

STARBREEZE
STUDIOS

Annual Report
2019





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About Starbreeze

22 YEARS OF GAMES DEVELOPEMENT

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

- One of the first independent game developers in northern Europe, founded in 1988.
- Independent games developer and publisher of computer games.
- Listed on Nasdaq Stockholm.

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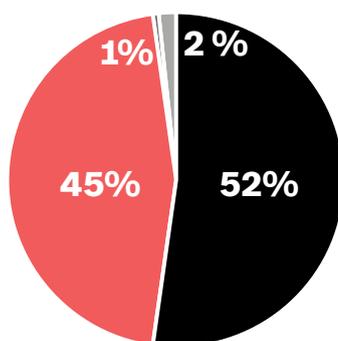
employees in five countries

PAYDAY - Starbreeze own IP



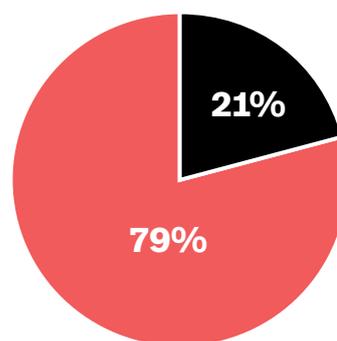
Net sales 2019

Per business area

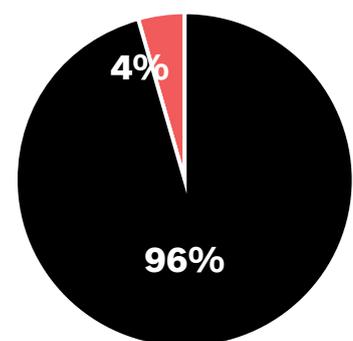


● Publishing ● Starbreeze Games
● VR Tech & Operations ● Other

Per platform



● Console ● PC



● Digital ● Retail



FULL FOCUS ON PAYDAY

On December 6, 2019, we had a successful conclusion to the company reconstruction and arrangements with all creditors had been reached. We are now devoting our full focus to the core business – creating games based on PAYDAY first.

In October, we released new content for PAYDAY 2, which was well received by our community and has resulted in the number of players rising to the highest level in a long time and the turnover for the fourth quarter has been strong.

This bodes well and confirms interest in the future launch of PAYDAY 3 and gives us a solid base to continue working with. As of January 3, sales will gain additional traction as Starbreeze's share of sales from Steam has increased from 70% to 75%.

We are continuing discussions regarding a publishing agreement for PAYDAY 3 and intend to present one before the end of the first half of 2020. PAYDAY is the company's most important IP and we are looking for a good partner who can provide financial stability and possess the marketing and distribution resources necessary to enable the best possible launch and further development of the product.

Discussions on a publishing agreement for PAYDAY: Crime War are ongoing at the same time and we are optimistic that we will be able to present a publishing agreement before the end of the first half of 2020.

During the latter part of 2019, we have continued to focus heavily on developing and strengthening the organization, where the work to create a more efficient organization and a smaller cost suit that is adapted to the current situation has been successful.

The company's current costs have decreased sharply since the start of the reconstruction. This has been achieved

through cost savings and efficiency improvements among staff, purchasing and local use.

After the end of the financial year, a directed share issue of SEK 51.3 million was carried out as part of the company's fulfilment of the Reconstruction Plan to finance the operations. We are pleased that a number of reputable Swedish institutional investors are choosing to believe in our way forward.

In the world around us, events related to COVID-19 are taking place at this very moment. Starbreeze's operations are not directly affected in the short term, but as long as the authorities in each country recommend our staff to minimize their social contacts, the business is conducted through work from home procedures. Due to the fact that most countries strengthen their recommendations for people to stay at home, we have noted an increased demand for our products active in the sales channels. We are closely monitoring developments and working to give our staff security and take our social responsibility, while our production is ongoing.

After a very challenging year, we are now turning the page and looking ahead. We still have hard work ahead of us, but I feel that we are well equipped for the future and I am convinced that we will succeed.

Mikael Nermark
CEO, Starbreeze

The year in figures

- Net sales decreased by 20.0 percent to SEK 280.0 (350.0) million.
- PAYDAY accounted for MSEK 109.4 (97.7) of net sales.
- EBITDA amounted to MSEK -116.5 (-10.3).
- The company has written down assets amounting to MSEK 324.8.
- Profit (- loss) before tax amounted to MSEK -452.4 (-1,347.2).
- Basic and diluted earnings per share amounted to SEK -1.22 (-4.20).
- Cash and cash equivalents amounted to SEK 82.8 (69.3) million at the end of the period.
- The Board of Directors proposes to the Meeting that no dividend be paid for the financial year 2019.

Key data

TSEK	2019	2018
Net sales	280 002	349 955
EBITDA	-116 457	-10 342
Profit (- loss) before tax	-452 424	-1 347 249
Earnings per share	-1,22	-4,20
Cashflow from operations	49 508	49 906
Net sales per employee	1 239	552

