

Q2

2018

Second quarter 2018

- Net sales up to SEK 123.5 million (122.7).
- PAYDAY generated SEK 31.3 million (51.4) and Dead by Daylight SEK 71.5 million (65.8) of net sales.
- EBITDA* amounted to SEK 52.4 million (-2.7).
- Depreciation, amortization and impairments totaled SEK 46.7 million (15.9).
- Profit before tax amounted to SEK 26.2 million (-16.7).
- Basic and diluted earnings per share were SEK 0.13 (-0.04).
- Oversubscribed rights issue raised approximately SEK 152 million before transaction costs.
- Joint venture StarVR Corporation listed on the Taipei Exchange Emerging Market board in Taiwan.
- Sale of the publishing rights to Dead by Daylight closed.

First half 2018

- Net sales up 30 percent to SEK 233.6 million (180.0).
- PAYDAY generated SEK 56.3 million (75.5) and Dead by Daylight SEK 133.5 million (86.7) of net sales.
- EBITDA* amounted to SEK 101.2 million (-38.0).
- Profit before tax amounted to SEK 19.8 million (-73.0).
- Basic and diluted earnings per share were SEK 0.12 (-0.22).
- Cash and cash equivalents at the end of the period amounted to SEK 269.2 million (384.2).

After the end of the period

- 505 Games decided on 21 August 2018 to release the console version of OVERKILL's The Walking Dead in February 2019.
- Agreement with Acer to extend the convertible bond of SEK 75.5 million with a one-year repayment plan. See separate notice.

KEY FIGURES	2018	2017	2018	2017	2017
SEKk	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales	123,548	122,698	233,614	179,968	361,447
EBITDA*	52,402	-2,692	101,242	-38,034	-53,559
Profit (-loss) before tax	26,208	-16,747	19,791	-73,003	-176,185
Earnings per share, SEK	0.13	-0.04	0.12	-0.22	-0.55
Cash flow from operations	102,088	-31,544	129,856	-36,329	-21,086
Net sales per employee	194	479	368	763	1,300

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

CEO Bo Andersson Klint remarks on the report:

In an all-time high, we generated sales of SEK 123.5 million in the second quarter. Even though we did not release any new products during the quarter, we matched our sales record set in Q2 2017 when we had two major game releases. Starbreeze has dramatically boosted profitability since the agreement to sell back the publishing rights to Dead by Daylight. Compared to last year, we have improved EBITDA by SEK 55.1 million, largely due to the Dead by Daylight deal.

Q2

2018

PVR

About Starbreeze

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

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

More information: starbreeze.com



Q2 2018

The CEO remarks on the report

STRONG FINANCIAL QUARTER WITH NO GAME RELEASES

In an all-time high, we generated sales of SEK 123.5 million in the second quarter. Even though we did not release any new products during the quarter, we matched our sales record set in Q2 2017 when we had two major game releases.

Like *Dead by Daylight*, *PAYDAY 2* is still selling well and during Spring Break on Steam in April, we had almost 91,000 concurrent *PAYDAY 2* players and both the base game and the Ultimate Edition were once again high up on the top lists. *PAYDAY 2* for Switch generated SEK 2.7 million in revenue before physical sales in stores had even begun to produce revenues for Starbreeze. The Switch release, which has thus far generated SEK 10.5 million in digital sales, and the continued success of *PAYDAY 2* have helped *PAYDAY* achieve sales of more than 17 million units and a total installed base of more than 25 million.

Increased profitability driven by the *Dead by Daylight* deal

Starbreeze has dramatically boosted profitability since making the agreement to sell back the publishing rights to *Dead by Daylight*. Compared to last year, we have improved EBITDA by SEK 55.1 million, largely due to the *Dead by Daylight* deal. While we are delighted that *Dead by Daylight* is still selling well, I would like to emphasize that selling the rights was a fantastic deal in terms of profitability. The developer, Behaviour, opted to conclude the transaction during the quarter. The publishing rights were accordingly transferred to Behaviour and we wish them all the luck in the world as they move forward independently.

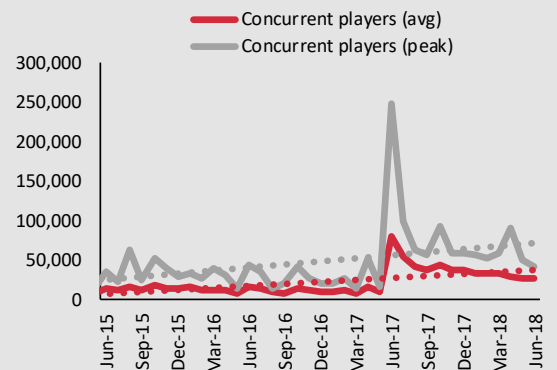
Financial performance was also considerably better for the period compared to last year, other than the improvement in profitability, which is explained by a downwards adjustment of the liability for the earnout for the acquisition of Enterspace and changed tax rates in the US.

Focused publishing portfolio

Our strategy is to build a focused publishing portfolio containing several selected major titles based on well-known brands and/or made by a studio with a proven track record. At the moment, we have the major publishing projects of *Psychonauts 2*, *System Shock 3* and *10 Crowns* in development, and the ambition for every title is to climb high on the top lists. We will continue to selectively sign new titles to ensure a steady flow of major releases. The success of *Dead by Daylight* and the fact that we gave the developer the opportunity to go it alone makes us attractive when we are out looking for new potential hits.

The portfolio is complemented by a few smaller Indie titles with lower budgets, where the strategy is to test new concepts or studios. As I wrote in my comments on the last report, we will be selective and withdraw from projects that do not meet our expectations or where we do not share the creative vision. For the latter reason, we have now chosen to sell back the rights to the minor Indie title *Deliver Us The Moon*. Under the terms of the deal, we will recover our investment of USD 500,000 and a bit more, based on game sales after the upcoming release.

PAYDAY 2



Source: steamcharts.com

At peak
90,893
played *PAYDAY 2*
concurrently in Q2

PAYDAY 2 on Steam

5.8

million members



StarVR One is here!

We finally opened our Enterspace VR center in Stockholm during the quarter, which will join our VR park in Dubai in becoming important windows for showing our current and future partners and customers what we are doing in VR. Our strategy is not to establish and run a lot of VR centers, but simply to demonstrate what is possible. As for us, we are focusing on making premium content for others while our joint venture StarVR Corporation zeroes in on selling the hardware.

At the SIGGRAPH innovation conference in Canada a week ago, StarVR Corporation demonstrated the commercial version of the headset - StarVR One - for the first time. This was a key milestone and we can be proud that they now have the most advanced VR headset on the market, which has a nearly human field of view and the most sophisticated optics out there, with integrated eye-tracking. StarVR also presented leading technology partners to support the eco system for the headset, including Tobii, Intel, NVIDIA, Autodesk and Epic Games. StarVR recently noted that they will be focusing on getting their headset on the market and getting enterprise sales started before making any major investments. Alongside the enterprise venture, StarVR is continuing its foray in the games market jointly with Starbreeze, as planned.

Release of OVERKILL's The Walking Dead

505 Games, which owns the publishing rights to the console version of OVERKILL's The Walking Dead, has decided to release the console version of the game in February instead of November, as previously planned. They have opted to do this because they want to ensure a simultaneous release of the console version digitally and in stores to achieve optimal marketing impact and maximize sales. The important global release of the PC version is planned for 6 November. Notably, according to the current plan we will be recognizing the advance royalty of USD 10 million we have received from 505 Games for the console version in the fourth quarter of this year.

The hype has just begun

We kicked off the tactical marketing and PR campaign for OVERKILL's The Walking Dead at the E3 Electronic Entertainment Expo in June. It was sweet to finally be able to show off the game and we received valuable feedback those who played OTWD, which we will of course pay close attention to as we do the vital work of polishing and finalizing the game.

Reactions to the gameplay trailer that we showed before the expo opened were lukewarm, to put it mildly. The 15-minute gameplay teaser was not intended to provide full insight into gameplay, but the delivery was obviously not good enough. However, the teaser served a purpose, as it brought in several influential media and streamer bookings to tests in our stand. We had more than 120 meetings with media outlets that resulted in numerous articles, where the reviews were good.

