

Q2

2019

Second quarter 2019

- Net sales amounted to SEK 160.0 million (123.5). SEK 137.1 million is attributable to the sale of the publishing rights for Psychonauts 2 and 10 Crowns. PAYDAY accounted for SEK 14.4 million (31.3).
- EBITDA* amounted to SEK -25,8 million (52.4).
- Depreciation, amortization and impairments totaled SEK 22.0 million (46.7).
- Costs related to the reconstruction amounted to SEK 12.6 million for the quarter.
- The loss before tax amounted to SEK -60.1 million (26.2).
- Basic and diluted earnings per share were SEK -0.20 (0.13).
- The Stockholm District Court ruled that the reconstruction of Starbreeze was permitted to continue through 3 September 2019.
- The Indian subsidiary Dhruva was divested, as were the publishing rights for 10 Crowns and Psychonauts 2 for total consideration of USD 22.4 million.

First half 2019

- Net sales decreased by 12 percent to SEK 207.8 million (233.6). PAYDAY accounted for SEK 41.1 million (56.3).
- EBITDA* amounted to -132,4 MSEK (101,2).
- The loss before tax was SEK -227.3 million (19.8).
- Basic and diluted earnings per share were SEK -0.71 (0.12).
- Cash and cash equivalents at the end of the period amounted to SEK 137.8 million (269.6).

KEY FIGURES	2019	2018	2019	2018	2018
SEKk	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales	159,982	123,548	207,774	233,614	349,955
EBITDA*	-25,758	52,393	-132,432	101,242	-10,342
Profit (-loss) before tax	-60,051	26,208	-227,335	19,791	-1,347,249
Earnings per share, SEK	-0.20	0.13	-0.71	0.12	-4.20
Cash flow from operations	94,642	102,088	66,727	129,856	49,905
Net sales per employee	396	194	499	368	552

* See page 23 and Note 6 concerning derivation of the key figure.

Q2

2019

COIN

WE

BUY

SOLD

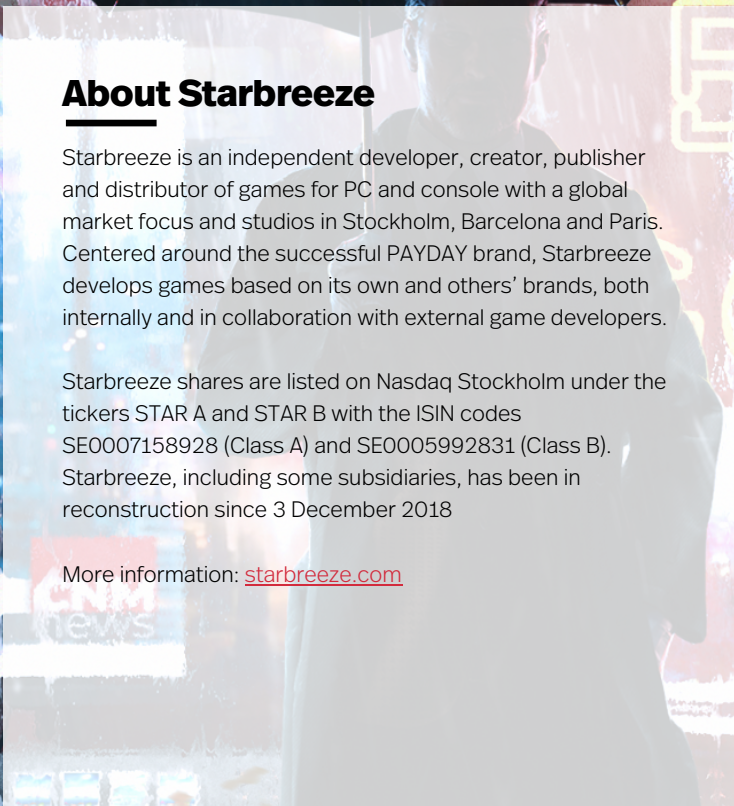
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About Starbreeze

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

Starbreeze shares are listed on Nasdaq Stockholm under the tickers STAR A and STAR B with the ISIN codes SE0007158928 (Class A) and SE0005992831 (Class B). Starbreeze, including some subsidiaries, has been in reconstruction since 3 December 2018

More information: starbreeze.com



The CEO remarks on the report

CONTINUED FOCUS ON CORE GAMES BUSINESS

Second quarter 2019

The work with the reconstruction is continuing, full steam ahead. As previously mentioned, my number one priority and focus is securing the long-term financing for the company. In the short term, our finances are now secured as we have divested assets belonging to our non-core segment which has generated liquidity taking us to the second quarter in 2020. The work with the long-term financing is on-going with multiple parallel tracks, while we at the same time are negotiating with our creditors.

As an effect of the refocusing to our core business, game development with own IP, we have now taken actions on most of our non-core businesses. In parallel, we have adjusted the company and its organization for the core business and made the necessary adjustments in head count, which will have full effect on our cost base during the third quarter. The restructuring of the group to clarify our assets and simplify the legal structure is complete.

Sales in the second quarter amounted to SEK 160.0 million (123.5), of which PAYDAY accounted for SEK 14.4 million (31.3). SEK 137.1 million is attributable to the sale of the publishing rights for Psychonauts 2 and 10 Crowns. EBITDA amounted to SEK -25.8 million (52.4). The decline in earnings is due primarily to capital losses on the divestitures of the subsidiaries Dhruva and Nozon totalling SEK 30.6 million and poorer gross profit consequent upon the sale of the publishing rights to Psychonauts 2 and 10 Crowns. Costs related to OVERKILL's The Walking Dead that were capitalized last year were an additional cause of the write-down.

After the quarter

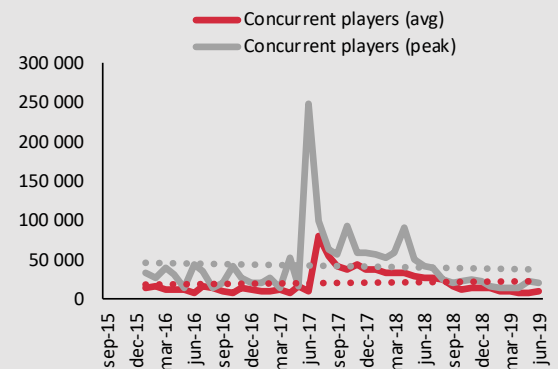
Development of PAYDAY: Crime War is in progress with our publishing partner Universal and we have just expanded our test markets to more countries in Europe, including our domestic market, Sweden. The tests we are now performing will assure our KPIs ahead of the coming global release.

With a strengthened cash position and multiple ongoing parallel tracks for future financing, we are hard at work to secure our future.

Mikael Nermark

Acting CEO Starbreeze

PAYDAY 2



Source: steamcharts.com

At peak

21,198

Played PAYDAY 2 concurrently in Q2

SIGNIFICANT EVENTS DURING THE QUARTER

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

Conversion of convertible bond loan

Acer Inc. called for the conversion of its convertible 2016/2019 in Starbreeze AB (publ) during the quarter. The outstanding debt at that time was SEK 71,713,114 including interest. In accordance with the agreement, the conversion price is SEK 17.61 per share, and 4,072,295 Class B shares in Starbreeze have been issued to Acer Inc.

Starbreeze sold back the publishing rights to 10 Crowns.

Starbreeze sold back the publishing rights to the 10 Crowns game to Mohawk Games. Starbreeze expects to be fully compensated for the costs the company has incurred in connection with development of the game subsequent to product launch. The sale generated initial revenue of USD 1.3 million in the second quarter.

Starbreeze sold the Indian subsidiary Dhruva to Rockstar Games India.

Starbreeze closed the sale of its shares in the Indian subsidiary Dhruva to Rockstar Games. The total preliminary consideration is USD 7.9 million for the entire subsidiary, where Starbreeze owns 91.82 percent of the shares in Dhruva. The consideration will be finally adjusted after the deal is closed and reported. Of total consideration, 15 percent has been reserved as savings for 36 months, of which 50 percent will be released after 18 months.

Transfer of the publishing rights to Psychonauts 2

Starbreeze and Microsoft Corporation closed an agreement by which Starbreeze transferred all publishing rights, related agreements and commitments for the title Psychonauts 2 to Microsoft in exchange for payment of USD 13.2 million. The entire consideration was paid in cash.