Net sales 2019, TSEK

280 002

Net sales 2018: 349 955 TSEK

The year 2019

SIGNIFICANT EVENTS DURING THE YEAR 2019

- In February, May and August, Starbreeze requested an extended reconstruction period. The Stockholm District Court granted at every opportunity that the corporate restructuring could continue.
- On February 5, a five-year distribution agreement was signed for PAYDAY: Crime War with Universal Games and Digital Platforms.
- On February 11, it was announced that Starbreeze had agreed with OtherSide Entertainment to sell back the publishing rights to the game "System Shock 3".
- On February 27, Starbreeze received a termination of the license agreement entitled OVERKILL'S The Walking Dead (OTWD) from Skybound, which owns the rights to the IP.
- On March 7, an extraordinary general meeting was held, which chose to appoint Jan Benjaminson, Torgny Hellström and Kerstin Sundberg as board members for the period up to and through the next Annual General Meeting. Torgny Hellström was elected Chairman of the Board.
- On April 4, Acer Inc. called for a conversion of its convertible in Starbreeze, converting into 4,072,295 new starbreeze B shares.
- On April 26, Starbreeze sold back the rights to the game "10 Crowns" to Mohawk Games.
- On May 12, Starbreeze signed an agreement to sell its shares in the Indian subsidiary Dhruva. The total sales settlement amounted to USD 7.9 million.
- On June 4, the Annual General Meeting was held in Starbreeze. The Meeting resolved that no dividend for the financial year 1 January - 31 December 2018 should be paid. Jan Benjaminson, Torgny Hellström, Harold Kim and Kerstin Sundberg were re-elected to the Board and Tobias Sjögren was elected as a new member. In addition, Stefan Salbe was newly elected as a full member.
- On June 4, a reorganization aimed at streamlining operations and saving costs was initiated. As part of this, the number of employees was reduced by approximately 60 people and a monthly saving of approximately SEK 3 million was fully completed in November 2019.
- On June 9, Starbreeze and Microsoft Corporation signed an agreement in which Starbreeze transferred all publishing rights and commitments to the title Physchonauts 2 to Microsoft for a payment of \$13.2 million.
- On September 19, Universal Games and Digital Platforms decided to phase out most of its mobile gaming publishing business. As a consequence, the cooperation on the publishing contract for PAYDAY: Crime War, signed in February 2019, was terminated.
- On October 11, Starbreeze submitted an assessment of the business's future cash flows due to the ongoing reconstruction. The Company expects cash flow to be positive, based on expected new publishing agreements in 2020 and the expected launch of PAYDAY 3 in 2022-2023.
- On November 7, a new DLC was released for PAYDAY 2, resulting in a number of concurrent players rising to 56,582, the highest level since spring 2018.
- On December 6, Starbreeze's corporate reconstruction was successfully completed and the reconstruction plan was approved by the Stockholm District Court.
- As part of the reconstruction plan, Starbreeze and Smigate agreed on changes in convertible terms, with the due date extended to December 2024 and an additional extension fee of approximately SEK 165 million. The debt is subordinated to other liabilities and runs for five years at zero per cent interest. An agreement was also reached to terminate the cooperation on the Crossfire-related project, which led to an impairment loss of SEK 111 million.

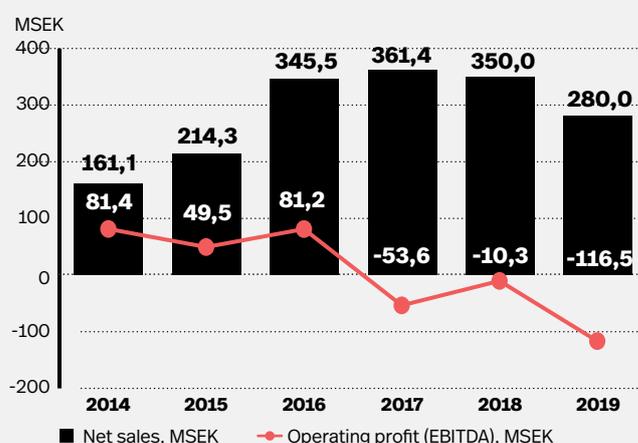
Largest shareholders per March 31, 2020

Shareholder	Holding, %	Votes, %
Societe Generale Securities Services SPA	9.02	24.08
Swedbank Robur ¹⁾	14.77	12.82
Första AP-Fonden	11.91	10.01
Fjärde AP-Fonden	3.12	10.00
Swedfact Holding AB	1.15	3.69
Förs. Bolaget, Avanza Pension	4.81	2.69
Michael Hjorth ²⁾	0.39	1.26
Nordnet Pensionsförsäkringar AB	1,56	0,91
Banque Internationale A Lux	1,81	0,58
Johansson, Stefan	0,19	0,58
Others	51.27	33.38
Total	100.00	100.00

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

²⁾ Direct and indirect via Indian Nation Aktieföretag.

Sales and profit 2014-2019





MARKET



Market

GLOBAL MARKET WHERE GROWTH IS DRIVEN BY NEW TECH AND CONSUMPTION PATTERNS

Starbreeze is active in the global games market and develops games primarily for PC and console, but also for other platforms such as mobile phones. The proprietary games are aimed primarily at hardcore players with a focus on the company's core - the co-op first-person shooter genre.

Starbreeze is active in the global games market and develops games primarily for PC, console and mobile platforms. The proprietary games are mainly in the genre of co-op first-person shooters.

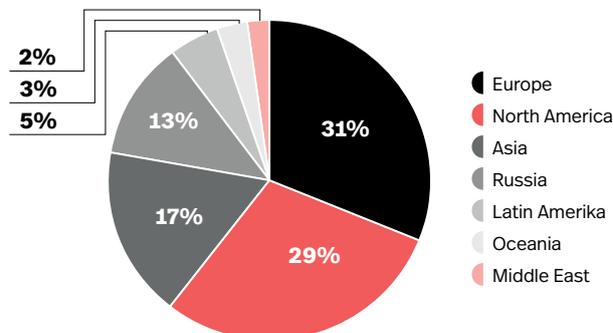
Starbreeze products are sold through platforms such as Steam, PlayStation Store and the Xbox Games Store. Of sales revenue in 2019, North America accounted for about 26 per cent, Europe about 23 per cent and Asia about 47 per cent. Starbreeze sells its products through distributors/platform owners (e.g. Steam, and through console partners such as 505 Games). Starbreeze end customers, i.e. those who play the company's games, are located all over the world. The chart below shows from which regions the players on the compa-

ny's largest digital distribution platform, Steam, come from.

The global gaming market is growing strongly with an estimated annual growth rate (CAGR) of 9 percent¹ over the years 2018-2022. The growth is driven, among other things, by increased gaming in certain target groups and in certain regions, new genres that draw in new players, and new consumption patterns where social platforms such as YouTube and Twitch play a central role.

The gaming market can be commercially divided into three different categories: mobile games, console games and PC games. Despite its global nature, it can also be divided geographically.