Our key takeaway from E3 is that most of the people who actually tested the game were enthusiastic and seemed to have a great time playing it. We have clearly created something people like. The major Gamescom trade show opened today and we are there to show off OVERKILL's The Walking Dead again. We have 40 game stations set up and our goal is to get as many as 5,000 to get the chance to play!

After a quarter with strong cash flow from operations we are well positioned for a financially weaker third quarter, where we will be sprinting towards the much-awaited release of OVERKILL's The Walking Dead.

Let's do this!

Bo Andersson Klint

CEO Starbreeze



SIGNIFICANT EVENTS IN Q2

Sale of the publishing rights to Dead by Daylight finalized

Starbreeze agreed in March to sell back the rights to Dead by Daylight to the developer, Behaviour, for USD 16 million. Behaviour opted to conclude the transaction during the quarter. The publishing rights were transferred to them at that point. If the game is released in China before 2020, Starbreeze may receive compensation of up to USD 5 million.

Oversubscribed rights issue

The rights issue approved by an extraordinary general meeting of shareholders on 20 March was executed on 13 April. The rights issue was oversubscribed and raised approximately SEK 152 million for the company before transaction costs.

Joint venture StarVR listed on emerging market in Taipei

Starbreeze's joint venture, StarVR Corporation, was listed in April on the Taipei Exchange Emerging Market board. Starbreeze did not sell any shares in connection with the listing and the company's stake in StarVR Corporation remains at about 33 percent. Nor does the listing of StarVR Corporation affect Starbreeze's financial reports, as ownership in the joint venture will, until further notice, be accounted for using the equity method. The closing price for the StarVR share on 20 August 2018 was TWD 88.0, which indicates a market value of approximately SEK 1,262 million.

Annual general meeting 2018

The annual general meeting held 9 May resolved to reelect directors Michael Hjorth, Bo Andersson Klint, Matias Myllyrinne, Ulrika Hagdahl and Harold Kim. Kristofer Arwin and Åsa Wirén were elected as new directors. The general meeting also resolved to authorize the board of directors to decide on a new issue of no more than 10 percent of the shares and to establish an incentive program.

Opening of VR center in Stockholm

After having opened the VR park jointly with Emaar in Dubai in March, Starbreeze opened another VR center in Stockholm on 31 May. Enter-space VR Center Stockholm is an entirely new type of VR center that offers the latest in both content and technology.

Release date for OVERKILL's The Walking Dead.

Starbreeze participated at the Electronic Entertainment Expo (E3) in Los Angeles in June, where the company presented OVERKILL's The Walking Dead to the media and consumers. In conjunction, Starbreeze announced that the game will be released in November. After the end of the period, 505 Games, which holds the publishing rights to the console version of the game, decided that they will be releasing the game for PS4, PSN, Xbox One and Xbox Live in the US on 6 February and in the rest of the world on 8 February. As planned, the PC version will be released on 6 November.

Significant events after the end of the period

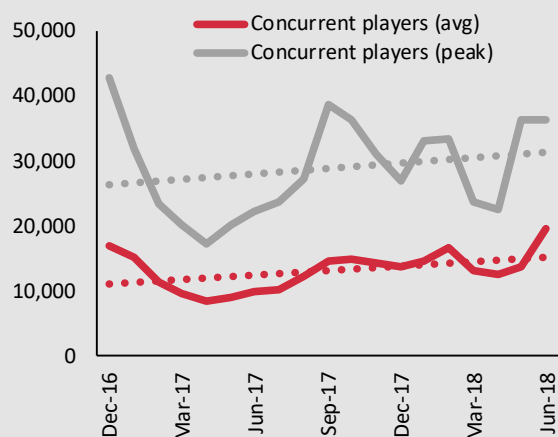
Extension of convertible bond issued to Acer

Acer and Starbreeze agreed after the end of the period to extend the convertible bond of SEK 75.5 million that will mature on 16 September 2018. As agreed, the bond will be repaid according to a one-year repayment plan. All principal terms and conditions are otherwise unchanged and Acer has the right to call for conversion of the debt to Class B shares at a price of SEK 17.61 per share. The extension is subject to approval by an EGM, see separate notice.

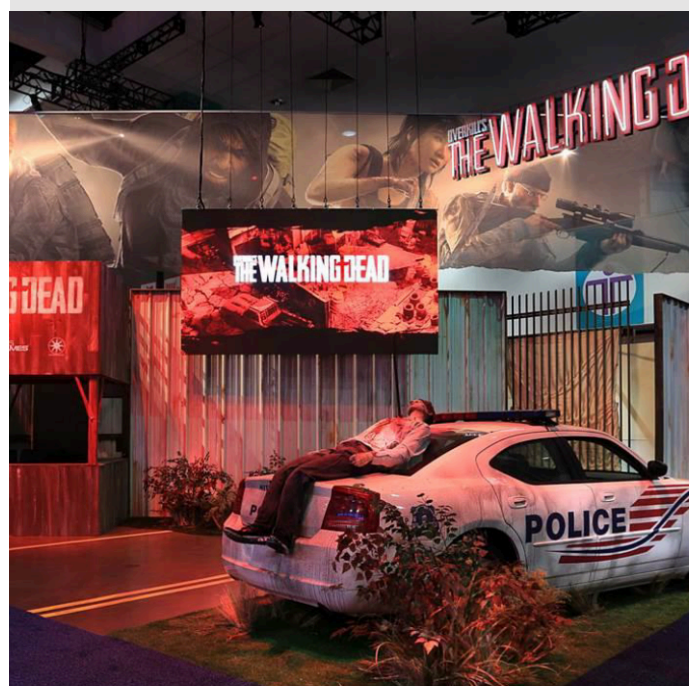
Q2

2018

At peak,
36,423
played
Dead by Daylight
concurrently during the quarter



Source: steamcharts.com



SALES AND PROFIT

Q2

2018

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

Sales and direct costs

Second quarter 2018

Net sales increased to SEK 123.5 million (122.7). PAYDAY accounted for SEK 31.3 million (51.4) of net sales. Sales of PAYDAY were higher in the second quarter of 2017 due to the release of PAYDAY 2 Ultimate Edition. Dead by Daylight accounted for SEK 71.5 million (65.8) of net sales. External income of SEK 7.7 million (0.0) from Starbreeze's Indian studio, Dhruva, was also included.

Direct costs amounted to SEK 74.1 million (88.6) and consist of costs related to game production and game development. Compared to the preceding year, Starbreeze has no costs for Dead by Daylight. Direct costs include amortization, depreciation and impairments of SEK 44.9 million (14.7). The increase is attributable mainly to more game releases in 2018 compared to the preceding year and depreciation on VR centers.

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

First half 2018

Net sales increased by 30 percent to SEK 233.6 million (180.0). Of the total, PAYDAY generated SEK 56.3 million (75.5) and Dead by Daylight accounted for SEK 133.5 million (86.7). External income of SEK 14.8 million (0.0) from Dhruva was also included.

Direct costs amounted to SEK 151.1 million (142.7), including amortization, depreciation and impairments of SEK 85.0 million (29.2). The increase compared to the preceding year is due mainly to a higher number of game releases and new VR centers.

Costs and profit or loss

Second quarter 2018

Sales and marketing costs amounted to SEK 25.2 million (21.2) and include, for example, trade show costs and employee benefits expense. The Group also invested SEK 20.7 million (0.0) in production of trailers for the forthcoming game OVERKILL's The Walking Dead. These trailers are also part of the game and the cost was therefore capitalized.

Administrative expenses amounted to SEK 27.1 million (29.0) and refer to items including office costs and payroll for employees who do not work in game production or marketing. The item includes amortization of SEK 0.7 million (1.2).

