 505 Games' net sales.

### Collaboration agreement with Smilegate

Starbreeze and the Korean game company Smilegate have entered into a collaboration agreement by which Starbreeze is granted rights for a period of ten years to develop, publish and distribute in Western markets an entirely new first-person cooperative game based on Smilegate's Crossfire game series, adapted for Western markets. The parties have agreed that a significant share of revenues, from

the first unit, will accrue to Starbreeze, while Smilegate retains the rights to the Crossfire game. Starbreeze is also granted distribution rights on Smilegate's game platform and will, for example, release PAYDAY 2 and OVERKILL's The Walking Dead in Asian markets over the platform.

### Partnership agreement on VR center in Dubai

On 1 August 2017, Starbreeze entered into a collaboration agreement with EMAAR on a new VR center in Dubai Mall. Starbreeze will be the lead partner to the VR center, providing operational experience, installation and content via Starbreeze Studios. Under the terms of the agreement, Starbreeze will invest in certain VR attractions to a market value of at least USD 10 million. The investments are financed via a loan from Nordea guaranteed by the Swedish Export Credit Agency and by a loan from StarVR Corporation. Starbreeze will retain 20-25 percent of future net revenues. The term of the agreement is five years, provided that none of the parties terminate the agreement pursuant to certain specified provisions in the agreement.

### Agreements with external game developers

Starbreeze has entered into several agreements with external game developers. Game development projects are run in accordance with the development and publishing agreements that Starbreeze makes with the respective game developers. Starbreeze is granted an exclusive global publishing license and is responsible for publishing, distributing and marketing the game. The game developer develops the game against consideration in the form of development-based milestone payments and royalties on Starbreeze's future sales of the game. In line with the Group's strategy of acting as the rightful publisher, the external game developer retains the intellectual property rights to the developed game in most cases. Alternatively, the parties have agreed in certain cases that the rights will be jointly owned by Starbreeze and the game developer.

### Distribution agreements

#### Distribution agreement with Valve (Steam)

Starbreeze and the American company Valve Corporation have entered into a distribution agreement by which Valve, against consideration in the form of a share

of gross revenues for sold games, is granted rights including a non-exclusive global license to reproduce, transmit, sell, license and otherwise distribute various computer games (particularly the PAYDAY series) via the online distribution platform Steam, including corresponding rights to use the computer games' brands in connection with marketing the computer games.

#### **Distribution agreement with Wendros AB**

Starbreeze and the Swedish company Wendros AB have entered into a commission agreement that gives Wendros an exclusive right to sell physical console versions of Starbreeze's games in the Nordic countries.

#### **Loan agreement with Nordea**

On 24 August 2017, Enterspace International AB entered into a loan agreement with Nordea Bank (publ), which also includes Starbreeze and Enterspace as guarantors. Under the terms of the agreement, Enterspace International AB will have access to SEK 40 million, partly in the form of a bank overdraft and partly in the form of an ordinary loan (if there is available credit). As of 31 December 2017, approximately SEK 37 million of the line of credit had been utilized. The interest on every withdrawal from the overdraft, as well as any ordinary loan, is based on the lower of (i) the applicable STIBOR (Stockholm Interbank Offered Rate) or (ii)

0 percent, plus an annual market-based margin). If no applicable STIBOR is available, interest is calculated based on interpolation of STIBOR or based on an average of the internal rates of Swedish banks. The overdraft is available for six months from execution of the agreement. After the possibility of using the overdraft has expired, Enterspace International AB has the option to utilize the ordinary loan for one day. Under the terms of the agreement, Enterspace International AB shall pay certain customary fees and has, jointly with the Company and Enterspace, made certain customary covenants, provided certain customary guarantees and undertaken certain customary obligations.