Annual general meeting 2019

The 2019 annual general meeting resolved to re-elect directors Torgny Hellström, Kerstin Sundberg and Jan Benjaminson. Tobias Sjögren and Stefano Salbe were elected as new directors. Matias Myllyrinne declined reelection. The general meeting also resolved to give the board of directors a mandate to carry out a new issue equal to a maximum of 10% of the current shares.

Extended reconstruction

The Stockholm District Court ruled on 7 June that the reconstruction of Starbreeze was permitted to continue through 3 September 2019. Starbreeze AB (publ) and the Swedish subsidiaries, Starbreeze Publishing, Starbreeze Production, Starbreeze Studios, Enterspace and Enterspace International have been in reconstruction since December 2018.

Organizational changes to reduce costs and adjust the organization

Starbreeze implemented organizational changes aimed at streamlining the organization and reducing costs. As one aspect of this, the head count will be reduced by about 60 people. The change is expected to be

fully implemented in November and correspond to savings of approximately SEK 3 million per month.

Operations defined as non-core business

Starbreeze initially estimated that operational changes linked to projects defined as non-core business would be affected by mid-year 2019. The company commenced seeking external collaborative partners to ensure that these operations developed in a positive manner and drafted a plan in the spring. The following actions have been taken:

- Dhruva - sold
- Nozon - the business has been taken over entirely by a new party; limited financial contributions to the Starbreeze Group
- Enterspace - the business on Sveavägen is being wound up; limited financial impact
- VR Park in Dubai - the operation has been discontinued
- Products in the VR experience portfolio (VR-LBE initiative) - agreement made with third-party distributor and existing distribution agreements are in transition

The main assets that remain in non-core business are:

- StarVR
- PresenZ
- ePawn

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

No significant events were recorded after the end of the period.

Q2

2019

SALES AND PROFIT

Q2

2019

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

Sales and direct costs

Second quarter 2019

Net sales for the second quarter of 2019 amounted to SEK 160.0 million (123.5), of which PAYDAY 2 accounted for SEK 14.4 million (31.3). Starbreeze had no revenues for Dead by Daylight during the quarter. Revenues from Dead by Daylight during the comparison period amounted to SEK 71.5 million. Starbreeze's Indian studio Dhruva contributed external income of SEK 5.4 million (7.7). Dhruva was sold in May 2019, which explains the downturn in revenues from that source. The publishing rights to Psychonauts 2 and 10 Crowns were sold during the quarter and generated revenue of SEK 137.1 million.

Direct costs amounted to SEK 150.3 million (74.1) and consist of costs related to game production and game development. Direct costs include depreciation and amortization of SEK 14.6 million (44.9). There were no impairment losses taken during the quarter. Direct costs include a cost of SEK 101.0 million corresponding to the carrying amount of the sold publishing rights to Psychonauts 2 and 10 Crowns.

First half 2019

Net sales increased by 12 percent to SEK 207.8 million (233.6), of which PAYDAY 2 accounted for SEK 41.1 million (56.3). Sales include the sale of the publishing rights to Psychonauts 2, 10 Crowns and System Shock 3 for a total of SEK 140.8 million. The comparative figures include income of SEK 133.5 million from Dead by Daylight. External income of SEK 14.6 million (14.8) from Dhruva was also included.

Direct costs amounted to SEK 320.9 million (151.1), including amortization, depreciation and impairments of SEK 56.4 million (85.0). The reduction of amortization, depreciation and impairments compared with the preceding year is due mainly to divested companies and sold assets.

Costs and profit or loss

Second quarter 2019

Sales and marketing costs amounted to SEK 3.4 million (25.2) and comprise mainly employee benefits expense. The reduction is primarily due to lower trade show costs.

Administrative expenses amounted to SEK 27.7 million (27.1) and refer to items including office costs and payroll for employees who do not work in game production or marketing and costs related to the reconstruction. The item includes amortization of SEK 7.4 million (0.7).

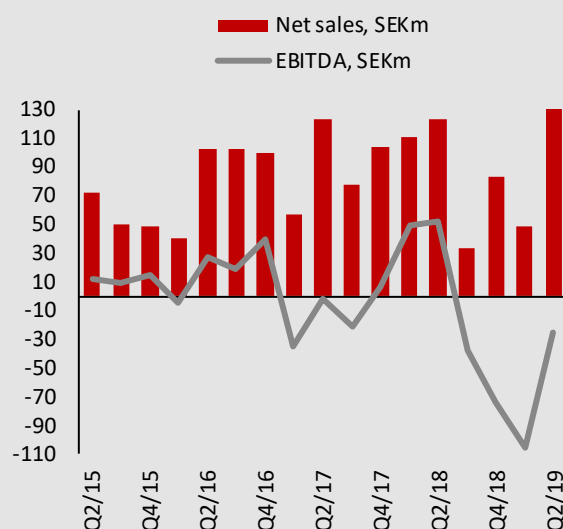
Other operating revenue/operating expenses amounted to SEK -26.2 million (8.5) and consisted mainly of capital losses of SEK 30.6 million on the sales of the subsidiaries Dhruva and Nozon. The item also includes currency effects arising from appreciation of the dollar and euro rates against the Swedish krona.

EBITDA amounted to SEK -25.8 million (52.4). The deterioration in EBITDA is due mainly to capital losses on the sales of the subsidiaries Dhruva and Nozon and higher administrative costs related to the reconstruction.

Sales and profit

	2019	2018
SEKk	Q2	Q2
Net sales	159,982	123,548
EBITDA *	-25,758	52,393
Profit (-loss) before tax	-60,051	26,208
Net profit (-loss) for the period	-64,376	42,487
Earnings per share, SEK	-0.20	0.13
Net sales growth, %	29.5	0.7
EBITDA margin, %	-16.1	42.4

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



Net financial expenses amounted to SEK -12.3 million (20.5). See the specification in the table at the right. Remeasurement of earnouts amounted to SEK -3.4 million (37.8). The share of profit and loss in the joint venture StarVR Corporation amounted to SEK 2.0 million (-6.6). The cost of borrowing including interest on short-term financing raised during the reconstruction amounted to SEK 5.0 million (0.0). Interest expenses for the overdraft facility has declined to SEK 1.0 million (1.5). Net financial income was reduced during the quarter by interest expenses on lease liabilities of SEK 0.5 million (0.0), which is an effect of the new IFRS 16 reporting standard.

The loss before tax was SEK -60.1 million (26.2). Loss for the period amounted to SEK -64,4 million (42.5) and consisted mainly of capital losses of SEK 30.6 million on the sales of the subsidiaries Dhruva and Nozon and the remeasurement of earnouts. The lack of revenues from Dead by Daylight, which amounted to SEK 71.5 million in Q2 2018, had negative impact on the profit trend as well as the no longer capitalized development expenses for OVERKILL's The Walking Dead.

Basic and diluted earnings per share were SEK -0.20 (0.13).

First half 2019

Sales and marketing costs amounted to SEK 7.8 million (35.1). The reduction is primarily due to lower trade show costs.

Administrative expenses amounted to SEK 65.5 million (52.6), including amortization and depreciation of SEK 15.5 million (3.1). The increase is due mainly to the higher amortization and depreciation.

Other operating expenses amounted to SEK -17.9 million (17.0). The decrease is mainly due to capital losses of SEK 30.6 million on the sales of the subsidiaries Dhruva and Nozon.

EBITDA amounted to SEK -132.4 million (101.2).

Net financial income/expense consisted of remeasurement of earnouts of SEK -5.5 million (39.7), of which SEK -2.0 million in currency effects. The change of remaining acquisitions at reporting date was SEK -3.5 million excluding currency effects. In addition, the earnout of SEK 4.5 million for Dhruva has been removed from the closing balance, as the subsidiary was divested in May 2019. Interest expenses for convertible bonds amounted to SEK 8.9 million (11.3); the share in the loss of the joint venture company StarVR Corporation was SEK 0.1 million (-8.5) and remeasurement of derivatives attributable to the Smilegate bond amounted to SEK 0.0 million (-3,9). The cost of borrowing including interest on short-term financing raised during the reconstruction amounted to SEK 5.0 million (0.0). Interest expenses for the bank overdraft facility was SEK 2.0 million (3.2). See the specification in the table at the right.