Distribution of Starbreeze's revenue from Steam by region, 2019



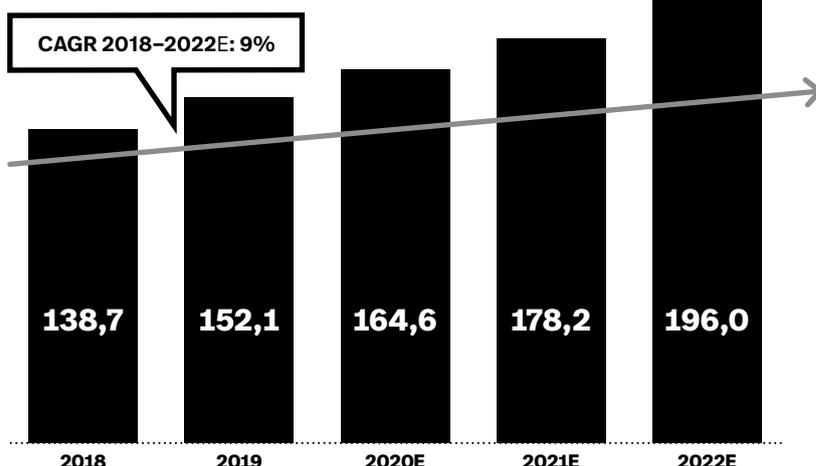
¹Newzoo - 2019 Global Games Market Report: Trends, insights, and projections toward 2022.

Size and growth of the global games market

The global gaming market for all platforms was expected to have a sales of USD 152 billion in 2019, with growth of 9.6 per cent year-on-year.⁴

Most of Starbreeze sales are made digitally through the Steam¹ platform, which means that the importance of physical distribution channels (retail) has decreased and the ability to reach a broader geographic customer base has increased. Starbreeze games are currently played mainly by players in North America's Europe and Asia.

2017-2021E global games market forecast, USDBn⁴⁾



Geographical breakdown of the global gaming market

The largest part of Starbreeze's sales are done digitally through the Steam¹ platform, this means that the importance of physical distribution channels has decreased and the ability to reach a wider geographic customer base has increased. Starbreeze games are mainly used by players in North America and Europe. Asia Pacific is a large and steadily growing market in gaming, making it relevant to Starbreeze.

Size and growth in different geographical areas

Asia (excluding the Middle East) and the Pacific is the largest geographic market segment for gaming globally with a market share of 47 percent of the global gaming market in 2019 in terms of sales. Between 2018 and 2019, this market grew by 7.6 per cent. 1 per cent

North America accounts for a total of 26 percent of the global gaming market,

with growth of 11.7 percent between 2018 and 2019.1 EMEA (Europe), middle east and Africa) account for 23 percent of the global gaming market, with growth of 11.5 percent between 2018 and 2019.⁴

The global gaming market by segment

Console games

Console games are games played on a desktop or handheld console, i.e. a device specifically designed to play games. Examples of successful consoles today are The Playstation 4, Xbox One and Nintendo Switch. A new generation of game consoles is expected to be on the market by the end of 2020, PlayStation

5 and Xbox Series X. Console games are distributed both online via digital download and through retail on DVDs. Games developed into consoles typically have larger production budgets and longer production time compared to mobile games, and are more than mobile games designed for longer-term gameplay. The segment accounted for 32 percent of the

total gaming market in 2019 with revenues of 48 MDUSD. In 2022, total revenue in this segment is expected to reach USD 61 billion or 31 percent of the total global gaming market.⁴

PC Games

PC games include all games played on a PC. Digital sales are growing steadily in

Market data by geographical region, 2019⁴⁾

	Game revenues, USD billion	Growth 2016-2017, %	Number of gamers, millions	Population share of gamers, %	Game revenues per capita, USD ³⁾
Asien och Stillahavsområdet	72	8	1 331	32%	17
Nordamerika	40	12	198	54%	108
Västeuropa	25,7	12	216	53%	63
Latinamerika	5,6	11	253	38%	9
Mellanöstern och Afrika	5	11	360	20%	3
Östeuropa	4	7	156	44%	12
Totalt	152	11	2512	42%	18

¹⁾ A digital distribution platform run by Valve Corporation.

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

³⁾ MMO: Massive Multilayer Online games are games played by a very large number of players concurrently, often online.

⁴⁾ Newzoo - 2019 Global Games Market Report: Trends, insights, and projections toward 2022.

⁵⁾ Game revenues per capita are calculated as total estimated game revenues in the games industry in each geographical region in 2019 divided by the total population of each geographical region in 2019. This should not be confused with game revenues per gamer, which are higher.

this segment, much thanks to increasing global availability of high speed Internet. Steam and Epic Games store are the largest digital storefronts, while new forms of distribution based on streaming technology, e.g. Google Stadia, may grow in the future. The segment accounted for 23 percent of the global gaming market in 2019 with revenues of \$69 MDUSD. In 2022, total revenue in this segment is expected to reach 39 MDUSD or 20 percent of the total global gaming market.

Mobile games

Mobile games are games that are played on a mobile device such as a mobile phone or tablet. These games often have shorter playing time and less extensive gameplay than PC and console games. It generally requires lower development budgets and production time for mobile games than for games developed for PC and console, and games are often designed to suit those players who want to play shorter moments. The mobile

gaming market is based exclusively on digital distribution via platforms such as Apple's App Store and Google Play. The segment accounted for 45 percent of the global gaming market in 2019 with revenues of \$69 MDUSD. In 2022, total revenue in this segment is expected to reach 96 MDUSD or 49 percent of the total global gaming market.⁴

Revenue models

The revenue model for PC and console games often differ from mobile games, but even between PC and console, the revenue model can vary greatly. Below is a selection of the most common revenue models in the games market.

Premium Games

Most games for PC and console are full-price games. Full-price play means that the games are sold at a one-time price. A majority of revenue comes in the near future after the game release, generally within a year. Many full-price games are further developed after its release to generate add-on purchases via download (DLC).

Subscription and streaming games

Subscription requires digital distribution (download or streaming) and means that the player for a monthly fee will have

access to a large number of titles on one or more platforms. The publisher is then paid by the distributor under contract between them. This is a relatively new revenue model, and examples of services include Xbox Game Pass, PlayStation Now, EA Access, and Google Stadia. Playing games via streaming technology is expected to have a greater impact in a few years when mobile 5G technology is more widespread.