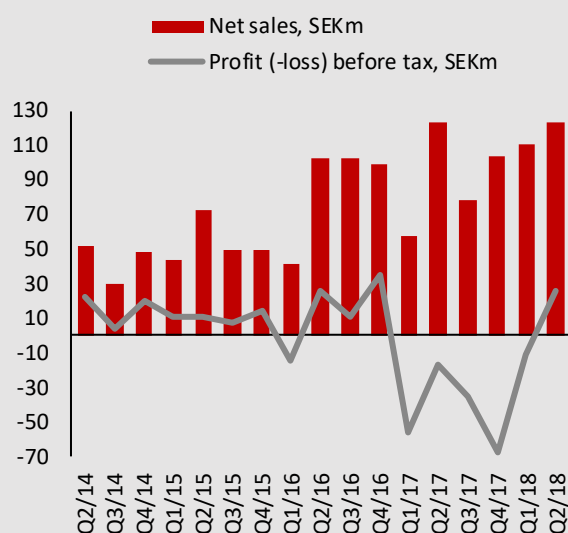
Other operating expenses, consisting mainly of currency effects, amounted to SEK 8.5 million (-2.4), due to appreciation of the dollar and euro rates against the Swedish krona.

EBITDA amounted to SEK 52.4 million (-2.7). The earnings improvement was driven primarily by the Dead by Daylight deal and positive currency effects.

Sales and profit

	2018	2017
SEKk	Q2	Q2
Net sales	123,548	122,698
EBITDA *	52,402	-2,692
Profit (-loss) before tax	26,208	-16,747
Net profit (-loss) for the period	42,487	-9,924
Earnings per share, SEK	0.13	-0.04
Net sales growth, %	0.7	19.6
EBITDA margin, %	42.4	-2.2

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



Net financial income/expense consisted of remeasurement of earnouts of SEK 37.8 million (10.6), of which SEK -5.5 million in currency effects, i.e., the change was SEK 43.3 million excluding currency effects. The largest change refers to the remeasurement of the earnout for the acquisition of Enterspace. Interest on convertible bonds amounted to SEK -5.7 million (-5.3); the share in the loss of the joint venture company StarVR Corporation was SEK -6.6 million (-0.5) and remeasurement of derivatives attributable to the Smilegate bond amounted to SEK -1.4 million (-1.5). Interest on the loan to StarVR Corporation amounted to SEK -2.3 million (0.0) and interest on the bank overdraft facility amounted to SEK -1.5 million (0.0). Interest on short-term investments increased to SEK 0.7 million (-0.5). The majority of net financial income/expense for the quarter had no effect on cash flow. See the specification in the table at the right.

Profit before tax amounted to SEK 26.2 million (-16.7). Profit for the period amounted to SEK 42.5 million (-9.9). Despite the reported profit, tax is positive due to changes in tax rates that have reduced the deferred tax liability.

Basic and diluted earnings per share were SEK 0.13 (-0.04).

First half 2018

Sales and marketing costs amounted to SEK 35.1 million (38.6). The Group also invested SEK 20.9 million (0.0) in production of trailers for the forthcoming game OVERKILL's The Walking Dead, for which the costs were capitalized.

Administrative expenses amounted to SEK 52.6 million (62.1), including amortization, depreciation and impairments of SEK 3.1 million (2.2). The decrease as due mainly to lower bonuses and to that earnings in the preceding year were reduced by costs related to the IPO and expansion of company headquarters.

Other operating expenses, consisting mainly of currency effects, amounted to SEK 17.0 million (-6.1), due to appreciation of the dollar and euro rates against the Swedish krona.

EBITDA amounted to SEK 101.2 million (-38.0).

Net financial income/expense consisted of remeasurement of earnouts of SEK 39.7 million (10.6), of which SEK -17.7 million in currency effects, i.e., the change was SEK 57.4 million excluding currency effects. Interest on convertible bonds amounted to SEK -11.3 million (-10.6); the share in the loss of the joint venture company StarVR Corporation was SEK -8.5 million (-0.7) and remeasurement of derivatives attributable to the Smilegate bond amounted to SEK -3.9 million (-1.5). Interest on the loan to StarVR Corporation amounted to SEK -4.8 million (0.0) and interest on the bank overdraft facility amounted to SEK -3.2 million (0.0). Interest on short-term investments was SEK 0.8 million (-1.2). The majority of net financial income/expense for the quarter had no effect on cash flow. See the specification in the table at the right.

Profit before tax amounted to SEK 19.8 million (-73.0). Profit for the period amounted to SEK 37.3 million (-60.1).

Basic and diluted earnings per share were SEK 0.12 (-0.22).

Segment reporting

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

Specification of net financial income/expense

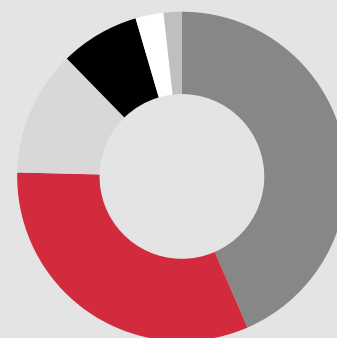
	2018	2017	2018	2017
SEkk	Q2	Q2	JAN-JUN	JAN-JUN
Remeasurement of earnouts	37,814	10,563	39,705	10,563
Interest on convertible bonds	-5,712	-5,283	-11,286	-10,579
Remeasurement of derivatives attributable to convertible bonds	-1,391	-1,541	-3,903	-1,541
Interest on loan to StarVR Corp.	-2,387	-	-4,808	-
Net profit (-loss) from StarVR Corp.	-6,579	-461	-8,517	-666
Interest on short-term investments	714	-499	804	-1,207
Interest on bank overdraft facility	-1,548	-	-3,240	-
Other items	-379	-902	-900	-149
Total	20,532	1,877	7,855	-3,579

Distribution of net sales for the quarter

■ Dead by Daylight ■ Payday 2 ■ Other



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



STARBREEZE GAMES

Q2

2018

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

	2018	2017	2018	2017
SEKk	Q2	Q2	JAN-JUN	JAN-JUN
Starbreeze Games				
Net sales	39,457	51,400	71,556	75,477
Direct costs	-21,861	-26,714	-49,543	-41,287
Gross profit	17,596	24,686	22,013	34,190
Operating costs	-21,308	-14,952	-23,645	-29,122
Operating profit (-loss)	-3,712	9,734	-1,632	5,068

Second quarter 2018

Net sales amounted to SEK 39.5 million (51.4), of which PAYDAY, developed by Starbreeze, accounted for SEK 31.3 million (51.4). Sales were higher in the second quarter of 2017 due to the release of PAYDAY 2 Ultimate Edition. Digital sales of PAYDAY 2 Switch contributed SEK 2.7 million (0.0). Net sales include external income of SEK 7.7 million (0.0) from Starbreeze's Indian studio, Dhruva.

Direct costs amounted to SEK 21.9 million (26.7), with the decrease due mainly to lower royalty costs linked to lower sales. Capitalized development costs, which were formerly reported on a separate line on the income statement classified by the nature of costs, are recognized in the income statement classified by the function of costs as a deduction against direct costs.

Operating costs amounted to SEK 21.3 million (15.0), including currency effects of SEK 5.2 million (-5.7). The increase was driven mainly by marketing and trade show costs for OVERKILL's The Walking Dead.

The operating loss was SEK -3.7 million (9.7).

First half 2018

Net sales amounted to SEK 71.6 million (75.5), of which PAYDAY, developed by Starbreeze, accounted for SEK 56.3 million (75.5). External income of SEK 14.8 million (0.0) from Dhruva was also included.

Direct costs amounted to SEK 49.5 million (41.3). The increase was driven mainly by the addition of production costs in Dhruva of SEK 14.0 million.

Operating costs amounted to SEK 23.6 million (29.1), including currency effects of SEK -8.5 million (-7.3).

The operating loss was SEK -1.6 million (5.1).

After the end of the period

Revenues from sales of PAYDAY 2 via the Steam platform in July 2018 amounted to SEK 5.3 million (6.5).



PUBLISHING

The Publishing business area consists of Starbreeze's publishing operations with games developed by third parties. Revenues currently comprise mainly royalties for Dead by Daylight.

Starbreeze reached an agreement during the first quarter of 2018 with the developer, Behaviour, to sell back the publishing rights to Dead by Daylight. Under the terms of the agreement, Starbreeze was paid royalties on 65 percent of game revenues as of 1 January 2018, instead of the previous 100 percent, and all development and marketing costs were assumed by Behaviour. Behaviour opted to conclude the transaction in the second quarter and the publishing rights were thus transferred to Behaviour.