The loss before tax was SEK -227.3 million (19.8). The loss for the period amounted to SEK -95.4 million (37.3).

Basic and diluted earnings per share were SEK -0.71 (0.12).

Segment reporting

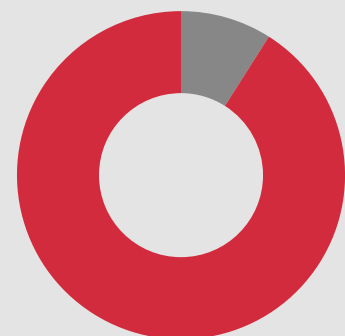
Starbreeze operations are reported in the following segments: Starbreeze Games, Publishing, and VR Tech & Operations. See the following section. Reporting is provided down to operating profit or loss, and assets and liabilities are not reported.

Specification of net financial income/expense

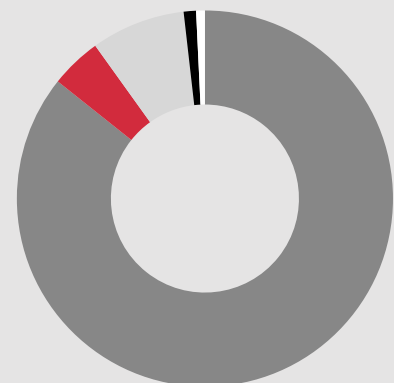
SEKk	2019	2018	2019	2018
	Q2	Q2	JAN-JUN	JAN-JUN
Remeasurement of earnouts	-3,381	37,814	-5,519	39,705
Interest on convertible bonds	-4,396	-5,712	-8,881	-11,286
Remeasurement of derivatives attributable to convertible bonds	31	-1,391	42	-3,903
Interest on loan to StarVR Corp.	-	-2,387	-	-4,808
Net profit (-loss) from StarVR Corp.	2,004	-6,579	90	-8,517
Interest on short-term investments	-	714	-	804
Interest on bank overdraft facility	-1,025	-1,548	-2,033	-3,240
Credit cost including interest for fully amortized loan	-5,000	-	-5,000	-
Interest on lease liability	-546	-	-1,140	-
Other items	18	-379	-519	-900
Total	-12,295	20,532	-22,960	7,855

Distribution of net sales for the quarter

■ Payday 2 ■ Other



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



STARBREEZE GAMES

Q2

2019

The Starbreeze Games business area consists of Starbreeze's own games portfolio. Revenues currently comprise sales revenue and royalties for the rights to PAYDAY. The business area also includes OVERKILL's The Walking Dead and the ongoing game project Crossfire.

Second quarter 2019

Net sales were SEK 20.1 million (39.5) and consist mainly of game sales of products in the PAYDAY franchise of SEK 14.4 million (31.3). PAYDAY 2 Switch contributed SEK 1.2 million (2.7) during the quarter, related to digital and retail sales. Net sales include external income of SEK 5.4 million (7.7) from Starbreeze's Indian studio, Dhruva. The reduction in income from Dhruva is due to the sale of the company in May.

Direct costs amounted to SEK 30.7 million (21.9) attributable primarily to SEK 7.5 million arising from OVERKILL's The Walking Dead, which in the comparison period were capitalized on the balance sheet instead of being charged to profit and loss.

Operating costs amounted to SEK 30,9 million (21.3). The increase was primarily caused by the divestment of the subsidiary Dhruva, which generated a capital loss of SEK 9.3 million.

The operating loss was SEK -62.8 million (-3.7). The deterioration is explained mainly by costs related to OVERKILL's The Walking Dead that were capitalized last year and increased costs arising from the reconstruction. Costs for ongoing updates of completed games are recognized as direct costs and are not capitalized.

First half 2019

Net sales amounted to SEK 58.5 million (71.6), of which PAYDAY, developed by Starbreeze, accounted for SEK 41.1 million (56.3). External income of SEK 14.6 million (14.8) from Dhruva was also included.

Direct costs amounted to SEK 81.9 million (49.5). The increase was driven primarily by costs related to OVERKILL's The Walking Dead that were capitalized in the comparison period.

Operating costs amounted to SEK 69.8 million (23.6), including currency effects of SEK 2.2 million (-8.5).

EBITDA amounted to SEK -71.9 million (-1.6).

After the end of the period

Revenues from sales of PAYDAY 2 via the Steam platform in July 2019 amounted to SEK 6.9 million (5.3).

	2019	2018	2019	2018
SEKk	Q2	Q2	JAN-JUN	JAN-JUN
Starbreeze Games				
Net sales	20,137	39,457	58,508	71,556
Direct costs	-30,705	-21,861	-81,866	-49,543
Gross profit (-loss)	-10,568	17,596	-23,358	22,013
Operating costs	-30,928	-21,308	-48,524	-23,645
Operating profit (-loss)	-41,496	-3,712	-71,882	-1,632

PUBLISHING

Q2

2019

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

Second quarter 2019

Net sales amounted to SEK 137.8 million (74.1). Compared to the preceding year, Starbreeze had no revenues from Dead by Daylight (SEK 71.5 million). Of total income for the quarter, SEK 125.1 million refers to the publishing rights to Psychonauts 2, which were sold to Microsoft, and SEK 12.0 million to the publishing rights to 10 Crowns, which were sold back to Mohawk Games. Starbreeze expects to be fully compensated for the costs the company has incurred in connection with development of 10 Crowns.

Direct costs amounted to SEK 104.6 million (31.2). The reason for the increase is that the carrying amounts for the sold publishing rights to Psychonauts 2 at SEK 76.0 million and 10 Crowns at SEK 24.7 million, were recognized as costs during the quarter. During the comparison period, the Group had amortization of SEK 26.6 million related to game projects such as Raid, John Wick and several minor game projects that have now been amortized in full.

Operating costs amounted to SEK 5.2 million (4.4).

The operating loss was SEK 28.0 million (38.6).

First half 2019

Net sales amounted to SEK 142.8 million (136.8). The sale of publishing rights generated SEK 140.8 million, broken down as follows: Psychonauts 2, SEK 125.1 million, 10 Crowns SEK 12.0 million and System Shock 3, SEK 3.7 million.

Direct costs amounted to SEK 175.5 million (67.5). The item includes the cost of the carrying amount of the sold publishing rights to Psychonauts 2, 10 Crowns and System Shock 3 in a total amount of SEK 169.2 million. The item also includes depreciation, amortization and impairments of SEK 2.7 million (55.1).

Operating costs amounted to SEK 13.1 million (13.6).

The operating result decreased to SEK -45.7 million (55.7) as a direct effect of the sale of Psychonauts 2, 10 Crowns and System Shock 3. Under the terms of the sale agreement for 10 Crowns and System Shock 3, Starbreeze will recover its investment over time. In accordance with IFRS reporting rules, however, the Group will initially recognize a loss on the transactions, as IFRS 15 does not permit recognition of future royalties in revenue even if these are directly connected to the sale of the publishing rights, while the carrying amount of the sold asset must be immediately expensed. As a result, Starbreeze has recognized revenue of SEK 3.7 million and a cost of SEK 68.2 million. In future periods, only revenues related to this transaction will be recognized as all costs have thus been absorbed.

	2019	2018	2019	2018
SEKk	Q2	Q2	JAN-JUN	JAN-JUN
Publishing				
Net sales	137,836	74,125	142,828	136,834
Direct costs	-104,605	-31,151	-175,468	-67,542
Gross profit (-loss)	33,231	42,974	-32,640	69,292
Operating costs	-5,199	-4,412	-13,028	-13,600
Operating profit (-loss)	28,032	38,562	-45,668	55,692

VR TECH & OPERATIONS

Q2

2019

The VR Tech & Operations business area consists of Starbreeze technology and software development in virtual reality (VR), which includes the development of the StarVR headset and the VR movie format PresenZ, as well as revenues and costs for VR parks. 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 2019

Net sales in the business area consist of revenue from VR parks.

Net sales for the period of SEK 0.4 million (7.6) refer primarily to revenue from ticket sales at the VR parks in Dubai and Stockholm. The comparison period includes compensation for marketing of the StarVR headset, which is part of the previously communicated financial support of USD 11.5 million in total received for the build-up of the VR park in Dubai. The winding up of the VR parks began in March.