Add-on (DLC/Add-ons)

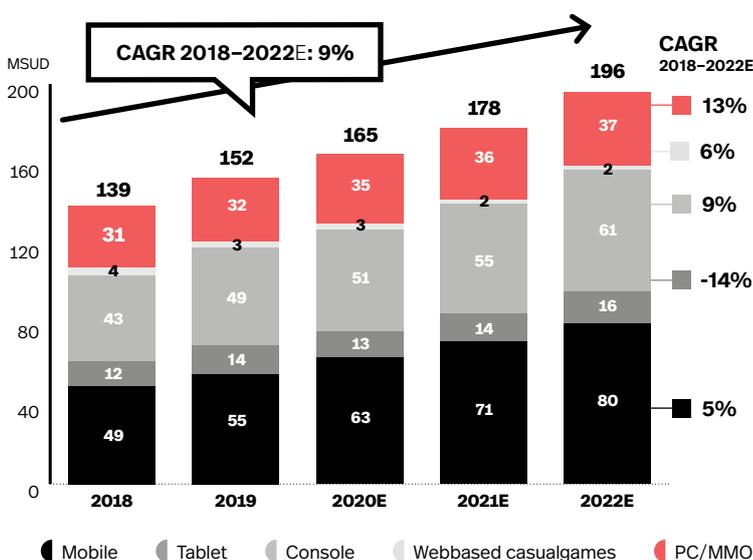
Add-on purchases are purchases that unlock additional content in a game in addition to the basic game that the user already has access to. The increased distribution of games via digital channels has increased opportunities for additional sales for both Premium and Free-to-play games. Add-on purchases are an important factor in extending product life with

continuous production and sales of new content, often using user data analysis and communication with the customer base (community).

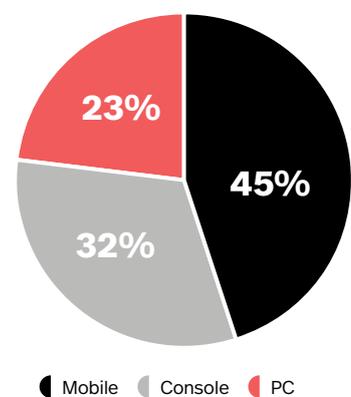
Free-to-play

Free-to-play is a collective term for games where all or part of the game is available for free. Revenue often comes from add-on purchases or purchases of currency or other content inside the game itself. These games sometimes also generate revenue from in-game ads. Free-to-play is particularly common among mobile games, but also occurs among console and PC games. Free-to-play requires a recurring customer base (retention) for the game to generate revenue - therefore, ongoing investment in marketing and user acquisition is often required.

The global games market by segment⁷⁾



Revenue distribution in the global games market by segment 2019⁸⁾



⁴⁾ Ett community är en form av social mötesplats på internet.

⁷⁾ Newzoo - 2019 Global Games Market Report: Trends, insights, and projections toward 2022.

⁸⁾ Newzoo - 2019 Global Games Market Report: Trends, insights, and projections toward 2022. In the graph, tablets are grouped under "Mobile" and webbased casual-games and PC/MMO are grouped under "PC".

The gaming industry's value chain

Developers

Game developers are the creators of the game itself. The composition and size of the development teams vary greatly depending on the type of game worked with, and the teams can consist of a few up to several thousand developers. Game developers are usually divided into two different categories depending on whether they are owned by a publisher or not: Developers owned by a publisher are called internal developers, while other developers are referred to as independent developers.

A greater need for flexibility and control over the staffing of developers in the gaming industry makes it common to outsource parts of a game's development. There are companies that specialize in certain aspects of a game's creation and have as their business model to be subcontractors to other developers.

Owners of intellectual property rights (IP owners)

IP owners are the companies who own

brands on which games are based. IP owners may, for example, be game developers who own the rights to proprietary games themselves, publishers who have acquired a portfolio of trademarks, or, for example, copyright holders of film or book titles on which games are based.

Publisher

The publisher's role is primarily to commercialize game ideas and take full responsibility for the product. This can be done by fully or partially financing game development, monitoring production, quality control, customizing the product and often also distributing and marketing the finished game to retailers. The rights to the game are often owned by the publisher, while development and production are carried out either by independent developers or by the publisher's internal developer. In some cases, the publisher acts solely as a distributor, responsible for the game's launch, marketing and distribution, while the rights are still owned by the developer.

Retailer

The last player in the value chain before the game reaches the end consumer is the retailer. The retailer, or distributor owns the channels through which the games are sold and/or the platforms on which the games are played. Retailers can be physical and/or digital. A significant proportion of games are still sold through traditional retailers, such as Walmart, Amazon or Gamestop, but today a significant part of sales can be contributed to digital channels such as Steam and Epic Store, but also include Sony and Microsoft's console gaming platforms.

Starbreeze's role in the value chain

Starbreeze is today both a developer, publisher for its own games and IP owner with the brand PAYDAY. The games are mainly available for sale through digital channels, where the Steam platform is the largest.

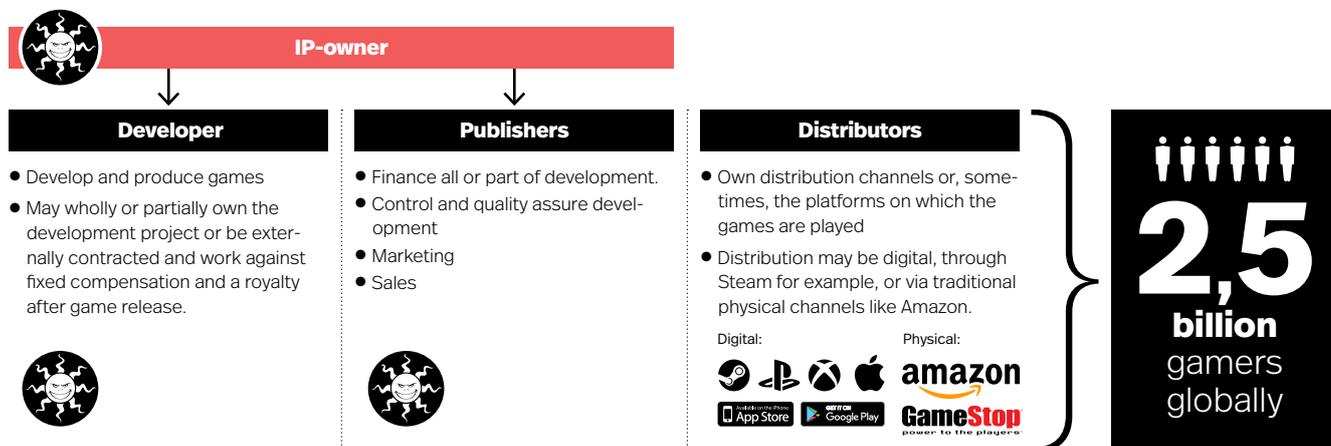
Competition

Starbreeze has a strong competence in its PC and Console game genre as well as a strong brand that can be refined in more segments and product categories. Starbreeze also has games on several platforms with a wide geographical spread. The gaming market is global and the company has both small and large players as competitors from several different regions.