Furthermore, on 24 August 2017 Starbreeze Publishing AB entered into a loan agreement with Nordea Bank (publ), which also includes Starbreeze and Starbreeze Production AB as guarantors. Under the terms of the agreement, Starbreeze Publishing AB will have access to a general line of credit of SEK 150 million in multiple currencies, which can be drawn down as an ordinary debt or a bank overdraft. As of 31 December 2017, approximately SEK 140 million of the line of credit had been utilized. The interest for each withdrawal from the overdraft is based on the applicable Interbank Offered Rate, depending upon the choice of currency, plus an annual market-based margin. If no Interbank Offered Rate is available, interest is calcu-

lated based upon (i) interpolation of the Interbank Offered Rate for the selected currency or (ii), if interpolation is impossible, that the loan is raised in SEK and the term of the loan coincides with the interest period for the loan. The line of credit is available for three years from execution of the agreement. Under the terms of the agreement, Starbreeze Publishing must pay certain customary fees and has, jointly with the Company and Starbreeze Production AB, made certain customary covenants, provided certain customary guarantees and undertaken certain customary obligations.

On 22 February 2018, Starbreeze Publishing AB and Nordea Bank AB (publ) entered into an amendment agreement that requires Starbreeze and Starbreeze Production AB, in the capacity of guarantors, to deposit SEK 125 million in a bank account pledged to the benefit of Nordea Bank AB (publ). According to the amendment agreement, Nordea AB (publ) must approve the partial release of amounts specified in the agreement if and when certain specified circumstances occur. Under certain circumstances, Starbreeze Publishing AB may be obligated to deposit additional funds in the pledged account. As of the date of this Prospectus, SEK 50 million has been released from the pledged account and SEK 75 million remains on deposit in the bank account, which is pledged to Nordea Bank AB (publ).

## **Intellectual property rights**

For a description of the Company's intellectual property rights, see "Operations" under the heading "Intellectual property rights." Starbreeze considers its intellectual property rights adequately protected and monitors this protection on an ongoing basis.

## **Legal and arbitration proceedings**

The Company is not and has not been party to any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) in the previous twelve months which may have, or have had in the recent past significant effects on the Company or the Group's business and financial position or results of operations.

## **Insurance policies**

In the judgment of the Company's board of directors, the Company has insurance coverage that is consistent with the industry standard and which covers the risks that typically arise in operations. Insurance policies include business insurance, liability insurance and transport insurance.

## Related party transactions

Internal Group loans and other transactions between Group companies attributable to the purchase and sale of services that the various Group companies provide occur in the normal course of the Group's business. Such transactions are made on market terms according to the "Transfer Pricing Policy" in effect for the Group from time to time. In addition to the aforementioned transactions, the following transactions, which must be considered related-party transactions, were carried out during the period covered by the historical financial information. Related-party transactions have been executed on market terms.

### **Purchase of legal services from the law firm of Hannes Snellman Advokatbyrå AB**

The Company has retained the law firm of Hannes Snellman Advokatbyrå AB, in which former director Christoffer Saidac is a partner, as its legal adviser in several matters during the relevant period. Hannes Snellman Advokatbyrå AB has billed its fees, amounting to SEK 4,434,000, on an ongoing basis.

### **Acquisition of the Valhalla game engine**

On 16 July 2015, Starbreeze IP Lux entered into a share transfer agreement with Valhalla S.a.r.l to acquire the Valhalla game engine. Valhalla S.a.r.l is a company controlled by Emmanuel Marquez, who was employed by the Company as Chief Technology Officer at the time of the transfer. For further information, see "Acquisitions" on page 58.

### **Acquisition of interest in Payday Productions LLC**

In October 2015, Varvtre AB transferred a 40.4 percent stake in Payday Productions LLC to Starbreeze LA. Varvtre AB is a company controlled by Bo Andersson Klint, who was employed as the Chief Executive Officer of the Company at the time of the transfer. For further information, see "Acquisitions" on page 58.

### **Purchase of services from Eva Redhe**

In connection with the renegotiation and restructuring of the terms of the convertible bond issued to Smilegate Holdings Inc., the Company purchased services to a value of SEK 200,000 from Eva Redhe, who was a director of the Company at the time of the transaction.