Second quarter 2018

Net sales amounted to SEK 74.1 million (66.6), of which Dead by Daylight accounted for SEK 71.5 million (65.8).

Direct costs amounted to SEK 31.2 million (45.8). The decrease is attributable mainly to the takeover of all development and marketing costs by Behaviour. The item includes depreciation, amortization and impairments of SEK 26.6 million (10.3), the majority of which consists of impairment losses on the released titles RAID: World War II (RAID), Dead by Daylight and John Wick Chronicles.

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

Operating profit rose to SEK 38.6 million (-0.2) as a direct effect of the Dead by Daylight deal.

First half 2018

Net sales amounted to SEK 136.8 million (94.8). Dead by Daylight accounted for SEK 133.5 million (86.7) of net sales, including payment of SEK 42.8 million from Behaviour for the sale of the rights to Dead By Daylight.

Direct costs amounted to SEK 67.5 million (70.1). The item includes depreciation, amortization and impairments of SEK 55.1 million (15.8), the majority of which consists of impairment losses on the released titles RAID: World War II (RAID) and John Wick Chronicles, as well as impairments of SEK 6.3 million in the first quarter relating to two minor publishing projects, including Project Golem at SEK 3.4 million.

Operating profit rose to SEK 55.7 million (-3.9) as a direct effect of the Dead by Daylight deal.

Q2

2018

	2018	2017	2018	2017
SEKk	Q2	Q2	JAN-JUN	JAN-JUN
Publishing				
Net sales	74,125	66,598	136,834	94,821
Direct costs	-31,151	-45,844	-67,542	-70,079
Gross profit	42,974	20,754	69,292	24,742
Operating costs	-4,412	-21,037	-13,600	-28,655
Operating profit (-loss)	38,562	-283	55,692	-3,913



VR TECH & OPERATIONS

The VR Tech & Operations business area consists of Starbreeze's technology and software development in virtual reality (VR), which includes the development of the StarVR headset and the VR movie format PresenZ. Revenues and costs for VR parks are also included as of the third quarter of 2017. Profit or loss from the joint venture, StarVR Corporation, is recognized as financial income or expense and thus not included in operating profit or loss.

Second quarter 2018

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

Net sales for the period of SEK 7.6 million (0.0) are mainly attributable to income of SEK 3.2 million from StarVR Corporation in compensation for marketing of the StarVR headset and which is part of the previously communicated financial support of USD 8.0 million in total received for the build-up of the VR park in Dubai. The portion of the financial support not recognized in revenue has been recognized as a liability and will decline as StarVR Corporation receives its share of ticket revenues from the park. If the forecast for the VR park changes, the liability will be adjusted and recognized in net consolidated financial income and expense.

The Enterspace VR center opened in Stockholm on 31 May 2018. Ticket sales at the VR centers in Dubai and Stockholm contributed revenues of SEK 2.4 million (0.0) during the quarter.

Direct costs amounted to SEK 10.3 million (0.0) and consist mainly of amortization and depreciation of SEK 7.4 million (0.0), the majority of which refers to investments in the VR centers.

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

The operating loss was SEK -18.7 million (-3.3).

First half 2018

Net sales for the period of SEK 20.3 million (0.0) refer primarily to income from StarVR Corporation of SEK 14.5 million in compensation for marketing of the StarVR headset. Ticket sales at the VR centers in Dubai and Stockholm contributed revenues of SEK 3.6 million (0.0) during the period.

Direct costs amounted to SEK 12.5 million (0.0). The operating loss was SEK -13.1 million (-8.2), including currency effects of SEK 3.8 million (3.4).

Q2

2018

	2018	2017	2018	2017
SEkk	Q2	Q2	JAN-JUN	JAN-JUN
VR Tech & Operations				
Net sales	7,559	-	20,326	-
Direct costs	-10,346	-	-12,461	-
Gross profit	-2,787	-	7,865	-
Operating costs	-15,960	-3,319	-21,014	-8,232
Operating profit (-loss)	-18,747	-3,319	-13,149	-8,232



OTHER

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

Second quarter 2018

Net sales amounted to SEK 2.4 million (4.7) and consist primarily of the Group's Belgian VFX business, Nozon.

Direct costs decreased to SEK 10.7 million (16.1). The decrease is due mainly to lower costs for the Valhalla engine of SEK 2.1 million, compared to SEK 9.4 million in the preceding year.

Operating costs amounted to SEK 2.1 million (13.4). The decrease is due mainly to lower sales and marketing costs of SEK 0.1 million, compared to SEK 9.8 million in the preceding year, when earnings were reduced by trade show costs. Trade show costs during the quarter were reported in the Starbreeze Games segment and referred to OVERKILL's The Walking Dead.

The operating loss was SEK -10.4 million (-24.8), including positive currency effects of SEK 2.9 million (4.1).

First half 2018

Net sales amounted to SEK 4.9 million (9.7) and consist primarily of the Group's Belgian VFX business, Nozon.

Direct costs decreased to SEK 21.5 million (31.3). The decrease is due mainly to lower costs for the Valhalla engine of SEK 4.1 million, compared to SEK 16.9 million in the preceding year.

Operating costs amounted to SEK 12.4 million (40.7). The decrease is due mainly to lower sales and marketing costs of SEK 0.3 million, compared to SEK 24.4 million in the preceding year.

The operating loss was SEK -29.0 million (-62.3), including positive currency effects of SEK 3.4 million (5.2).

Q2

2018

	2018	2017	2018	2017
SEKk	Q2	Q2	JAN-JUN	JAN-JUN
Other				
Net sales	2,407	4,700	4,898	9,670
Direct costs	-10,747	-16,082	-21,509	-31,310
Gross profit	-8,340	-11,382	-16,611	-21,640
Operating costs	-2,087	-13,375	-12,364	-40,707
Operating profit (-loss)	-10,427	-24,757	-28,975	-62,347

OTHER FINANCIAL INFORMATION

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

Financial position

Goodwill at the end of the period amounted to SEK 570.7 million (545.0). Goodwill is recognized using the exchange rate on the reporting date. The increase was driven by currency effects. Other non-current assets amounted to SEK 603.8 million (597.5).

Capitalized game and technology development costs increased by SEK 178.2 million to SEK 633.5 million (455.2) and refer to own game development projects such as OVERKILL's The Walking Dead and technology development within the VR Tech & Operations business area. Investments in publishing projects increased by SEK 22.7 million to SEK 210.2 million (187.5).

Intangible assets were amortized during the period by SEK 70.7 million (25.3), including an impairment of SEK 6.3 million taken in the first quarter on two publishing projects. Trade and other receivables amounted to SEK 27.9 million (27.8).

Prepaid expenses and accrued income at the end of first half of the year amounted to SEK 68.3 million (125.3), of which SEK 12.1 million (10.0) related to receivables for digital sales, primarily via Steam, PlayStationStore and Xbox Live.

Deferred tax assets relating to outstanding loss carryforwards in the parent company Starbreeze AB amounted to SEK 29.4 million (23.1) at the end of the quarter. Deferred tax assets relating to outstanding loss carryforwards in foreign subsidiaries amounted to SEK 47.3 million (37.8). In the Swedish subsidiaries, deferred tax assets relating to loss carryforwards amounted to SEK 69.6 million (47.3). The increase is due to the Group having reported a loss. The total deferred tax asset amounted to SEK 146.3 million (108.2).

Short-term investments increased to SEK 75.0 million (0.0). The increase was driven by that SEK 75.0 million of the Group's cash and cash equivalents are deposited in an account for which withdrawals are limited in time by more than three months and the company therefore has judged that the funds cannot be classified as cash and cash equivalents.

Consolidated equity on the reporting date amounted to SEK 1,736.7 million (1,282.4) and the equity to assets ratio was 60.8 percent (52.1).