Starbreeze is also active in the mobile gaming market, with the title PAYDAY: Crime War, currently under development. The mobile market is generally characterized by lower initial entry barriers as the games are simpler and do not require as extensive development projects, but over the years have seen an increased investment requirement when the product is to be launched through user

aquisition as direct marketing to potential customers. This has increased the entry barriers for self-placed products without a partner specialising in User Aquisition. In the mobile segment there are a number of major players with several successful titles, such as Tencent and King Digital Entertainment. There are also many smaller developers who have one or a few successful titles.

The games industry value chain







THE PAYDAY IP

PAYDAY

THE PAYDAY IP - THE COMPANY'S STRONGEST ASSET

Founded in 1998, Starbreeze has since developed into a well-established independent developer and publisher of computer and video games. With its main business in Stockholm and with the successful PAYDAY brand in focus, Starbreeze develops games based on its own and others' IPs.

In the past, the game productions were financed entirely by external publishers. In the current development of wholly or partly self-financed games, the company receives a larger share of the revenue generated by the games. Proprietary games are published and distributed by Starbreeze internally through digital platforms and for games sold through physical distribution, contracts are signed with external publishers.

Starbreeze develops games primarily for PC and console, but also for other platforms such as mobile. Starbreeze works mainly with its own well-known own IP Payday. To best develop games with interesting content and ever-growing experiences, the company's development team consists of a mix of experienced developers and developers of the same age as most players. In most game development projects Starbreeze uses

outsourcing of specific parts, but always has its own development teams that control and ensure that established product requirements are met. Developed games are normally sold within the price range of SEK 299-699 through digital distribution channels or physical stores and are available as so-called full-price games.

After a game has been launched, the strategy is to update the game for a long time, according to the business model Games As A Service (GAAS). This is mainly done by continuing to develop the game and creating content in which the community can influence future direction. Starbreeze therefore focuses on developing games with high replayability and the ability to generate a large player base. Further development of games within the same title is released both as free updates as well as updates sold at a small cost, so-called add-on purchases or DLC.

THE PAYDAY IP

The PAYDAY brand was first launched in 2011 with the game PAYDAY: The Heist. After a number of updates and over one million copies sold, the development of PAYDAY 2 began. In August 2013, PAYDAY 2 was released and quickly earned its development cost in less than a month. The brand has been active for 9 years and has over 28 million base games and over 130 million add-on packages on the market.

The success PAYDAY

The basic idea behind Payday is simple, it's a classic cinematic experience where the player impersonates a bank robber with three other people online. Players get different missions and challenges where they take on different tasks and bank robberies in a Hollywood heist spirit. PAYDAY 2 was released on a smaller scale in 2013 but has in the last seven years had more than 190 updates where the content has been released both free and paid. The key to success is the very frequent updates that have increased the incentive for players to continue to engage with the product. The in-game missions also have a high degree of replayability, with certain elements constantly changing, which also contributes to the long life of the content being released.

An active community

An important component of PAYDAY's success is the close dialogue developers bring with the fans of the game. On the Steam digital distribution platform, Payday 2's forum has the largest number of members. Players can immediately provide feedback to the developers and great emphasis is placed on fans to feel involved and influence in the further development of the product.

Relaunch

In 2018, Starbreeze discontinued active support for PAYDAY 2, but decided in 2019 to resume development. In November 2019, the first update for the year was released, giving the game a fresh start and again an increased interest. Starbreeze will continue to develop for PAYDAY 2 and will also develop on the sequel PAYDAY 3, as well as the mobile game PAYDAY: Crime War.



At most

56 582

played PAYDAY 2 simultaneously

during 2019

PAYDAY 2

Launched in August 2013 for PC, PAYDAY 2 is a fast-paced four-player co-op, with the player once again assuming the roles of bank robbers in the PAYDAY gang, Dallas, Hoxton, Wolf and Chains, in a new crime wave over the city of Washington, D.C.

In this sequel to PAYDAY: The Heist, the PAYDAY gang is once again approached by their partner Bain, who this time offers them to come to Washington, D.C. Since launching, over 190 paid and free updates has been released for PAYDAY 2. These include new heists, new functionality, additional playable bank robbers, more weapons, masks and new challenges.

PAYDAY 2 VR

The launch of the VR version of PAYDAY 2 took place in March 2018 and is part of the main game on Steam.

PAYDAY 2: Crimewave Edition

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

PAYDAY 2 for Switch

PAYDAY 2 for Nintendo's Switch platform was launched in February 2018.

PAYDAY: Crime War

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

PAYDAY 3

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



Platforms	
PC, XBOX One, PlayStation 4, Nintendo Switch, Xbox 360 and PlayStation 3	
Genre	Action/Role Play
Publisher	Starbreeze
Release	August 2013
Latest update	February 2020
Official website	crimenet.info
Average score: metacritic.com	Steam users
79%	86%

> **109**
million

SEK in net sales from the internally developed PAYDAY games in 2019.

PAYDAY 2 HAS
> **6,5**
million

community-members on Steam

Starbreeze business model

Starbreeze business model is based on the GAAS model, where the goal is to release DLC bundles and updates for a long period of time after the game is released. In this way, revenues are generated for an extended period and the IP grows. This is extremely valuable in the games industry, as it increases the value of any sequels to the game.

If the IP is owned by Starbreeze and the game has been funded on its own, Starbreeze will receive all revenue after the distribution and platform fee has been deducted. If the game is based on an IP that Starbreeze does not own, the IP owner also receives a portion of the revenue.