The Company has also entered into an agreement with Eva Redhe's wholly owned company, Redhe Financial Communications AB, under which Redhe will provide consultant services related to e.g., systems, processes and policies for internal control and corporate governance. The consultant fee to Eva Redhe is on market terms. The agreement runs indefinitely unless canceled by either party upon one month's notice. The agreement is considered to contain customary terms and conditions, including conditions pertaining to the Company's rights to any work product/intellectual property rights, and a non-compete clause effective until the agreement expires.

### **Restructuring of intellectual property rights**

In December 2015, the Group carried out a restructuring of the Group's patents and other intellectual property rights, whereupon ownership was placed in Starbreeze IP Lux and Starbreeze IP Lux II S.à.r.l.

### **Investment in American start-up company**

Bo Andersson Klint and Emmanuel Marquez invested in an American company incorporated in Delaware, a start-up company in wireless technology, in connection with Starbreeze Ventures' investment in the same company. It cannot be precluded that this could be regarded as a related party transaction, as Bo Andersson Klint and Emmanuel Marquez may have benefited from the advisory services received and paid for by Starbreeze Ventures in connection with the investment. On 19

July 2017, Bo Andersson Klint and Emmanuel Marquez transferred their respective convertible instruments to investment companies controlled by them. Otherwise, the terms and conditions of the convertible instruments are unchanged, with no effect on the convertible instruments.

For further information, see page 61 under "Investment in American start-up (September 2016)."

### **Marketing contribution from StarVR Corporation**

The Group received a marketing contribution of SEK 47.8 million during the 2017 financial year from the joint venture, StarVR Corporation.

## Material interests and conflicting interests

Director and chief executive officer Bo Andersson Klint controls approximately 24.59 percent of voting power and approximately 9.52 percent of share capital in the Company through Varvtre AB. Director Harold Kim is an employee and representative of Smilegate Holdings Inc., which controls approximately 5.11 percent of voting power and 3.40 percent of share capital in the Company. Senior manager Emmanuel Marquez controls approximately 2.07 percent of voting power and approximately 1.30 percent of share capital in the Company through CBLDN-BFCM FullTX Third Party Asset. Chairman of the

board Michael Hjorth controls approximately 1.76 percent of voting power and approximately 0.65 percent of share capital in the Company through Indian Nation AB. All four are considered major shareholders in the Company.

Director Harold Kim is an employee and representative of Smilegate Holdings Inc., which has lent SEK 215 million to the Company through a convertible bond.

Most directors and senior management personnel own shares and/or warrants in the Company. In connection with the employment of Sebastian Ahlskog as Chief Financial Officer, Michael Hjorth

issued an employee stock option to Sebastian Ahlskog to buy shares in the Company. The option was exercised in 2016.

The Company has entered into an agreement on financial advisory services with Carnegie Investment Bank AB. In its capacity as financial adviser, Carnegie receives remuneration agreed in advance for services performed in connection with the Rights Issue. Carnegie also provides other services to the Company from time to time within the framework of its ongoing operations.

## Incorporation by reference

Starbreeze's financial report for January–December 2017 constitutes a part of this Prospectus and should be read as a part thereof. The financial statements were prepared in accordance with IFRS and have been reviewed by the Company's statutory auditor. The aforementioned

financial statements are presented in Starbreeze's interim report for the fourth quarter of 2017, to which references are made as follows:

Interim report January–December 2017: p. 18 "Consolidated statement of changes in equity", p. 16 "Consolidated

statement of comprehensive income," p. 17 "Consolidated balance sheet", p. 19 "Consolidated statement of cash flows", p. 20 "Notes."

 Read more in the interim report for January–December 2017.

## Documents on display

The Company's Articles of Association and all reports, valuations and statements prepared by experts at the Company's request, any part of which is included or referred to in the Prospectus, as well as the historical financial information for the Company and all of its subsidiaries for the financial years of 2014/2015, 1 July–31 December 2015 and 2016, and interim reports for the periods of January–Decem-

ber 2016 and 2017 in paper form will be available at the Company for inspection on weekdays during customary office hours for the life of the Prospectus.

Please note that the historical financial information presented in the section "Historical financial information" on page 110 of the Prospectus contains certain adjustments and additional information in the explanatory notes that were not

included in the previously published historical annual reports for the relevant financial years. The adjustments and additional information found in the historical financial information have had no effect on the balance sheets, statements of comprehensive income, or statements of cash flows.