Non-current liabilities for earnouts decreased by SEK 39.7 million to SEK 308.2 million (347.9). The balance sheet item relates to earnouts for completed company acquisitions, primarily Nozon and Parallaxter. The item is measured at fair value and the change is recognized in net financial income and expense on the income statement (see page 7). The decrease is associated primarily to the remeasurement of the earnout related to the acquisition of Enterspace.

Other non-current liabilities decreased to SEK 443.0 million (466.6). The majority of the balance sheet item consists of a bank overdraft facility of SEK 48.3 million (141.0) and the convertible bonds from Acer of SEK 74.9 million (71.5) and from Smilegate of SEK 223.1 million (213.2). SEK 35.1 million (31.6) refers to the portion of the marketing contribution from StarVR Corporation classified as a loan.

Trade and other payables at the end of the quarter amounted to SEK 116.4 million (122.4), of which SEK 41.6 million relates to development

Q2

2018

Cash and cash equivalents at

30 June 2018

SEKm
270

The rights issue raised approximately SEKm 152

advances for OVERKILL's The Walking Dead. Development advances of this type are recognized as a liability when the advance is received and recognized in revenue when the game is released. Accrued expenses and deferred income at the end of the quarter amounted to SEK 58.3 million (70.6).

Cash flow

First quarter 2018

Cash and cash equivalents at the beginning of the quarter amounted to SEK 295.2 million (516.9).

Cash flow from (-used in) operating activities amounted to SEK 102.1 million (-31.4). The increase is attributable mainly to the Dead by Daylight deal. Cash flow from (-used in) from investing activities was SEK -177.6 million (-120.9). See also the "Investments" section below. Cash flow from financing activities was SEK 41.1 million (22.0). The change is due mainly to the rights issue executed during the quarter and the net change in borrowing of SEK -97.9 million (-1.4). The borrowing refers primarily to a decrease in the bank overdraft facility of SEK 100 million.

Total cash flow for the quarter was SEK -27.5 million (-130.5). Cash and cash equivalents at the end of the period amounted to SEK 269.6 million (384.2)

Investments

Consolidated investments in property, plant and equipment during the quarter amounted to SEK 19.2 million (15.1). Investments in own game and technology development totalled SEK 119.1 million (56.8). This refers mainly to an increase in the OVERKILL's The Walking Dead project, which has accelerated. Investments in publishing projects amounted to SEK 30.0 million (42.4).

First half 2018

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

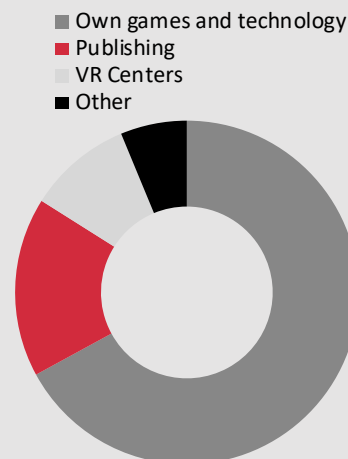
Cash flow from (-used in) operating activities amounted to SEK 129.9 million (-36.3). The increase is due to enhanced working capital efficiency during the quarter and improved operating profit. Cash flow from (-used in) from investing activities was SEK -429.7 million (-267.5). See also the "Investments" section below. Cash flow from financing activities was SEK 333.4 million (22.0). The change is due primarily to the new issues executed during the period of SEK 390.1 million (0.0) and the net change in borrowing of SEK -45.1 million (-1.3).

Total cash flow for the period was SEK 33.6 million (-281.8). Cash and cash equivalents at the end of the period amounted to SEK 269.6 million (384.2) The SEK 75.0 million that the company has classified as a short-term investment is not included in cash and cash equivalents. Read more under "Investments" below.

Investments

Consolidated investments in property, plant and equipment during the period amounted to SEK 89.9 million (29.3), of which SEK 68.4 million refers to the build-up of the VR park in Dubai. Investments in own game and technology development totaled SEK 193.1 million (106.5). Investments in publishing projects amounted to SEK 63.1 million (77.0). Short-term investments amounted to SEK 75.0 million (0.0) and refer to cash and cash equivalents deposited into an account for which withdrawals are limited in time by more than three months and the company therefore has judged that the funds must be classified as a short-term investment and not as cash and cash equivalents.

Distribution of investments during the quarter



Parent company

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

The parent company's net sales during the quarter amounted to SEK 19.2 million (12.7). Sales refer primarily to allocation of management fees. The loss before tax was SEK -6.5 million (-31.8) and the loss after tax was SEK -2.7 million (-24.5).

The parent company's net sales for the first half of 2018 amounted to SEK 29.7 million (23.9). Sales refer primarily to allocation of management fees. The loss before tax was SEK -20.0 million (-57.3) and the loss after tax was SEK -13.9 million (-44.8).

Cash and cash equivalents at the end of the period amounted to SEK 172.4 million (75.4) and parent company equity was SEK 1,578.9 million (1,212.5).

Non-current liabilities consisting of convertible loans and earnouts decreased to SEK 617.2 million (632.8).

Employees

The number of employees at the end of the period amounted to 643 (279), of whom 570 men and 73 women. The increase is mainly due to the acquisition of the Indian production company Dhruva, but is also a consequence of staff additions in game development in Stockholm. The average number of full-time employees for the quarter amounted to 636 (256). The average age was 32 (34).

The share

The Starbreeze share has been listed in the Mid Cap segment of Nasdaq Stockholm since 2 October 2017. The shares are traded under the tickers STAR A, ISIN code SE 007158928, and STAR B, SE0005992831. The closing price on 29 June 2018 was SEK 10.48 for the Class A share, compared to SEK 14.65 on 30 June 2017, and SEK 10.50 for the Class B share, compared to SEK 14.80. At the end of the quarter, total market capitalization was approximately SEK 3,409 million, compared to approximately SEK 4,130 million in the preceding year.

Share capital

Comparative figures refer to 30 June 2017. Share capital at the end of the period amounted to SEK 6,506 thousand (5,613) distributed among 325,295,554 shares (280,690,355), of which 57,152,627 Class A shares (57,465,828) and 268,142,927 Class B shares (224,718,353). As of the reporting date, 96,186 Class B shares were not yet registered with the Swedish Companies Registration Office.

The number of Class A shares increased during the quarter by 3,611,350 and the number of Class B shares by 16,636,631 due to the rights issue executed in April. The number of Class B shares increased by 1,327,836 during the quarter due to exercise of employee stock options, of which 96,186 had not been registered as of the reporting date. The number of Class B shares also increased by 628,983 and the number of Class A shares decreased correspondingly due to the company's conversion program.

Shareholders

Starbreeze had 29,115 shareholders (27,152 at 30 June 2017) at the end of the period. A list of the company's ten largest shareholders is updated monthly on the company's website at starbreeze.com under Investors.

Employee key data

	2018	2017
	Q2	Q2
Employees	643	279
Men	570	234
Women	73	41
Net profit (-loss) per employee	66 TSEK	-36 TSEK

643

Employees at Starbreeze

Accounting and measurement policies

This interim report has been prepared in accordance IAS 34, Interim Financial Reporting. The accounting policies and calculation methods are the same as those applied in the Annual Report 2017, other than that the Group began applying IFRS 15 and IFRS 9 as of 1 January 2018. The transition has had no effect on the financial statements with respect to either opening balances or going forward. As of the first quarter of 2018, Starbreeze applies an income statement classified by function.

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

Impact of forthcoming standards

IFRS 16 Leases

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

Risks and uncertainties

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

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

The largest risks and uncertainties are low revenues in connection with game releases and project delays. These and other risks such as copyright infringements, loss of key people and exchange rate fluctuations are described in Starbreeze's Annual Report 2017 in the Report of the Board of Directors on page 64, and in Note 3. Furthermore, the value of certain assets and liabilities is based on expected outcomes. Consequently, these items must be regularly remeasured and thus may affect future profit and loss.

Based upon the sales trend for PAYDAY 2, the release of new games and the capital raised by the new issues executed in 2018, the company estimates that current financing is sufficient to operate the business at its current scope for at least the next 12 months. The company's board and management continually evaluate the Group's long-term capital requirements and financing options.