Direct costs amounted to SEK 11.4 million (10.3). Depreciation and amortization amounted to SEK 6.2 million (7.4). The main explanation for the reduction in depreciation and amortization is that the Group is no longer impairing assets related to the VR parks in Dubai and Stockholm after having fully impaired the assets to zero in the first quarter of 2019. The Group has, however, begun to impair assets related to the PresenZ technology and StarVR, which did not occur in the comparison period.

Operating costs amounted to SEK 0.0 million (16.0). See the section "Part of non-core business."

The operating loss amounted to SEK -11.0 million (-18.7).

First half 2019

Net sales for the period of SEK 2.2 million (20.3) refer primarily to revenue generated by the VR parks in Dubai and Stockholm. Ticket sales at the VR parks contributed revenues of SEK 1.7 million (3.6) during the period.

Direct costs amounted to SEK 52.5 million (12.50).

The operating loss was SEK -57.5 million (-13.1), including currency effects of SEK 0.9 million (3.8).

Part of non-core business

When Starbreeze AB and a number of subsidiaries entered into reconstruction on 3 December 2018, it was announced that the business had been divided into core business and non-core business. All parts of the VR Tech & Operations business area have been classified as non-core business. The costs of non-core business were reduced, and no new operating costs were charged to the segment in Q2. Efforts are ongoing to find external collaborative partners to ensure that these operations develop in a positive manner and that no additional losses are generated.

	2019	2018	2019	2018
SEKk	Q2	Q2	JAN-JUN	JAN-JUN
VR Tech & Operations				
Net sales	418	7,559	2,215	20,326
Direct costs	-11,432	-10,346	-52,489	-12,461
Gross profit (-loss)	-11,014	-2,787	-50,274	7,865
Operating costs	-	-15,960	-7,198	-21,014
Operating profit (-loss)	-11,014	-18,747	-57,472	-13,149

OTHER

Q2

2019

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

Second quarter 2019

Net sales amounted to SEK 1.6 million (2.4) and consist primarily of the Group's Belgian VFX business, Nozon. The subsidiary was sold in June.

Direct costs amounted to SEK 3.6 million (10.7).

Operating costs amounted to SEK 21.3 million (2.1). Costs for the period consist of the capital loss on the sale of the subsidiary Nozon. No other operating costs were charged to the segment, which has been categorized as non-core business, as Nozon was sold during the quarter.

The operating loss amounted to SEK -23.3 million (-10.4).

First half 2019

Net sales amounted to SEK 4.2 million (4.9) and consist of the Group's Belgian VFX business, Nozon.

Direct costs decreased to SEK 11.1 million (21.5). The reduction is due primarily to that in the comparison period the costs for the Valhalla engine amounted to SEK 4.1 million and costs for ePawn amounted to SEK 3.1 million and corresponding costs have not arisen during the first half of 2019. Employee benefits expenses have also been reduced by SEK 1.5 million.

Operating costs amounted to SEK 22.5 million (12.4).

The operating loss was SEK -29.4 million (-29.0) as a consequence of lower direct costs and operating costs resulting from the categorization of operations in the subsidiary Nozon as non-core business and subsequent sale. The capital loss on the divestment of Nozon contributed to lowering the operating result.

	2019	2018	2019	2018
SEKk	Q2	Q2	JAN-JUN	JAN-JUN
Other				
Net sales	1,591	2,407	4,223	4,898
Direct costs	-3,573	-10,747	-11,057	-21,509
Gross profit (-loss)	-1,982	-8,340	-6,834	-16,611
Operating costs	-21,296	-2,087	-22,519	-12,364
Operating profit (-loss)	-23,278	-10,427	-29,353	-28,975

OTHER FINANCIAL INFORMATION

Q2

2019

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 31/12/2018. The comparison figures for 2018 have been restated as regards parts of the long-term debt to Nordea, the earnout for ePawn and the convertible debt to Smilegate. These have been classified as current liabilities.

Financial position

Non-current assets

Goodwill at the end of the period amounted to SEK 43.4 million (57.2). Goodwill is recognized using the exchange rate on the reporting date. Other intangible assets, which consist primarily of IP for PAYDAY and PresenZ, amounted to SEK 346.2 million (356.1).

Capitalized game and technology development costs amounted to SEK 212.4 million (170.9). Investments in publishing projects were SEK 27.3 million (188.0). The decrease is due to the Group's sale of the publishing rights to System Shock 3, Psychonauts 2 and 10 Crowns at a total carrying amount of SEK 169.2 million.

Amortizations and impairments of intangible assets amounted to SEK 21.7 million (70.7) during the first half.

Current assets

Trade and other receivables amounted to SEK 12.9 million (39.5). Pre-paid expenses and accrued income at the end of the period amounted to SEK 22.1 million (46.6). SEK 6.2 million (17.6) refers to the receivable for digital sales, mainly via Steam, PlayStation Store, Xbox Live and Switch.

Available-for-sale assets

Available-for-sale assets amounted to SEK 4.0 million (78.2) at the reporting date. The balance sheet item consists of the consolidated carrying amount of IP rights to the Cinemaware library.

Equity

Consolidated equity on the reporting date amounted to SEK 180.9 million (339.0) and the equity to assets ratio was 19.5 percent (31.3).

Non-current liabilities

Non-current liabilities for earnouts increased to SEK 89.9 million (88.6). The balance sheet item relates to earnouts for business acquisitions, primarily Parallaxter. The balance sheet item is measured at fair value and the change is recognized in net financial income and expense on the income statement (see page 7). The subsidiary Dhruva has been divested and total liabilities have been reduced by the liability for the earnout related to this company. The increase in this item for the year refers to Parallaxter.

Other non-current liabilities amounted to SEK 13.6 million (14.5). The balance consists mainly of a loan liability to Unity of SEK 9.3 million (9.0). The Group has adjusted these figures for 31 December 2018 by reclassifying SEK 377.8 million to current liabilities. The corresponding reclassification as of 30 June 2019 was 315.8 million. The reduction is attributable to the redemption of the convertible debt to Acer during the period.

The equity to assets ratio

was

31.8

percent as of 30 June 2019

Current liabilities

Trade and other payables at the end of the period amounted to SEK 434.0 million (519.4), of which SEK 209.1 million (200.4) refers to the convertible debt to Smilegate, which was reclassified as a current liability as of 31 December 2018. The reclassification applied to both the opening balance and the closing balance for the quarter. See Note 11. The bank overdraft facility of SEK 76.7 million (75.8) and the loan of SEK 30.0 million (30.0) from Nordea are also included in this item. Accrued expenses and deferred income at the end of the period amounted to SEK 54.3 million (63.9).

Leases

This is the first year for which the Group is reporting leases in accordance with IFRS 16. Accordingly, the Group has reported an asset class called Right-of-Use buildings. The Group had a closing balance at the reporting date of SEK 88.4 million. As permitted under the relief rule, the Group has not restated the figures for 2018. On the liability side, the Group has recognized a non-current liability of SEK 63.8 million and a current liability of SEK 25.1 million. The comparative figures have not been recalculated or restated. The opening balance for both the asset and the current and non-current liabilities was SEK 111.5 million upon initial recognition in the first quarter. Contracts for premises entered into by the subsidiary Nozon expired during the quarter. This has affected non-current assets by SEK 16.8 million, non-current lease liability by SEK 14.7 million and current lease liability by SEK 2.7 million. The asset was impaired by SEK 12.7 million during the quarter and the liability has been amortized in the amount of SEK 12.1 million. Net financial income was reduced by interest expenses of SEK 1.0 million.

Cash flow

Second quarter 2019

Cash flow from operating activities amounted to SEK 94.6 million (102.1). The reduction is due primarily to higher paid costs of credit, including interest on a loan raised during the reconstruction. Cash flow from (-used in) investing activities was SEK 34.8 million (-177.6). See also "Investments" below. Cash flow from financing activities was SEK -6.0 million (48.0). The positive cash flow from financing activities in the comparison period was attributable mainly to the new issue in 2018. Total cash flow for (-used in) the quarter was SEK 123.5 million (-27.5). Cash and cash equivalents at the end of the period amounted to SEK 137.8 million (269.6)

Investments

Consolidated investments in property, plant and equipment during the quarter amounted to SEK 0.2 million (19.2). The decrease is related to investments in VR parks made in the preceding year. In addition, investments in own game and technology development totaled SEK 29.5 million (119.1), where the decrease is related mainly to completion of the OVERKILL's The Walking Dead game project and the completed development of the StarVR headset in the fourth quarter of 2018. Investments in publishing projects amounted to SEK 4.8 million (30.0). There were no investments in short-term placements during the period.