# CERTAIN TAX CONSIDERATIONS IN SWEDEN

## General information

A summary of the Swedish tax consequences that may arise by reason of the Offer is provided below. The summary is based upon applicable legislation at the date the Prospectus was prepared and is intended only as general information. Unless otherwise stated, the summary applies only to natural persons subject to unlimited tax liability in Sweden and Swedish limited companies. The summary is not intended to exhaustively address all tax issues that may arise. It does not, for example, address the specific rules that

apply to (i) securities held by partnerships or which are held as current assets in a business operation, (ii), the specific rules on tax-exempt capital gains (including non-deductibility of capital losses) and dividends in the corporate sector that may be applicable when shareholders hold shares considered business-related, (iii) the specific rules that may be applicable to holdings in companies that are or previously were close companies, or shares acquired with the support of “qualifying interests” in a close company, or (iv)

shares held via endowment insurance.

Specific tax rules not described here may also be applicable to other categories of shareholders, such as investment firms and insurance companies. Taxation of the individual shareholder depends upon the shareholder’s specific situation. All shareholders are therefore recommended to seek advice from a tax adviser to obtain information about the specific consequences that may arise in the individual case, including the applicability and effect of foreign rules and tax treaties.

## Unlimited tax liability

### Natural persons

#### Capital gains taxation

For natural persons subject to unlimited tax liability in Sweden, capital gains are taxed as capital income at a tax rate of 30 percent.

Capital gains or capital losses are calculated as the difference between the proceeds of sale after deducting any costs to sell and the acquisition cost of the shares sold. The acquisition costs of all shares of the same class and type are summed and computed collectively using the average method. When the average method is applied, shares of different classes in the same company do not constitute shares of the same class and type. Moreover, it should be mentioned that BTA (paid subscribed shares) are not considered the same type as newly issued shares until the decision on a new issue has been registered with the Swedish Companies Registration Office. The standardized method may be used instead for market-listed shares. Under this rule, the acquisition cost may be computed as 20 percent of the proceeds of sale less costs to sell.

If the acquisition cost is higher than the selling price, a capital loss arises. Capital losses on listed shares and other financial instruments deemed share equivalents (Sw: *delägarätter*), (other than units in securities funds or special funds that contain only Swedish notes (i.e., fixed income funds, Sw: *räntefonder*) can be offset against capital gains on other mar-

ket-listed financial instruments deemed share equivalents in the same year. Seventy percent of capital losses that cannot be offset in this way is deductible against other capital income. If a loss is sustained under capital income a reduction of tax is allowed on earned income, business income, the municipal property charge and property tax. Such a tax reduction is allowed at 30 percent of the loss up to SEK 100,000 and 21 percent for the loss exceeding that amount. Losses cannot be carried over to a subsequent tax year.

#### Dividends

Dividends on listed shares are taxed at 30 percent. For natural persons subject to unlimited tax liability in Sweden, 30 percent preliminary tax on dividends is normally withheld by Euroclear or, with regard to nominee registered shares, by the nominee.

#### Shares in investment savings accounts

That said above concerning capital gains, capital losses and dividends does not apply to shares held in a Swedish investment savings account (“ISK”), which are instead subject to standardized taxation based on the value of the assets in the account. A standardized income is computed by multiplying the capital base by the Swedish Government Borrowing Rate in effect on 30 November the year preceding the tax year, plus one percentage point. The standard income, however, is calculated as 1.25 percent of the capital

base, at minimum. This standard income is taxed as capital income.

### Limited companies

#### Capital gains taxation and dividends

Limited companies are normally taxed for all income including capital income in the business income category at a rate of 22 percent. See above under “Natural persons” concerning computation of capital gains and capital losses.

Deductions for capital losses on shares are allowed only against capital gains on shares and other financial instruments deemed share equivalents. Such capital losses may, if certain criteria are met, be offset against capital gains on shares and other financial instruments deemed share equivalents in companies that belong to the same corporate group, provided that a group contribution right exists between the companies. Capital losses that cannot be utilized in a particular tax year may be carried forward and deducted against capital gains on shares and other financial instruments deemed share equivalents in subsequent tax years, with no time limitation.