Related party transactions

Ahead of the company's listing switch to Nasdaq Stockholm, a greater need arose for work related to systems, processes and policies for internal control and corporate governance. In this connection, the company engaged Eva Redhe, who was then a director and chair of the audit

committee, to assist with this work, for which Eva Redhe, through her company, billed the company SEK 200,000 in consultancy fees during the half year. The company also received a marketing contribution of SEK 8.3 million during the half year from the joint venture company StarVR Corporation. This amount has been recognized as a liability on the balance sheet. There were no non-customary related party transactions during the period other than the transactions disclosed in the report above.

Auditor's review

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

Investor relations

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

For further information

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

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

Stockholm, 21 August 2018

Michael Hjorth

Chairman

Directors

Ulrika Hagdahl

Hyung Nam Kim (Harold Kim)

Matias Myllyrinne

Åsa Wirén

Kristofer Arwin

Bo Andersson Klint
CEO

Financial calendar

Interim report Q3 2018 **6 November 2018**

Year-end report 2018..... **5 February 2019**

Starbreeze AB is required to disclose this information under the EU Market Abuse Regulation and the Securities Market Act. The information was provided by the above contact persons for publication on 21 August 2018 at 08:30 CET.

Consolidated statement of comprehensive income

SEKk	NOTE	2018	2017	2018	2017	2017
		Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales	5	123,548	122,698	233,614	179,968	361,447
Direct costs		-74,105	-88,640	-151,055	-142,679	-332,807
		-	-	-	-	-
Gross profit		49,443	34,058	82,559	37,289	28,640
Selling and marketing costs		-25,243	-21,222	-35,099	-38,581	-59,480
Administrative expenses		-27,070	-29,028	-52,562	-62,076	-119,469
Other revenue		8,546	-	17,038	-	-
Other expenses		-	-2,432	-	-6,056	-1,150
		-	-	-	-	-
Operating profit (-loss)	6	5,676	-18,624	11,936	-69,424	-151,459
Financial income		38,528	9,706	40,509	9,780	10,105
Financial expenses		-11,417	-7,368	-24,137	-12,693	-30,631
Share in profit or loss of holdings accounted for using the equity method		-6,579	-461	-8,517	-666	-4,200
Profit (-loss) before tax		26,208	-16,747	19,791	-73,003	-176,185
Income tax		16,279	6,823	17,488	12,450	20,855
Net profit (-loss) for the period		42,487	-9,924	37,279	-60,553	-155,330
<i>Other comprehensive income that may subsequently be reclassified to profit and loss</i>						
Exchange differences		14,333	428	36,450	-3,790	1,402
Total comprehensive income for the period		56,820	-9,496	73,729	-64,343	-153,928

Total comprehensive income for the period attributable to:

Owners of the parent

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

- Basic	0.13	-0.04	0.12	-0.22	-0.55
- Diluted	0.13	-0.04	0.12	-0.22	-0.55

Consolidated balance sheet

SEKk	NOTE	2018/06/30	2017/06/30	2017/12/31
ASSETS				
<i>Intangible assets</i>				
Goodwill		570,708	468,175	544,971
Other non-current assets		603,796	584,249	597,467
Capitalized expenditure for own games and technology development		633,484	341,980	455,239
Investments in publishing projects		210,174	140,513	187,528
<i>Financial assets</i>				
Financial assets		47,779	30,242	38,156
Investments in joint ventures	7	33,373	45,424	41,890
Deferred tax assets		146,310	83,422	108,153
<i>Property, plant and equipment</i>				
VR facilities, IT equipment and other equipment		172,004	48,625	98,901
Total non-current assets		2,417,628	1,742,630	2,072,305
<i>Current assets</i>				
Inventories		65	-	22
Trades and other receivables		27,904	32,537	27,821
Prepaid expenses and accrued income		68,294	103,511	125,259
Current investments		75,000	-	-
Cash and cash equivalents		269,555	384,249	233,757
Total current assets		440,818	520,297	386,859
TOTAL ASSETS		2,858,446	2,262,927	2,459,164
EQUITY AND LIABILITIES				
<i>Equity attributable to owners of the parent</i>				
Share capital		6,504	5,613	5,661
Non-registered share capital		2	-	-
Other contributed capital		1,639,519	1,224,841	1,243,573
Reserves		41,523	-119	5,073
Retained earnings including net profit or loss for the period		48,227	122,526	27,748
Non-controlling interests		963	-	344
Total equity		1,736,738	1,352,861	1,282,399
<i>Non-current liabilities</i>				
Non-current liabilities, earnouts		308,157	343,368	347,862
Deferred tax liability		195,843	155,072	169,346
Other non-current liabilities		443,033	276,059	466,557
Total non-current liabilities		947,033	774,499	983,765
<i>Current liabilities</i>				
Trade and other payables		116,406	75,500	122,396
Accrued expenses and deferred income		58,269	60,067	70,604
Total current liabilities		174,675	135,567	193,000
TOTAL EQUITY AND LIABILITIES		2,858,446	2,262,927	2,459,164

Consolidated statement of changes in equity

SEKk	Share capital	Other contributed capital	Reserves	Retained earnings	Total	Non controlling interest	Total equity
Balance at 1 January 2018	5,661	1,243,573	5,073	27,748	1,282,055	344	1,282,399
Net profit (-loss) for the period	-	-	-	37,284	37,284	-5	37,279
Other comprehensive income for the period							
Exchange differences	-	-	36,450	-	36,450	-3	36,447
Total comprehensive income	5,661	1,243,573	41,523	65,032	1,355,789	336	1,356,125
Transactions with shareholders:							
New issue through exercise of stock options	26	7,234	-	-	7,260	-	7,260
Minority share of shareholder contributions to subsidiaries	-	-627	-	-	-627	627	-
Vested employee stock options	-	44	-	-	44	-	44
New issue	819	389,295	-	-	390,114	-	390,114
Issue cost recognized in equity	-	-	-	-21,509	-21,509	-	-21,509
Deferred tax effect of issue cost recognized in equity	-	-	-	4,704	4,704	-	4,704
Total contribution from and value transfers to shareholders, recognized directly in equity	845	395,946		-16,805	379,986	627	380,613
Balance at 30 June 2018	6,506	1,639,519	41,523	48,227	1,735,775	963	1,736,738
<hr/>							
Balance at 1 January 2017	5,538	1,175,563	3,671	185,451	1,370,223	-	1,370,223
Net profit (-loss) for the period	-	-	-	-60,553	-60,553	-	-60,553
Other comprehensive income for the period							
Exchange differences	-	-	-3,790	-	-3,790	-	-3,790
Total comprehensive income	5,538	1,175,563	-119	124,898	1,305,880	-	1,305,880
Transactions with shareholders:							
New issue through exercise of stock options	54	15,062	-	-	15,116	-	15,116
Vested employee stock options	-	632	-	-	632	-	632
Sales of equity instruments	-	21,288	-	-	21,288	-	21,288
Tax effect on sale of equity instruments	-	-4,683	-	-	-4,683	-	-4,683
Non-cash issue in progress	21	16,979	-	-	17,000	-	17,000
Issue costs recognized in equity	-	-	-	-3,041	-3,041	-	-3,041
Deferred tax effect of issue costs recognized in equity	-	-	-	669	669	-	669
Total contribution from and value transfers to shareholders, recognized directly in equity	75	49,278	-	-2,372	46,981	-	46,981
Balance at 30 June 2018	5,613	1,224,841	-119	122,526	1,352,861	-	1,352,861
<hr/>							
					2018	2017	2017
					JAN-JUN	JAN-JUN	JAN - DEC
CHANGE IN NUMBER OF OUTSTANDING SHARES							
Number of shares at the beginning of the period					283,037,940	276,879,720	276,879,720
Non-cash issue					-	1,071,203	2,078,781
Subscription of shares through exercise of options					-	2,739,412	4,079,439
New issue					20,681,797	-	-
Total shares outstanding at the end of the period					303,719,737	280,690,335	283,037,940