First half 2019

Cash flow from operating activities amounted to SEK 66.7 million (129.9). The reduction is due to a lower operating profit, which was affected by capital losses referring to sold publishing rights. This was offset by the continued improvement in working capital efficiency. Cash flow from (-used in) from investing activities was SEK 14.2 million (-429.6). See also the "Investments" section below. Cash flow from (-used in) financing activities was SEK -12.7 million (333.4). The negative change is due primarily to the new issues executed during the comparison period of SEK 390.1 million and the net change in borrowing of SEK -13.6 million (-64.0).

Total cash flow for (-used in) the period was SEK 68.2 million (33.6). Cash and cash equivalents at the end of the period amounted to SEK 137.8 million (269.6)

Investments

Consolidated investments in property, plant and equipment during the period amounted to SEK 0.5 million (89.8). Investments in own game and technology development totaled SEK 49.0 million (193.1). Investments in publishing projects amounted to SEK 8.5 million (63.1). Investments in short-term placements were SEK 0.0 million (75.0). During the comparison period, the Group placed SEK 75 million in a deposit account as collateral and these funds were classified as a short-term placement.

Parent company

The Group's business is conducted in the parent company Starbreeze AB (publ) and the following 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, Starbreeze Middle East FZE and Starbreeze Paris SAS, New Starbreeze Studios AB, New Starbreeze Publishing AB, Nozon, Parallaxer and Enterspace AB. Dhruva Infotech Ltd and Nozon were sold in the second quarter.

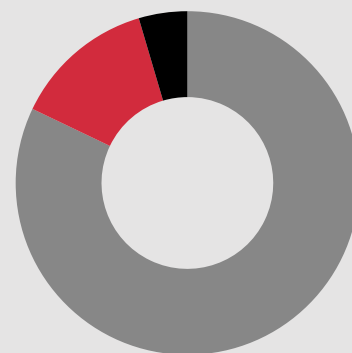
The parent company's net sales during the quarter amounted to SEK 15.0 million (19.2). Sales refer primarily to allocation of management fees.

Cash and cash equivalents at

30 June 2019

SEK 137.8 million

- Own games and technology
- Publishing
- Other



The loss before tax was SEK -11.0 million (-6.5) and the loss after tax was SEK -11.0 million (-2.7).

Cash and cash equivalents at the end of the period amounted to SEK 13.0 million (8.0) and parent company equity was SEK 591.2 million (529.5).

Non-current liabilities, which consist of earnouts, increased to SEK 90.1 million (88.6).

Employees

The number of employees at the end of the period amounted to 221 (643), of whom 195 men and 26 women. The average number of full-time employees for the quarter amounted to 442 (636). The average age was 34 (32).

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 30 June 2019 was SEK 1.29 for the Class A share, compared to SEK 10.48 on 30 June 2018, and SEK 1.33 for the Class B share, compared to SEK 10.5. At the end of the quarter, total market capitalization was approximately SEK 435.9 million, compared to approximately SEK 3,409 million in the preceding year.

Share capital

Share capital at the end of the period amounted to SEK 6,587 thousand (6,504 thousand at 30 June 2018) distributed among 329,367,849 shares (325,295,554), of which 53,397,677 Class A shares (57,152,627) and 275,970,172 Class B shares (268,142,927).

Acer exercised its convertibles in the second quarter of 2019, by which equity increased by SEK 71.7 million and the number of Class B shares increased by 4,072,295.

Shareholders

Starbreeze had 29,350 shareholders (29,115 at 30 June 2018) at the end of the period. A list of the company's largest shareholders is updated monthly on the company's website at starbreeze.com under Investors.

Accounting and measurement policies

This interim report has been prepared in accordance IAS 34, Interim Financial Reporting. The accounting policies and calculation methods are the same as those applied in the Annual Report 2018, other than that the Group began applying and IFRS 16 Leases as of 1 January 2019. The Group has chosen to report the transition to the new standard using the modified retrospective approach and not to restate comparative figures, as permitted under the relief rule.

The size of the right to control the use of the asset has been measured as corresponding to the size of the lease liability as of the transition date.

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

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

Employee key data

	2019	2018
	Q2	Q2
Employees	221	643
<i>Men</i>	195	570
<i>Women</i>	26	73
Net profit (-loss) per employee	169 TSEK	66 TSEK

221

Employees at Starbreeze

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.

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 acquisitions of several foreign subsidiaries, the Group also has translation exposure.

The largest risks and uncertainties are low revenues in connection with game releases and project delays. These and other risks such as copyright infringements, loss of key people and exchange rate fluctuations are described in Starbreeze's Annual Report 2018 in the Report of the Board of Directors on page 54, and in Note 3. Furthermore, the value of certain assets and liabilities is based on expected outcomes. Consequently, these items must be regularly remeasured and thus may affect future profit and loss.

Starbreeze and certain subsidiaries have been in reconstruction since 3 December 2018. The company sharply reduced the workforce during the second quarter, which generated cost savings expected to have full effect as of November 2019. The divestment of the subsidiary Dhruva in India and the sale of the 10 Crowns and Psychonauts 2 publishing projects also entailed an increase in liquidity during the quarter of SEK 193,6 million. That notwithstanding, there is risk that the company will not have sufficient secured funds to guarantee continued operations for the next 12 months. Without additional financing or liquidity injections from divestitures, the company expects a liquidity shortfall in the second quarter of 2020.

The board of directors has evaluated whether the going concern assumption has been met and in the company's judgment, it will be possible to conclude the ongoing reconstructions of the parent company and some subsidiaries to the effect that the businesses can continue operating.

Related party transactions

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

Investor relations

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

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

Stockholm, 20 August 2019

Torgny Hellström

Chairman of the Board

Directors

Kerstin Sundberg

Hyung Nam Kim (Harold Kim)

Tobias Sjögren

Jan Benjaminson

Stefano Salbe

Financial calendar

Interim report Q3 2019 **5 November 2019**

Year-end report 2019 **4 February 2020**

Starbreeze AB is required to disclose this information under the EU Market Abuse Regulation and the Securities Market Act. The information was provided by the above contact persons for publication on 20 August 2019 at 08:00 CET.

Consolidated statement of comprehensive income

SEKk	NOTE	2019	2018	2019	2018	2018
		Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales	5	159,982	123,548	207,774	233,614	349,955
Direct costs		-150,315	-74,105	-320,880	-151,055	-1,733,903
		-	-	-	-	-
Gross profit (-loss)		9,667	49,443	-113,106	82,559	-1,383,948
Selling and marketing costs		-3,451	-25,243	-7,843	-35,099	-91,397
Administrative expenses		-27,723	-27,070	-65,504	-52,562	-115,722
Other revenue		4,350	8,546	12,677	17,038	13,262
Other expenses		-30,599	-	-30,599	-	-
		-	-	-	-	-
Operating profit (-loss)	6, 8	-47,756	5,676	-204,375	11,936	-1,577,805
Financial income		31	38,528	42	40,509	295,817
Financial expenses		-14,330	-11,417	-23,092	-24,137	-28,028
Share in profit or loss of holdings accounted for using the equity method		2,004	-6,579	90	-8,517	-37,233
Profit (-loss) before tax		-60,051	26,208	-227,335	19,791	-1,347,249
Income tax		-4,325	16,279	-5,137	17,488	10,897
Net profit (-loss) for the period		-64,376	42,487	-232,472	37,279	-1,336,352
<i>Other comprehensive income that may subsequently be reclassified to profit and loss</i>						
Exchange differences		-1,255	14,333	4,718	36,450	23,526
Total comprehensive income for the period		-65,631	56,820	-227,754	73,729	-1,324,327
Total comprehensive income for the period attributable to:						
Owners of the parent		-65,802	56,682	-227,903	73,734	-1,324,992
Non-controlling interests		171	138	149	-5	665
<i>Earnings per share attributable to owners of the parent during the period (SEK):</i>						
- Basic		-0.20	-0.04	-0.71	0.12	-4.20
- Diluted		-0.20	-0.04	-0.71	0.12	-4.20