#### Exercise and sale of subscription rights

The exercise of subscription rights does not trigger any taxation. The issue price constitutes the cost to acquire the shares. If subscription rights exercised to subscribe for shares acquired through purchase or comparable manner (i.e.,

not acquired based on existing shareholdings), the acquisition cost for the subscription rights is accounted for in calculating the acquisition cost of acquired shares.

A capital gain or capital loss is calculated for shareholders who do not wish to exercise their rights to participate in the new issue and who sell their subscription rights. Subscription rights based on holdings of existing shares are considered as having been acquired for SEK 0. All sales proceeds after deducting costs to sell

must thus be declared for taxation. In this case, the standardized method cannot be applied. The acquisition cost of the original shares is not affected.

The cost of acquired subscription rights is equal to the consideration paid for the rights. In this case, the standardized method may be used upon sale of market-listed subscription rights.

A subscription right that is not exercised or sold and therefore expires is considered to have been sold for SEK 0.

## Shareholders subject to limited tax liability

### Capital gains taxation

Shareholders and holders of subscription rights in the Company who are subject to limited tax liability and whose holdings are not attributable to a fixed place of business in Sweden are not normally taxed in Sweden for capital gains upon sale of shares and subscription rights in the Company. These shareholders may, however, be subject to income tax in their country of tax domicile.

According to a specific rule, however, natural persons who have unlimited tax liability in Sweden are taxed in Sweden upon sale of financial instruments deemed share equivalents (e.g., shares, warrants, convertible redemption rights and sale rights that refer to shares and units in investment funds) if they have, at any

time during the year of the sale or any of the ten immediately preceding calendar years, resided or lived in Sweden on a regular basis. The rule is also applicable to the estates of Swedes residing abroad. The right to levy tax may, however, be limited by the tax treaties that Sweden has entered into with other countries.

### Coupon tax

Swedish coupon tax of 30 percent is normally levied upon shareholders subject to limited tax liability in Sweden who are paid dividends on shares in a Swedish limited company. The tax rate is, however, generally reduced through tax treaties that Sweden has entered into with other countries. Most of Sweden's tax treaties permit reduction of the Swedish tax to the agreed

tax rate immediately upon distribution of the dividend, if the necessary information about the person entitled to receive dividends is available. In Sweden, coupon tax is normally withheld by Euroclear or, in the case of nominee-registered shares, by the nominee.

If coupon tax was withheld at 30 percent in connection with payment to a person who has the right to be taxed at a lower tax rate, or too much coupon tax has otherwise been withheld, repayment may be requested from the Swedish Tax Agency before the end of the fifth calendar year after the dividend was paid. The acquisition of subscription rights does not trigger liability to pay coupon tax.

# DEFINITIONS AND GLOSSARY

The following words, phrases, terms and acronyms have the meanings given below (unless otherwise indicated by the context).