Consolidated statement of cash flows

SEKk	NOTE	2018	2017	2018	2017	2017
		Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
<i>Operating activities</i>						
Cash flow from operations	3	109,054	-33,701	141,986	-36,947	-11,167
Interest paid		-3,669	2,153	-5,498	-	-5,325
Interest received		563	6,184	653	8,159	9
Income taxes paid		-3,860	-6,180	-7,285	-7,541	-4,603
Cash flow from (-used in) operating activities		102,088	-31,544	129,856	-36,329	-21,086
<i>Investing activities</i>						
Purchase of property, plant and equipment		-19,183	-15,114	-89,850	-29,247	-87,338
Investments in subsidiaries, less acquired cash and cash equivalents		-	345	-	345	-59,076
Purchase of intangible assets		-	-894	-	-894	-
Investments in other financial assets		-9,251	-5,988	-8,623	-54,201	-61,590
Investments in own games and technology		-119,114	-56,838	-193,124	-106,470	-231,934
Investments in publishing projects		-30,045	-42,436	-63,053	-77,013	-180,169
Increase (-) / decrease (+) in short-term investments		-	-	-75,000	-	-
Cash flow from (-used in) investing activities		-177,593	-120,925	-429,650	-267,480	-620,107
<i>Financing activities</i>						
New issue		152,273	-	390,114	-	-
Payments for stock options		-	23,370	7,253	23,370	43,073
Increase in non-current liabilities		12,291	-	65,476	-	169,209
Repayment of loans		-110,278	-1,359	-110,623	-1,359	-3,369
Cash flow from financing activities		41,123	22,011	333,408	22,011	208,913
Cash flow for (-used in) the period		-27,543	-130,458	33,614	-281,798	-432,280
Cash and cash equivalents at the beginning of the period		295,237	516,900	233,757	669,380	669,380
Exchange difference in cash and cash equivalents		1,861	-2,193	2,184	-3,333	-3,343
Cash and cash equivalents at the end of the period		269,555	384,249	269,555	384,249	233,757

Key data, Group

	2018	2017	2018	2017	2017
	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales, SEKk	123,548	122,698	233,614	179,968	361,447
EBITDA, SEKk	52,402	-2,692	101,242	-38,034	-53,559
EBIT, SEKk	5,676	-18,624	11,936	-69,424	-151,459
Profit (-loss) before tax, SEKk	26,208	-16,747	19,791	-73,003	-176,185
Profit (-loss) after tax, SEKk	42,487	-9,924	37,279	-60,553	-155,330
EBITDA margin, %	42.4	-2.2	43.3	-21.1	-14.8
EBIT margin, %	4.6	-15.2	5.1	-38.6	-41.9
Profit margin, %	21.2	-13.6	8.5	-40.6	-48.7
Equity to assets ratio, %	60.8	59.8	60.8	59.8	52.1
Closing price of A share for the period, SEK	10.48	14.65	10.48	14.65	8.15
Closing price of B share for the period, SEK	10.50	14.80	10.50	14.80	8.40
Basic earnings per share, SEK	0.13	-0.04	0.12	-0.22	-0.55
Diluted earnings per share, SEK	0.13	-0.04	0.12	-0.22	-0.55
Number of shares at end of period before dilution	325,295,554	280,690,335	325,295,554	280,690,335	283,037,940
Number of shares at end of period after dilution	347,246,599	304,108,618	347,246,599	304,108,618	306,443,723
Average number of shares before dilution	324,410,330	278,926,835	310,618,067	277,928,273	280,309,967
Average number of shares after dilution	324,410,330	279,622,772	310,618,067	278,647,736	280,309,967
Average number of employees	636	256	635	237	278
Number of employees at the end of the period	643	279	643	279	650

Key data, Group

EBITDA

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

EBIT

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

EBITDA margin

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

EBIT margin

Operating profit or loss as a percentage of net sales.

Profit margin

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

Equity to assets ratio

Equity as a percentage of total assets.

Earnings per share

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

Equity

Recognized equity including 78 percent of untaxed reserves.

Reconciliation of Alternative Performance Measures

	2018	2017	2018	2017	2017
	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
<i>EBITDA</i>					
Operating profit (-loss), SEKk	5,676	-18,624	11,936	-69,424	-151,459
Less: Amortization of intangible assets, SEKk	35,333	12,148	70,661	25,308	82,294
Less: Depreciation of property, plant and equipment, SEKk	11,393	3,784	18,645	6,082	15,606
EBITDA	52,402	-2,692	101,242	-38,034	-53,559
<i>EBITDA margin, %</i>					
EBITDA, SEKk	52,402	-2,692	101,242	-38,034	-53,559
Net sales, SEKk	123,548	122,698	233,614	179,968	361,447
EBITDA margin, %	42.4	-2.2	43.3	-21.1	-14.8
<i>EBIT margin, %</i>					
Operating profit (-loss), SEKk	5,676	-18,624	11,936	-69,424	-151,459
Net sales, SEKk	123,548	122,698	233,614	179,968	361,447
EBIT margin, %	4.6	-15.2	5.1	-38.6	-41.9
<i>Profit margin, %</i>					
Profit (-loss) before tax, SEKk	26,208	-16,747	19,791	-73,003	-176,185
Net sales, SEKk	123,548	122,698	233,614	179,968	361,447
Profit margin, %	21.2	-13.6	8.5	-40.6	-48.7
<i>Equity to assets ratio, %</i>					
Total equity	1,736,738	1,352,861	1,736,738	1,352,861	1,282,399
Total equity and liabilities, SEKk	2,858,446	2,262,927	2,858,446	2,262,927	2,459,164
Equity to assets ratio, %	60.8	59.8	60.8	59.8	52.1

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

Parent company income statement

	2018	2017	2018	2017	2017
SEKk	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales	19,163	12,716	29,680	23,860	63,217
Other operating revenue	5,335	522	11,087	522	1,752
Total sales	24,498	13,238	40,767	24,382	64,969
Other external expenses	-8,872	-25,982	-19,189	-44,760	-68,230
Employee benefit expense	-15,667	-12,920	-27,509	-25,371	-45,534
Depreciation of property, plant and equipment	-163	-178	-327	-359	-757
Other operating expenses	-	228	-	-	-
Operating profit (-loss)	-204	-25,614	-6,258	-46,108	-49,552
Other financial income	1,013	678	1,676	1,005	4,130
Financial expenses	-7,282	-6,851	-15,443	-12,154	-29,202
Profit (-loss) after net financial income/expense	-6,473	-31,787	-20,025	-57,257	-74,624
Appropriations	-	-	-	-	-
Profit (-loss) before tax	-6,473	-31,787	-20,025	-57,257	-74,624
Income tax	3,734	7,309	6,151	12,454	17,875
Net profit (-loss) for the period	-2,739	-24,478	-13,874	-44,803	-56,749

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

Parent company balance sheet

SEKk	2018/06/30	2017/06/30	2017/12/31
ASSETS			
<i>Non-current assets</i>			
<i>Tangible assets</i>			
Computers and other equipment	783	933	1,109
<i>Financial assets</i>			
Investments in group companies	1,310,115	914,015	1,281,195
Deferred tax assets	29,277	17,706	23,126
Investments in associates	45,958	45,958	45,958
Other financial assets	594	-	562
Total non-current assets	1,386,727	978,612	1,351,950
<i>Current assets</i>			
Trade and other receivables	-	-	23
Receivables from group companies	942,762	770,219	724,234
Other receivables	-	1,681	1,771
Prepaid expenses and accrued income	2,452	1,616	7,087
Cash and cash equivalents	172,386	300,525	75,353
Total current assets	1,117,600	1,074,041	808,468
TOTAL ASSETS	2,504,327	2,052,653	2,160,418
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	6,504	5,613	5,661
Non-registered share capital	2	-	-
Fair value reserve	-	328	328
Share premium reserve	1,577,271	1,162,135	1,180,697
Retained earnings	9,013	84,934	82,562
Net profit (-loss) for the period	-13,874	-44,803	-56,749
Total equity	1,578,916	1,208,207	1,212,499
<i>Untaxed reserves</i>			
Accumulated excess depreciation	16	16	16
Total untaxed reserves	16	16	16
<i>Non-current liabilities</i>			
Other non-current liabilities	617,210	604,571	632,832
Total non-current liabilities	617,210	604,571	632,832
<i>Current liabilities</i>			
Trade payables	1,871	3,475	6,829
Liabilities to group companies	294,322	218,751	294,581
Other liabilities	1,415	2,938	4,439
Accrued expenses and deferred income	10,577	14,695	9,222
Total current liabilities	308,185	239,859	315,071
TOTAL EQUITY AND LIABILITIES	2,504,327	2,052,653	2,160,418