For self-funded games, costs are charged for distribution and marketing of Starbreeze. Where there is a co-financier, this cost is normally shared equally. The company normally has the right to recoup these costs before sharing revenue with any IP owner.

Illustrative business model for Starbreeze Games

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

Revenue sharing (if applicable) to external financial backers or external IP owners is additional.

GAME DEVELOPMENT PROCESS

The Starbreeze strategy is to build a flexible, production-oriented and agile organization to enable continuous optimization. The ambition is to create processes that make it possible for creative ideas to grow and develop into in-house IP.

Production method

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

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

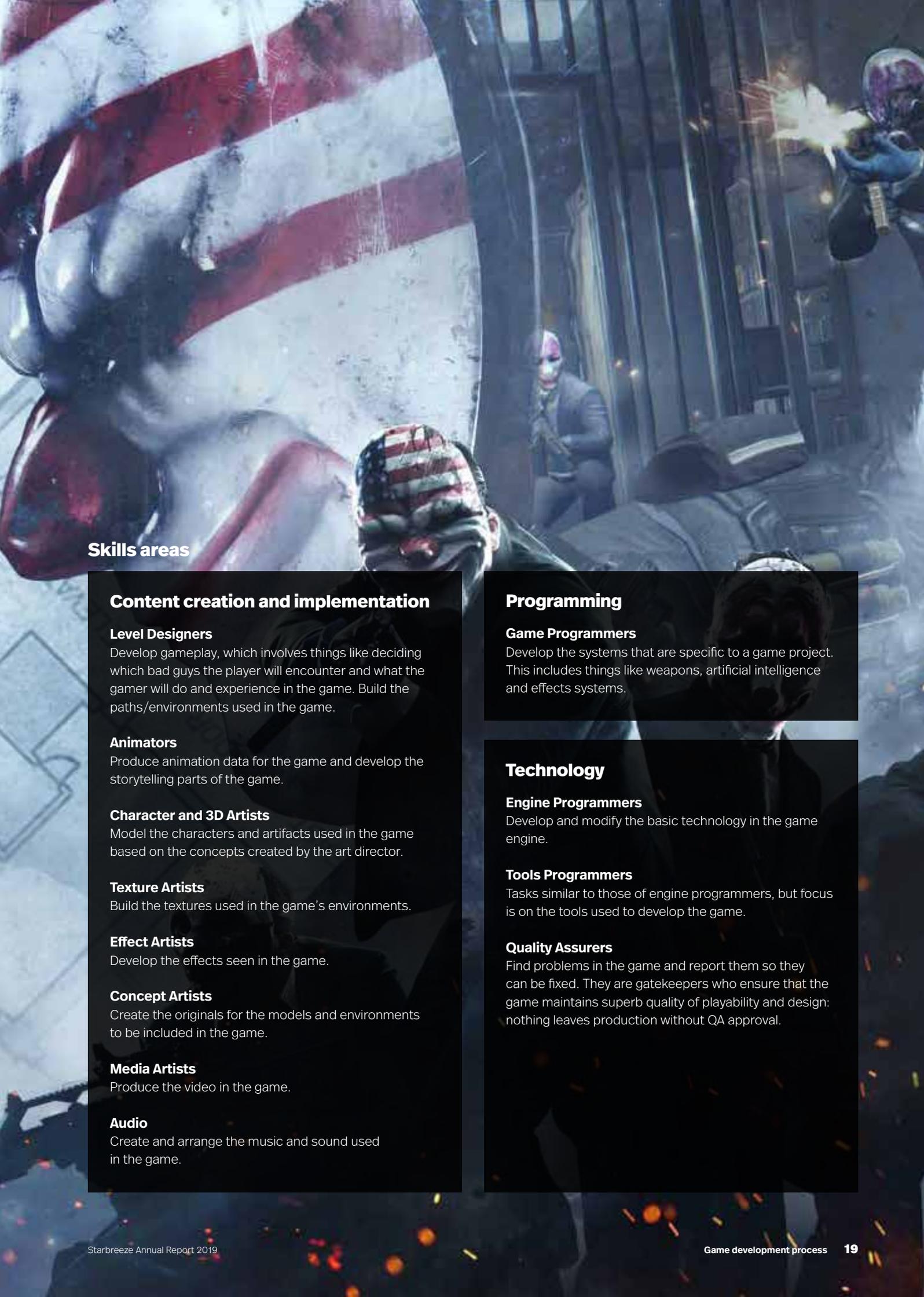
Project organization

The executive producer and producer are ultimately responsible for the project. The executive producer has lead responsibility for the game vision and for ensuring that it is communicated to all parties. The producer has overall responsibility for ensuring that the game project is delivered on time and on budget.

The executive producer is assisted by an art director who drives the visual vision, level designers and QA who design the game mechanics and writers. The producer is supported by associate producers or other co-producers.

Other roles in production include level designers, environment artists, animators, audio designers, audio composers, concept artists, gameplay programmers and quality assurers.





Skills areas

Content creation and implementation

Level Designers

Develop gameplay, which involves things like deciding which bad guys the player will encounter and what the gamer will do and experience in the game. Build the paths/environments used in the game.

Animators

Produce animation data for the game and develop the storytelling parts of the game.

Character and 3D Artists

Model the characters and artifacts used in the game based on the concepts created by the art director.

Texture Artists

Build the textures used in the game's environments.

Effect Artists

Develop the effects seen in the game.

Concept Artists

Create the originals for the models and environments to be included in the game.

Media Artists

Produce the video in the game.

Audio

Create and arrange the music and sound used in the game.

Programming

Game Programmers

Develop the systems that are specific to a game project. This includes things like weapons, artificial intelligence and effects systems.

Technology

Engine Programmers

Develop and modify the basic technology in the game engine.

Tools Programmers

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

Quality Assurers

Find problems in the game and report them so they can be fixed. They are gatekeepers who ensure that the game maintains superb quality of playability and design: nothing leaves production without QA approval.



EMPLOYEES AND ORGANIZATION



Employees and organization

AN ORGANISATION ADAPTED TO THE CORE BUSINESS

Starbreeze is a knowledge-based company that depends on creativity, knowledge and commitment of the employees. The company offers stimulating tasks, with high demands, to driven and committed employees in a multinational and multicultural workplace.