<b>Acer</b>	Acer Incorporated, a Taiwanese company domiciled in new Taipei City, Taiwan.	<b>MMO</b>	Massive Multiplayer Online (MMO) games are games played by a very large number of players concurrently, often online.
<b>AR</b>	Augmented reality is a live direct or indirect view of a physical, real-world environment whose elements are augmented by computer-generated sensory input. Augmented reality can be experienced through various devices, such as HMD.	<b>Offer</b>	The offer to subscribe for new shares under the terms and conditions set forth in the Prospectus.
<b>BTA</b>	Paid subscribed share in Starbreeze.	<b>The Prospectus Directive</b>	Directive 2003/71/EC of the European Parliament and of the Council.
<b>Carnegie</b>	Carnegie Investment Bank AB (publ), registration number 516406-0138, domiciled in the City and County of Stockholm, Sweden.	<b>The Prospectus</b>	This Prospectus.
<b>Class A shares</b>	Class A shares in Starbreeze carrying the rights provided for under the Articles of Association.	<b>Rights issue</b>	The issue to which the Offer refers.
<b>Class B shares</b>	Class B shares in Starbreeze carrying the rights provided for under the Articles of Association.	<b>RPG</b>	A role-playing game where the players assume the roles of the characters in a fictional setting.
<b>The Code</b>	The Swedish Corporate Governance Code.	<b>SEK</b>	Swedish kronor.
<b>Community</b>	A kind of online social meeting place.	<b>SEKk</b>	Thousand Swedish kronor.
<b>The Company or Starbreeze</b>	As the context requires, Starbreeze AB (publ) registration number 556551-8932, domiciled in the City and County of Stockholm, or the Group to which Starbreeze AB belongs or a subsidiary of Starbreeze AB	<b>SEKm</b>	Million Swedish kronor.
<b>Co-op</b>	Cooperative gameplay, co-op, is a feature in a game that allows players to cooperate as teammates.	<b>Smilegate</b>	Smilegate Holding Inc., a South Korean company whose registration number is 132-81-60298 and whose address is 5F, Solidspace Bldg, 220, Pangyojeok-ro, South Korea.
<b>Dhruva</b>	Dhruva Infotech Private Limited, an Indian company, registration number CIN U72900KA1998PTC023382..	<b>StarVR</b>	The VR concept that is being developed by the Company and sold and marketed by the Starbreeze/Acer joint venture company, StarVR Corporation.
<b>DLC</b>	Downloadable content is additional material for a video or computer game distributed via the internet by the company that published the game.	<b>StarVR HMD</b>	The Head Mounted Display (HMD) that is being developed by the Company, manufactured by Acer and sold and marketed by the Starbreeze/Acer joint venture company, StarVR Corporation.
<b>Enterspace</b>	Enterspace AB, reg. no. 559042-4064, domiciled in Stockholm County, Sweden.	<b>Steam</b>	A digital distribution platform run by Valve Corporation.
<b>EUR</b>	Euro	<b>Streamers</b>	A person or persons who run media channels with content streamed to the public over the internet.
<b>EURm</b>	Million euro.	<b>Subscription right</b>	Right to subscribe for new shares in Starbreeze.
<b>Euroclear</b>	Euroclear Sweden AB.	<b>USD</b>	United States dollars.
<b>Free-to-play</b>	Free-to-play is a general term for games where all or part of the game is available without requiring payment from the player.	<b>USD Bn</b>	Billion US dollars.
<b>Group</b>	Starbreeze AB and its subsidiaries.	<b>USDm</b>	Million US dollars.
<b>HMD</b>	Head-Mounted Displays (HMD) are displays worn on the head or are part of a helmet that has one or more displays in front of the eyes.	<b>VR</b>	Virtual reality (VR) is a computer technology that replicates an environment, real or imagined, and simulates the user's physical presence and the environment to enable user interaction. Virtual reality can be experienced through various devices, such as HMD.

Readers of this English translation are referred to pages 113–222 of the Swedish Prospectus for the Company's historical financial information for the financial years of 2014/2015, 1 July–31 December 2015 and 2016. Please note that the historical financial information presented on these pages contains certain adjustments and additional information in the explanatory notes that were not included in the previously published historical annual reports for the relevant financial years. The adjustments and additional information found in the historical financial information have had no effect on the balance sheets, statements of comprehensive income, or statements of cash flows.

## Addresses

### Starbreeze AB (publ)

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Regeringsgatan 38  
111 53 Stockholm, Sweden  
Tel +46 (0)8 209 208  
starbreeze.com

### Financial adviser

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Carnegie Investment Bank AB (publ)  
Regeringsgatan 56  
111 56 Stockholm, Sweden  
Tel +46 (0)8 676 88 00  
carnegie.se

### Legal adviser

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Advokatfirman Lindahl KB  
Vaksalagatan 10  
Box 1203  
751 42 Uppsala, Sweden  
Tel +46 (0)18 16 18 50  
lindahl.se

### Auditor

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Öhrlings PricewaterhouseCoopers AB  
Torsgatan 21  
113 21 Stockholm, Sweden  
Tel +46 (0)10 213 30 00  
pwc.com