NOTES

Note 1: Pledged assets

Consolidated pledged assets and contingent liabilities

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

SEKk	6/30/2018	6/30/2017	12/31/2017
Pledged assets	258,107	5,708	507,879
Contingent liabilities	-	-	-

Note 2: Financial instruments

Financial instruments measured at fair value

SEKk	6/30/2018	6/30/2017	12/31/2017	Level
<i>Assets at fair value through comprehensive income</i>				
Financial assets, shares in Cmune	11,502	11,502	11,502	2
<i>Financial assets at fair value through profit or loss</i>				
Investments in convertible loans	17,637	10,163	15,641	2
<i>Financial liabilities at fair value through profit or loss</i>				
Earnouts	308,157	343,368	347,862	3
Convertible loans	29,141	20,237	25,537	2

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

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

Note 3: Cash flow from operations

SEKk	Q2 2018	Q2 2017	JAN-JUN 2018	JAN-JUN 2017	JAN - DEC 2017
Operating profit (-loss)	5,676	-18,624	11,936	-69,424	-151,459
<i>Adjustments for non-cash items</i>					
-Amortization of intangible assets	35,333	12,148	70,661	25,308	82,294
-Depreciation of property, plant and equipment	11,393	3,793	18,645	6,100	15,642
-Net financial income (-expense)	0	0	0	0	0
-Other unrealized exchange losses	-2,081	-3,235	-5,256	-1,874	-2,508
<i>Adjustments for:</i>					
Increase (-) / decrease (+) of current receivables	45,436	-46,960	58,073	-40,029	-45,458
Increase (+) / decrease (-) of current liabilities	13,297	19,177	-12,073	42,972	90,322
Cash flow from operations	109,054	-33,701	141,986	-36,947	-11,167

Note 4: Segment reporting, Group

	2018	2017	2018	2017	2017
SEKk	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Starbreeze Games					
Net sales	39,457	51,400	71,556	75,477	122,074
Direct costs	-21,861	-26,714	-49,543	-41,287	-65,971
Gross profit	17,596	24,686	22,013	34,190	56,103
Operating costs	-21,308	-14,952	-23,645	-29,122	-56,653
Operating profit (-loss)	-3,712	9,734	-1,632	5,068	-550
Publishing					
Net sales	74,125	66,598	136,834	94,821	219,925
Direct costs	-31,151	-45,844	-67,542	-70,079	-199,691
Gross profit	42,974	20,754	69,292	24,742	20,234
Operating costs	-4,412	-21,037	-13,600	-28,655	-62,699
Operating profit (-loss)	38,562	-283	55,692	-3,913	-42,465
VR Tech & Operations					
Net sales	7,559	-	20,326	-	3,883
Direct costs	-10,346	-	-12,461	-	-
Gross profit	-2,787	-	7,865	-	3,883
Operating costs	-15,960	-3,319	-21,014	-8,232	-4,294
Operating profit (-loss)	-18,747	-3,319	-13,149	-8,232	-411
Other					
Net sales	2,407	4,700	4,898	9,670	15,565
Direct costs	-10,747	-16,082	-21,509	-31,310	-67,145
Gross profit	-8,340	-11,382	-16,611	-21,640	-51,580
Operating costs	-2,087	-13,375	-12,364	-40,707	-56,453
Operating profit (-loss)	-10,427	-24,757	-28,975	-62,347	-108,033
Total					
Net sales	123,548	122,698	233,614	179,968	361,447
Direct costs	-74,105	-88,640	-151,055	-142,676	-332,807
Gross profit	49,443	34,058	82,559	37,292	28,640
Operating costs	-43,767	-52,683	-70,623	-106,716	-180,099
Operating profit (-loss)	5,676	-18,625	11,936	-69,424	-151,459

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

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

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

Starbreeze Games	-3,712	9,734	-1,632	5,068	-550
Publishing	38,562	-283	55,692	-3,913	-42,465
VR Tech & Operations	-18,747	-3,319	-13,149	-8,232	-411
Other	-10,427	-24,757	-28,975	-62,347	-108,033
Total	5,676	-18,625	11,936	-69,424	-151,459
Net financial income (-expense)	20,532	1,877	7,855	-3,579	-24,726
Profit (-loss) before tax	26,208	-16,748	19,791	-73,003	-176,185

Note 5: Net sales by category

SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	22,656	31,090	-	-	53,746
Console, Digital	7,872	31,109	-	-	38,981
Console, Retail	575	-	-	-	575
VR centers	562	563	2,354	-	3,479
Services	7,747	1,742	3,163	2,407	15,059
License deals	45	9,621	-	-	9,666
Other	-	-	2,042	-	2,042
Total net sales	39,457	74,125	7,559	2,407	123,548

SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	33,298	48,773	-	-	82,071
Console, Digital	21,424	42,950	-	-	64,374
Console, Retail	1,444	-	-	-	1,444
VR centers	564	581	3,634	-	4,779
Services	14,780	-	14,650	4,898	34,328
License deals	46	44,530	-	-	44,576
Other	-	-	2,042	-	2,042
Total net sales	71,556	136,834	20,326	4,898	233,614

Note 6: Consolidated depreciation and amortization by function

SEKk	2018 Q2	2017 Q2	2018 JAN-JUN	2017 JAN-JUN	2017 JAN-DEC
Depreciation of property, plant and equipment					
Direct costs	9,518	2,575	14,341	3,906	5,622
Selling and marketing costs	1,157	-	1,157	-	-
Administrative expenses	718	1,209	3,147	2,176	9,984
Total depreciation of property, plant and equipment	11,393	3,784	18,645	6,082	15,606
Amortization of intangible assets					
Direct costs	35,333	12,148	70,661	25,308	82,294
Selling and marketing costs	-	-	-	-	-
Administrative expenses	-	-	-	-	-
Total amortization of intangible assets	35,333	12,148	70,661	25,308	82,294
Total depreciation and amortization	46,726	15,932	89,306	31,390	97,900

Note 7: Joint venture

StarVR Corporation

The company's joint venture with Acer, StarVR Corporation, is a sales and marketing company for the StarVR headset. The company manages sales and marketing, primarily to the B2B market, as well as support and aftermarket support for its customers. Under the terms of the joint venture, Starbreeze owns and controls IP rights related to StarVR, such as patents, source code and brands, while Acer manufactures the product. R&D and reference design work for the StarVR headset will be carried out jointly by Starbreeze and Acer. StarVR Corporation absorbs all costs of marketing and selling the StarVR headset and as long as Starbreeze retains the IP rights, Starbreeze will bear R&D related costs. Production costs will be paid by Acer, which is also an exclusive supplier to StarVR Corporation.

StarVR Corporation has been listed on the Taipei Exchange Emerging Markets board since 23 March 2018. Based on the closing price on 20 August 2018, the market value of StarVR Corporation was SEK 1,262 million.

The reconciliation below reflects adjustments made by the Group upon application of the equity method, including adjustments to fair value at acquisition date and adjustments for differences in accounting policies.

SEKk	6/30/2018
<i>Reconciliation of net carrying amount:</i>	
Balance of net assets at 1 January	126,938
Net profit (-loss) for the period	-34,621
Exchange differences	8,812
Capital injection	-
Closing balance net assets	101,129
Group's share	33%
Group's share in SEKk	33,373
Net carrying amount	33,373

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

SEKk	6/30/2018
<i>Balance sheet in summary:</i>	
Current assets	32,802
Non-current assets	86,054
Current liabilities	15,754
Net assets	101,129
<i>Income statement in summary:</i>	
Sales	1,359
Net profit (-loss) for the period	-34,586
Total comprehensive income for the period	-34,621



OVERKILL'S
THE WALKING DEAD