Consolidated balance sheet

SEKk	NOTE	2019-06-30	2018-06-30	2018-12-31
ASSETS				
<i>Intangible assets</i>				
Goodwill		43,408	570,708	57,169
Other non-current assets		346,249	603,796	356,071
Capitalized development cost for own games and technology development		212,449	633,484	170,919
Investments in publishing projects		27,259	210,174	187,970
<i>Financial assets</i>				
Financial assets	10	6,651	47,779	10,348
Investments in joint ventures	7	4,746	33,373	4,656
Deferred tax assets		-	146,310	326
<i>Property, plant and equipment</i>				
VR facilities, IT equipment and other equipment	10	19,243	172,004	60,499
Right-of-Use asset-Buildings		88,404	-	-
Total non-current assets		748,409	2,417,628	847,958
<i>Current assets</i>				
Inventories	10	35	65	44
Trades and other receivables		12,924	27,904	39,536
Prepaid expenses and accrued income		22,141	68,294	46,599
Current investments		-	75,000	-
Cash and cash equivalents		137,750	269,555	69,289
Total current assets		172,850	440,818	155,468
Assets held for sale		3,991	-	78,204
Total assets held for sale		3,991	0	78,204
TOTAL ASSETS		925,250	2,858,446	1,081,630
EQUITY AND LIABILITIES				
<i>Equity attributable to owners of the parent</i>				
Share capital		6,587	6,504	6,506
Other contributed capital		1,711,148	1,639,519	1,639,516
Reserves		21,816	41,523	17,098
Retained earnings including net profit or loss for the period		-1,558,683	48,227	-1,326,061
Non-controlling interests		-	963	1,947
Total equity		180,868	1,736,738	339,006
<i>Non-current liabilities</i>				
Non-current liabilities, earnouts	10	89,886	308,157	88,586
Deferred tax liability		63,706	195,843	56,269
Non-current lease liability		63,798	-	-
Other non-current liabilities		13,571	443,033	14,459
Total non-current liabilities		230,961	947,033	159,314
<i>Current liabilities</i>				
Trade and other payables	10	434,035	116,406	519,421
Current lease liability		25,083	-	-
Accrued expenses and deferred income		54,303	58,269	63,889
Total current liabilities		513,421	174,675	583,310
TOTAL EQUITY AND LIABILITIES		925,250	2,858,446	1,081,630

Consolidated statement of changes in equity

SEKk	Share capital	Other contributed capital	Reserves	Retained earnings	Total	Non controlling interest	Total equity
Balance at 1 January 2019	6,506	1,639,516	17,098	-1,326,061	337,059	1,947	339,006
Net profit (-loss) for the period	-	-	-	-232,621	-232,621	149	-232,472
Other comprehensive income for the period							
Impairment of unlisted shares	-	-	-	-	-	-2,122	-2,122
Exchange differences	-	-	4,718	-	4,718	26	4,744
Total comprehensive income	6,506	1,639,516	21,816	-1,558,682	109,156	-	109,156
Transactions with shareholders:							
New issue through exercise of convertible bonds	81	71,632	-	-	71,713	-	-
Issue cost recognized in equity	-	-	-	-2	-2	-	-2
Total contribution from and value transfers to shareholders, recognized directly in equity	81	71,632	-	-2	71,711	-	71,711
Balance at 30 June 2019	6,587	1,711,148	21,816	-1,558,684	180,867	-	180,867
<hr/>							
Balance at 1 January 2018	5,661	1,243,573	5,073	27,748	1,282,055	344	1,282,399
Net profit (-loss) for the period	-	-	-	-1,337,017	-1,337,017	665	-1,336,352
Other comprehensive income for the period							
Omräkningsdifferenser	-	-	23,526	-	23,526	-36	23,490
Total comprehensive income	5,661	1,243,573	17,098	-1,309,269	-42,937	973	-41,964
Transactions with shareholders:							
New issue through exercise of stock options	26	7,529	-	-	7,555	-	7,555
Minority share of shareholder contributions to subsidiaries	-	-974	-	-	-974	974	-
Vested employee stock options	-	40	-	-	40	-	40
Sales of equity instruments	-	282	-	-	282	-	282
Tax effect on sale of equity instruments	-	-62	-	-	-62	-	-62
New issue	819	389,128	-	-	389,947	-	389,947
Issue costs recognized in equity	-	-	-	-21,546	-21,546	-	-21,546
Deferred tax effect of issue costs recognized in equity	-	-	-	4,754	4,754	-	4,754
Total contribution from and value transfers to shareholders, recognized directly in equity	845	395,943	-	-16,792	379,996	974	380,970
Balance at 31 December 2018	6,506	1,639,516	17,098	-1,326,061	337,059	1,947	339,006
<hr/>							
					2019	2018	
CHANGE IN NUMBER OF OUTSTANDING SHARES					JAN-JUN	JAN - DEC	
Number of shares at the beginning of the period					325,295,554	283,037,940	
Subscription of shares through exercise of options					-	1,327,836	
New subscription of shares through exercise of convertibles					4,072,295		
New issue					-	40,929,778	
Total shares outstanding at the end of the period					329,367,849	325,295,554	

Consolidated statement of cash flows

SEKk	NOTE	2019	2018	2019	2018	2018
		Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
<i>Operating activities</i>						
Cash flow from operations	3	102,025	109,054	83,509	141,986	64,819
Interest paid		-6,681	-3,669	-8,689	-5,498	-14,441
Interest received		46	563	46	653	-
Income taxes paid		-748	-3,860	-8,139	-7,285	-473
Cash flow from (-used in) operating activities		94,642	102,088	66,727	129,856	49,905
<i>Investing activities</i>						
Purchase of property, plant and equipment		-230	-19,183	-525	-89,850	-92,071
Sold fixes assets		-	-	-	-	-
Divested subsidiaries		67,502	-	67,502	-	-
Purchase of intangible assets		-	-	-	-	-
Investments in other financial assets		1,874	-9,251	4,640	-8,623	-6,607
Investments in own games and technology		-29,549	-119,114	-48,959	-193,124	-333,947
Investments in publishing projects		-4,800	-30,045	-8,487	-63,053	-126,599
Increase (-) / decrease (+) in short-term investments		-	-	-	-75,000	-
Cash flow from (-used in) investing activities		34,797	-177,593	14,171	-429,650	-559,224
<i>Financing activities</i>						
New issue		-	152,273	-	390,114	390,114
Payments for stock options		-	-	-	7,253	7,304
Increase in non-current liabilities		444	12,291	916	65,476	159,476
Repayment of loans		-6,432	-116,602	-13,590	-129,435	-195,681
Cash flow from financing activities		-5,988	47,962	-12,674	333,408	344,334
Cash flow for (-used in) the period		123,451	-27,543	68,224	33,614	-164,984
Cash and cash equivalents at the beginning of the period		14,466	295,237	69,289	233,757	233,757
Exchange difference in cash and cash equivalents		-167	1,861	237	2,184	516
Cash and cash equivalents at the end of the period		137,750	269,555	137,750	269,555	69,289

Key data, Group

	2019	2018	2019	2018	2018
	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales, SEKk	159,982	123,548	207,774	233,614	349,955
EBITDA, SEKk	-25,758	52,393	-132,432	101,242	-10,342
EBIT, SEKk	-47,756	5,676	-204,375	11,936	-1,577,805
Profit (-loss) before tax, SEKk	-60,051	26,208	-227,335	19,791	-1,347,249
Profit (-loss) after tax, SEKk	-64,376	42,487	-232,472	37,279	-1,336,352
EBITDA margin, %	-16.1	42.4	-63.7	43.3	-3.0
EBIT margin, %	-29.9	4.6	-98.4	5.1	-450.9
Profit margin, %	-37.5	21.2	-109.4	8.5	-385.0
Equity to assets ratio, %	19.5	60.8	19.5	60.8	31.3
Closing price of A share for the period, SEK	1.29	10.48	1.29	10.48	1.23
Closing price of B share for the period, SEK	1.33	10.50	1.33	10.50	0.82
Basic earnings per share, SEK	-0.20	0.13	-0.71	0.12	-4.20
Diluted earnings per share, SEK	-0.20	0.13	-0.71	0.12	-4.20
Number of shares at end of period before dilution	329,367,849	325,295,554	329,367,849	325,295,554	325,295,554
Number of shares at end of period after dilution	329,367,849	347,246,599	329,367,849	347,246,599	345,864,665
Average number of shares before dilution	325,295,554	324,410,330	327,331,702	310,618,067	317,956,811
Average number of shares after dilution	325,295,554	324,410,330	327,331,702	310,618,067	317,956,811
Average number of employees	405	636	417	635	634
Number of employees at the end of the period	221	643	221	643	604

Key data, Group

EBITDA

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

EBIT

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

EBITDA margin

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

EBIT margin

Operating profit or loss as a percentage of net sales.