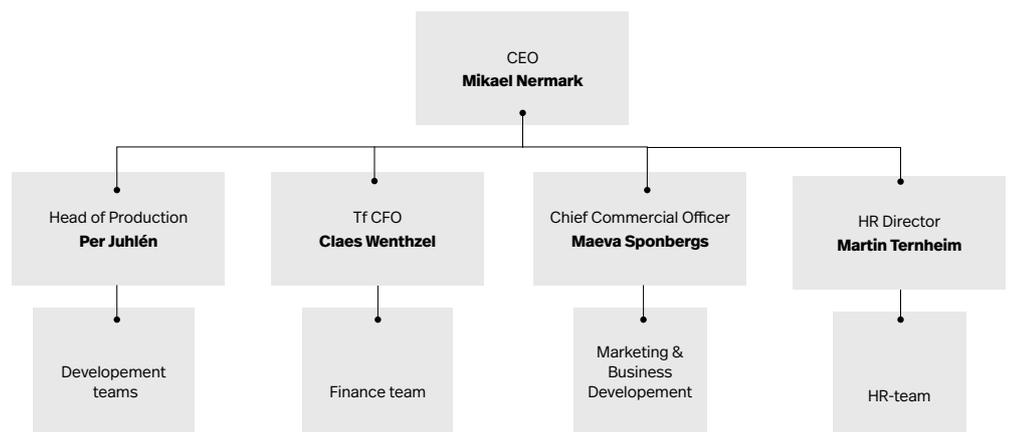
The company's head office is based in Stockholm, where the majority of the company's employees are located.

The company has offices/operations mainly in Sweden, but also parts of the staff in France, Belgium, USA and Spain.

During the financial year, the organization has been adapted to the core business - development of games with PAYDAY in focus.

The business is mainly centered around the development of the company's three main games. PAYDAY 2 is under active development with the team in

Stockholm and the game is available for sale on the steam and console distribution platforms. PAYDAY 3 is the company's next major product and is also being developed in Stockholm. PAYDAY: Crime War is developed for mobile platforms and is mainly created by the development team in Barcelona. In Paris there is a core group of engine programmers and engineers who with their technical expertise support all of the company's projects.



Employee profile

Starbreeze is a knowledge based company that depends on the creativity, knowledge and commitment of employees. Starbreeze's personnel policy is based on offering stimulating tasks, with high demands, to driven and committed employees. The company goes from being a personnel organization where specialists have managed narrow areas, to becoming an organization where employees get more responsibility and challenges through closer cooperation and interaction throughout the product development. The company has gone from a model where a producer stands for overview and details to a cross-functional model where each specialist area is responsible for its competencies through all products and secures details and solves design tasks through its overall expertise. This is done in cross-functional groups by focusing on problem solving where quality is a high priority. This model is based on taking advantage of the now senior development expertise available in the company, while gaining access to the dexterity of the young developers who still live in the middle of the product's user base.

As of December 31, 2019, the number of employees was 127. The corresponding number as of December 31, 2018 was 634. The average number of full-time employees in 2019 was 331, while in 2018 the corresponding number was 604.

The average age at December 31,

2019 was 34 years and the gender distribution was 88 per cent men and 12 per cent women. In order to establish and strengthen its market position, Starbreeze works actively to attract and retain motivated and competent staff, by offering employees clear career paths and space for continuous development. Starbreeze is a multinational and multicultural workplace characterized by an open atmosphere, a positive attitude and a strong team spirit.

Equality

Starbreeze's gender equality work will follow up and improve equality between employees. Gender equality is seen as an important part of a good personnel policy. Gender issues shall be taken into account and conducted in the company's operations. This means that activities should be conducted gender neutrally. Goals for Starbreeze gender equality work:

- All employees' capabilities shall be developed and utilized.
- All employees shall be given equal pay and working conditions as well as development opportunities.
- All employees should be given equal opportunities to combine work and family life.

Employee policy

The basis for Starbreeze's salary strategy is that the salary is set individually taking into account the nature and complexity of the service as well as the employee's

qualifications and work effort. Starbreeze aims to offer:

- Market wages
- Opportunities for advancement and career development. A workplace characterized by an open atmosphere, positive attitude and strong camaraderie.
- A multinational and multicultural workplace that offers exciting contacts, which encourages self-awareness and open attitudes.
- Opportunity to develop knowledge through cooperation with employees from many different countries, cultures and backgrounds.

Working environment

A good and safe working environment is an important issue for Starbreeze. The goal of Starbreeze's work environment work is to create a physically, mentally and socially sound and developing workplace for all employees, where risks of occupational injuries and work-related ill-health are prevented.

Starbreeze continuously evaluates the company's efforts in the field of health and safety at work in order to be able to make continuous improvements in its daily work environment. The requirements of the work shall be adapted to the employees' conditions in both physical and psychological terms. Measures to improve the working environment have positive effects for both individuals and the company.

The task of creating a good working environment places great demands on both the company and the individual employee. The work environment is a common concern for the company and its employees. It shall be conducted systematically in cooperation where everyone has the responsibility to participate. Measures to change the working environment shall be characterised by a holistic approach to all the factors that affect people at work.

Monitoring and development of the working environment shall be a natural part of all activities within the company. Employees should not only know what risks may exist, but also be able to avoid the risks.

Values

The following values should permeate the operations at Starbreeze and contribute to Starbreeze being perceived as an attractive employer in the industry.

Employees per December 31, 2019

Office	Country	Main office	Total
Stockholm	Sweden	Yes	95
Paris	France	No	15
Brussels	Belgium	No	9
Los Angeles	USA	No	7
Barcelona	Spain	No	1
Total			127

Employee key data

	Full year 2019	Full year 2018	Full year 2017	Full year 2016
Average number of employees	331	634	278	151
Number of employees at the end of the year	127	604	650	212
Proportion of women, %	12	12	12	17
Average age, years	34	32	31	34
Net sales per employee, SEKk	846	552	1 300	2 288



Team-oriented

We value trust and openness; communication where the team's performance trumps the individual's performance. Creative freedom should be found in game development, as well as freedom for employees to work with the games they are passionate about, all within set cost and time frames.