Profit margin

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

Equity to assets ratio

Equity as a percentage of total assets.

Earnings per share

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

Equity

Recognized equity including 78 percent of untaxed reserves.

Reconciliation of Alternative Performance Measures

	2019	2018	2019	2018	2018
	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
<i>EBITDA</i>					
Operating profit (-loss), SEKk	-47,756	5,676	-204,375	11,936	-1,577,805
Less: Amortization of intangible assets, SEKk	10,726	35,333	21,745	70,661	1,438,469
Less: Depreciation of property, plant and equipment, SEKk	11,272	11,384	50,198	18,645	128,994
EBITDA	-25,758	52,393	-132,432	101,242	-10,342
<i>EBITDA margin, %</i>					
EBITDA, SEKk	-25,758	52,393	-132,432	101,242	-10,342
Net sales, SEKk	159,982	123,548	207,774	233,614	349,955
EBITDA margin, %	-16.1	42.4	-63.7	43.3	-3.0
<i>EBIT margin, %</i>					
Operating profit (-loss), SEKk	-47,756	5,676	-204,375	11,936	-1,577,805
Net sales, SEKk	159,982	123,548	207,774	233,614	349,955
EBIT margin, %	-29.9	4.6	-98.4	5.1	-450.9
<i>Profit margin, %</i>					
Profit (-loss) before tax, SEKk	-60,051	26,208	-227,335	19,791	-1,347,249
Net sales, SEKk	159,982	123,548	207,774	233,614	349,955
Profit margin, %	-37.5	21.2	-109.4	8.5	-385.0
<i>Equity to assets ratio, %</i>					
Total equity	180,868	1,736,738	180,868	1,736,738	339,006
Total equity and liabilities, SEKk	925,250	2,858,446	925,250	2,858,446	1,081,630
Equity to assets ratio, %	19.5	60.8	19.5	60.8	31.3

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

SEkk	2019	2018	2019	2018	2018
	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales	14,966	19,163	34,815	29,680	55,304
Other operating revenue	21,772	5,335	25,037	11,087	9,277
Total sales	36,738	24,498	59,852	40,767	64,581
Other external expenses	-15,116	-8,872	-33,866	-19,189	-41,891
Employee benefit expense	-11,735	-15,667	-21,091	-27,509	-53,835
Depreciation of property, plant and equipment	-60	-163	-120	-327	-579
Other operating expenses	-	-	-	-	-
Operating profit (-loss)	9,827	-204	4,775	-6,258	-31,724
Other financial income	470	1,013	936	1,676	28,338
Financial expenses	-11,245	-7,282	-15,778	-15,443	-63,077
Profit (-loss) after net financial income/expense	-948	-6,473	-10,067	-20,025	-1,044,971
Appropriations	-10,002	-	-	-	5,007
Profit (-loss) before tax	-10,950	-6,473	-10,067	-20,025	-1,039,964
Income tax	-	3,734	-	6,151	-23,433
Net profit (-loss) for the period	-10,950	-2,739	-10,067	-13,874	-1,063,397

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

Parent company balance sheet

SEKk	2019-06-30	2018-06-30	2018-12-31
ASSETS			
<i>Non-current assets</i>			
<i>Intangible assets</i>			
Other non-current assets	-	-	-
<i>Tangible assets</i>			
Computers and other equipment	468	783	587
<i>Financial assets</i>			
Investments in group companies	440,450	1,310,115	514,595
Deferred tax assets	-	29,277	-
Investments in associates	4,656	45,958	4,656
Other financial assets	585	594	585
Total non-current assets	446,159	1,386,727	520,423
<i>Current assets</i>			
Trade and other receivables	6,118	-	5,853
Receivables from group companies	455,998	942,762	387,141
Other receivables	-	-	-
Prepaid expenses and accrued income	1,174	2,452	950
Cash and cash equivalents	13,007	172,386	8,002
Total current assets	476,297	1,117,600	401,946
TOTAL ASSETS	922,456	2,504,327	922,369
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	6,587	6,504	6,506
Fair value reserve	-	-	-
Share premium reserve	1,649,033	1,577,271	1,577,401
Retained earnings	-1,054,390	9,013	9,007
Net profit (-loss) for the period	-10,067	-13,874	-1,063,397
Total equity	591,163	1,578,916	529,517
<i>Untaxed reserves</i>			
Accumulated excess depreciation	-	16	-
Total untaxed reserves		16	
<i>Non-current liabilities</i>			
Other non-current liabilities	90,065	617,210	88,586
Total non-current liabilities	90,065	617,210	88,586
<i>Current liabilities</i>			
Trade payables	8,267	1,871	7,849
Liabilities to group companies	6,188	294,322	4,860
Other liabilities	214,454	1,415	275,405
Accrued expenses and deferred income	12,319	10,577	16,152
Total current liabilities	241,228	308,185	304,266
TOTAL EQUITY AND LIABILITIES	922,456	2,504,327	922,369

NOTES

Note 1: Pledged assets

Consolidated pledged assets and contingent liabilities

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

SEKk	2019-06-30	2018-06-30	2018-12-31
Pledged assets	315,997	258,107	165,956
Contingent liabilities	-	-	-

Note 2: Financial instruments

Financial instruments measured at fair value

SEKk	2019-06-30	2018-06-30	2018-12-31	Level
<i>Assets at fair value through comprehensive income</i>				
Financial assets, shares in Cmune	-	11,502	-	2
<i>Financial assets at fair value through profit or loss</i>				
Investments in convertible loans	-	17,637	-	2
<i>Financial liabilities at fair value through profit or loss</i>				
Earnouts	90,065	308,157	88,662	3
Convertible loans	-	29,141	42	2

There has been no material change in the liabilities measured at level 3 of the fair value hierarchy (conditional earnouts) during the period. These are measured as described in the 2018 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 2018 Annual Report.

Note 3: Cash flow from operations

SEKk	Q2 2019	Q2 2018	JAN-JUN 2019	JAN-JUN 2018	JAN - DEC 2018
Operating profit (-loss)	-47,756	5,676	-204,375	11,936	-1,577,805
<i>Adjustments for non-cash items</i>					
-Amortization of intangible assets	10,726	35,333	21,745	70,661	1,438,469
-Depreciation of property, plant and equipment	11,280	11,393	50,206	18,645	128,994
-Net financial income (-expense)	0	0	0	0	0
- Bokslutsdispositioner	0	0	0	0	0
-Other unrealized exchange losses	-3,560	-2,081	-3,344	-5,256	3,237
-Realisationsförlust såld tillgång	102,030	0	170,175	0	0
-Realisationsförlust avyttrade dotterbolag	30,599	0	30,599	0	0
<i>Adjustments for:</i>					
Increase (-) / decrease (+) of current receivables	2,245	45,436	40,913	58,073	63,110
Increase (+) / decrease (-) of current liabilities	-3,539	13,297	-22,410	-12,073	8,814
Cash flow from operations	102,025	109,054	83,509	141,986	64,819

Note 4: Segment reporting, Group

	2019	2018	2019	2018	2018
SEKk	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Starbreeze Games					
Net sales	20,137	39,457	58,508	71,556	168,554
Direct costs	-30,705	-21,861	-81,866	-49,543	-733,612
Gross profit (-loss)	-10,568	17,596	-23,358	22,013	-565,058
Operating costs	-30,928	-21,308	-48,524	-23,645	-111,769
Operating profit (-loss)	-41,496	-3,712	-71,882	-1,632	-676,827
Publishing					
Net sales	137,836	74,125	142,828	136,834	135,145
Direct costs	-104,605	-31,151	-175,468	-67,542	-177,702
Gross profit (-loss)	33,231	42,974	-32,640	69,292	-42,557
Operating costs	-5,199	-4,412	-13,028	-13,600	-19,768
Operating profit (-loss)	28,032	38,562	-45,668	55,692	-62,325
VR Tech & Operations					
Net sales	418	7,559	2,215	20,326	33,654
Direct costs	-11,432	-10,346	-52,489	-12,461	-599,982
Gross profit (-loss)	-11,014	-2,787	-50,274	7,865	-566,328
Operating costs	-	-15,960	-7,198	-21,014	-45,540
Operating profit (-loss)	-11,014	-18,747	-57,472	-13,149	-611,868
Other					
Net sales	1,591	2,407	4,223	4,898	12,602
Direct costs	-3,573	-10,747	-11,057	-21,509	-222,607
Gross profit (-loss)	-1,982	-8,340	-6,834	-16,611	-210,005
Operating costs	-21,296	-2,087	-22,519	-12,364	-16,779
Operating profit (-loss)	-23,278	-10,427	-29,353	-28,975	-226,784
Total					
Net sales	159,982	123,548	207,774	233,614	349,955
Direct costs	-150,315	-74,105	-320,880	-151,055	-1,733,903
Gross profit (-loss)	9,667	49,443	-113,106	82,559	-1,383,948
Operating costs	-57,423	-43,767	-91,269	-70,623	-193,856
Operating profit (-loss)	-47,756	5,676	-204,375	11,936	-1,577,804

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

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

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

Starbreeze Games	-41,496	-3,712	-71,882	-1,632	-676,827
Publishing	28,032	38,562	-45,668	55,692	-62,325
VR Tech & Operations	-11,014	-18,747	-57,472	-13,149	-611,868
Other	-23,278	-10,427	-29,353	-28,975	-226,784
Total	-47,756	5,676	-204,375	11,936	-1,577,804
Net financial income (-expense)	-12,295	20,532	-22,960	7,855	230,556
Profit (-loss) before tax	-60,051	26,208	-227,335	19,791	-1,347,248

Note 5: Net sales by category

SEKk Q4	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	12,866	86	-	-	12,952
Consoles, Digital	957	57	-	-	1,014
Consoles, Retail	681	-	-	-	681
VR parks	194	592	416	-	1,202
Services	5,437	-	-	1,591	7,028
Licensing	2	137,102	2	-	137,106
Total net sales	20,137	137,836	418	1,591	159,982

SEKk JAN-DEC 2018	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	24,358	415	-	-	24,773
Consoles, Digital	3,614	131	-	-	3,745
Consoles, Retail	1,704	-	-	-	1,704
VR parks	629	1,466	1,052	-	3,147
Services	14,572	-	738	4,223	19,533
Licensing	13,631	140,816	425	-	154,872
Other	-	-	-	-	-
Total net sales	58,508	142,828	2,215	4,223	207,774

Note 6: Consolidated depreciation and amortization by function

SEKk	2019 Q2	2018 Q2	2019 JAN-JUN	2018 JAN-JUN	2018 JAN-DEC
Depreciation and impairment of property, plant and equipment					
Direct costs	3,942	9,509	34,822	14,341	121,644
Selling and marketing costs	2	1,157	16	1,157	1,700
Administrative expenses	7,328	718	15,360	3,147	5,650
Total depreciation and impairment of property, plant	11,272	11,384	50,198	18,645	128,994
Amortization and impairment of intangible assets					
Direct costs	10,666	35,333	21,623	70,661	1,438,469
Selling and marketing costs	-	-	-	-	-
Administrative expenses	60	-	122	-	-
Total amortization and impairment of intangible asse	10,726	35,333	21,745	70,661	1,438,469
Total depreciation and amortization and impairment	21,998	46,717	71,943	89,306	1,567,463

Note 7: Joint venture StarVR Corporation

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

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

SEKk	2019-06-30
<i>Reconciliation of net carrying amount:</i>	
Balance of net assets at 1 January	14,110
Net profit (-loss) for the period	270
Exchange differences	2
Closing balance net assets	14,382
Group's share	33%
Group's share in SEKk	4,746
Net carrying amount	4,746

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	2019-06-30
<i>Balance sheet in summary:</i>	
Current assets	29,081
Non-current assets	2,973
Current liabilities	17,453
Net assets	14,381
<i>Statement of comprehensive income in summary:</i>	
Sales	2,137
Net profit (-loss) for the period	270
Total comprehensive income for the period	270

Note 8: Impairments

Effective 31 March 2019, the Group decided to recognize an impairment loss on the non-current assets in the VR parks in Dubai and in Stockholm at Sveavägen 14. Emaar terminated the agreement pertaining to the VR park in Dubai in March and the costs of removal, disassembly and storage were estimated to exceed possible proceeds from the sale of the assets, whereupon the company decided to fully impair the non-current assets. The VR park in Stockholm does not constitute part of the core business. In the company's judgment, any proceeds from the sale of the assets will not exceed the ongoing losses that the company is generating, and the company therefore decided to fully impair the non-current assets. No further impairment losses were taken in the second quarter of 2019.

Impairments by asset class, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Goodwill	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Capitalized development cost for own games and technology developer	-	-	-	-	-
Investments in publishing projects	-	-	-	-	-
Financial assets	-	-	-	-	-
VR facilities, IT equipment and other equipment	-	-	26,465	-	26,465
Total	0	0	26,465	0	26,465
Impairments in profit and loss and other comprehensive income for the period, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Direct costs	-	-	26,465	-	26,465
Finance net	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total net sales	0	0	26,465	0	26,465

Note 9: Available-for-sale assets

The Group has identified certain assets that are unrelated to the core business, which have been reclassified as available-for-sale assets. The assets are recognized at the lower of the carrying amount and net realizable value. The assets consist of the IP rights to the Cinemaware library, which include several titles including Defender of the Crown and Wings. The assets belong to the Starbreeze Games segment.

Note 10: Divested subsidiaries

Net assets at the date companies were divested

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

Net assets disposed	Dhruva Infotech Private Limited 17 maj 2019	Nozon sprl 30 juni 2019
Goodwill	60,326	15,562
Other non-current assets	735	218
Capitalized development cost for own games and technology developi	0	0
Financial assets	4,602	1,978
Fixed assets	3,607	5,295
Trades and other receivables	20,488	13,090
Prepaid expenses and accrued income	1,954	340
Cash and cash equivalents	229	0
Total asset	91,941	36,483
Other non-current liabilities	2,098	862
Other current interest-bearing liabilities	0	5,109
Trade and other payables	5,391	8,762
Accrued expenses and deferred income	867	0
Total liabilities	8,356	14,733
Net assets disposed	83,585	21,750
Net result incl amortizatoin of intercompany receivables	-9,303	-21,296
Selling price	74,282	454
Liquid funds in in divested operations	-229	0
Claims on the tax authority	-7,305	0
TOTAL CASH FLOW IMPACT	66,748	454

Income statements for the divested subsidiaries

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

	2019	2018	2019	2018	2018
SEKk	Q2	Q2	JAN-JUN	JAN-JUN	JAN - DEC
Net sales	7,029	10,154	18,795	19,678	47,433
Direct costs	-8,400	-15,581	-28,992	-32,862	-110,161
Gross profit (-loss)	-1,371	-5,427	-10,197	-13,184	-62,728
Selling and marketing costs	-	-	-	-	-
Administrative expenses	-258	-	-520	-	-
Other revenue	-853	380	375	384	485
Other expenses	-	1,010	-50	-	-1,883
	-	-	-	-	-
Operating profit (-loss)	-2,482	-4,037	-10,392	-12,800	-64,126
Financial income	-	-	-	20	19,801
Financial expenses	-40	-222	-131	-495	-654
Share in profit or loss of holdings accounted for using the equity method	-	-	-	-	-
Profit (-loss) before tax	-2,522	-4,259	-10,523	-13,275	-44,979
Income tax	-4	1,324	651	1,368	-1,948
Net profit (-loss) for the period	-2,526	-2,935	-9,872	-11,907	-46,927
<i>Profit (-loss) including sales expenses</i>	-30,599	-	-30,599	-	-
Profit (-loss) for the period	-33,125	-2,935	-40,471	-11,907	-46,927
Hänförligt till:					
Owners of the parent	-32,998	-3,085	-40,322	-11,913	-46,262
Non-controlling interests	-127	150	-149	6	-665

Note 11: Reclassifications of opening balances from Q4 2018.

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

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