Ownership

We are dedicated to delivering with high quality and precision and ensuring that everyone takes their own responsibility. Quality should be delivered throughout the work process, from execution to end result, so that the gamer gets a high-quality gaming experience well worth the time

spent on Starbreeze's various games and experiences. We make sure we get things done!

Solution-oriented

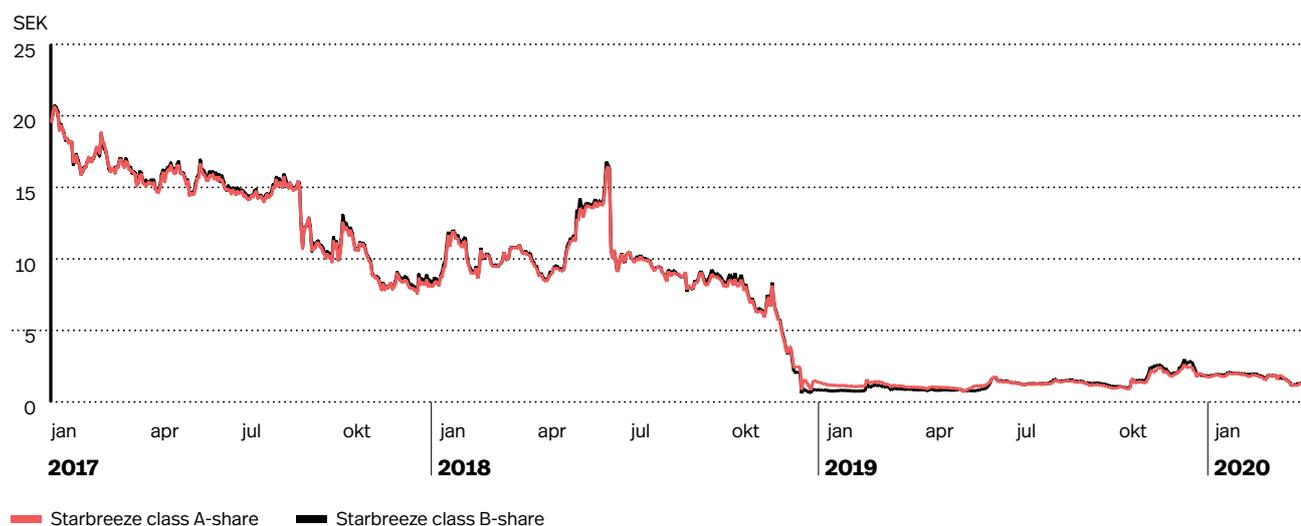
We always present solutions based on analyses of identified problems. What we do should be value creation for Starbreeze, the customers and the shareholders.

THE SHARE AND SHAREHOLDERS

The Starbreeze-share

Starbreeze share has been listed on Nasdaq Stockholm in the Small Cap segment since October 2, 2017. The shares are traded under the same short name and ISIN code, STAR A and STAR B, SE007158928 and SE0005992831 respectively. At year-end, the closing price was SEK 1.85 (1.23) for the class A share and SEK 1.86 (0.82) for the class B share and the total market capitalisation was SEK 612 (289) million. Since April 2019, Starbreeze A-share has been traded on Nasdaq's Auction Only segment

Performance of Starbreeze Class A and Class B shares from January 1, 2017 to March 31, 2019



Share capital

According to Starbreeze's Articles of Association, approved by the Company's Annual General Meeting on November 12, 2015, the share capital shall amount to a minimum of SEK 3,000,000 and a maximum of SEK 12,000,000. The number of shares shall be no less than 150,000,000 and not more than 600,000,000. Shares can be issued in two classes; Class A shares and Class B shares. According to the Articles of Association, A shares are to be converted into Class B shares at the request of the owners of such shares. The Articles of Association do not contain any special provisions on redemption. All shares are freely transferable.

As of December 31, 2019, the number

of outstanding shares was 329,367,849 shares (325,295,554 shares), each with a quota value of SEK 0.02, corresponding to a share capital of SEK 6,587 thousand (6,506 KSEK). As of December 31, 2019, the number of Class A shares was 53,001,992 (53,490,727) and the number of Class B shares was 276,365,857 (271,804,827). One Class A share accounts for ten votes and one B share one vote.

Each person entitled to vote, may vote at the Annual General Meeting for the full number of shares owned and represented without limitation in the voting rights. All shares entail equal rights to share in Starbreeze's assets and profits.

In 2019, the number of shares increased by 4,072,295 through Acer's use of its convertibles, with the number of Class B shares increasing by 4,072,295. In 2019, 488,735 Class A shares were converted into Class B shares. See table on page 25.

History of share capital

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

Year	Transaction	Increase of share capital	Total share capital	Increase in the number of shares	Total number of shares	Quotient value, SEK
2015	New issue	72 000	4 421 560	3 600 000	221 077 987	0,02
2015	New issue	31 562	4 453 122	1 578 120	222 656 107	0,02
2015	Exercise of warrants	32 449	4 485 572	1 622 469	224 278 576	0,02
2015	New issue	99 900	4 585 472	4 995 000	229 273 576	0,02
2015	Exercise of warrants	180	4 585 652	8 992	229 282 568	0,02
2015	Exercise of warrants	9 150	4 594 802	457 495	229 740 063	0,02
2015	Exercise of warrants	12 421	4 607 222	621 028	230 361 091	0,02
2016	Exercise of warrants	28 250	4 635 472	1 412 499	231 773 590	0,02
2016	Exercise of warrants	22 077	4 657 549	1 103 862	232 877 452	0,02
2016	New issue	192 401	4 849 950	9 620 031	242 497 483	0,02
2016	Exercise of warrants	12 718	4 862 667	635 879	243 133 362	0,02
2016	Exercise of warrants	4 115	4 866 783	205 769	243 339 131	0,02
2016	Exercise of warrants	500	4 867 283	24 996	243 364 127	0,02
2016	Exercise of warrants	6 923	4 874 206	346 152	243 710 279	0,02
2016	New issue	218 684	5 092 890	10 934 211	254 644 490	0,02
2016	Exercise of warrants	14 200	5 107 090	709 988	255 354 478	0,02
2016	New issue	36 242	5 143 332	1 812 114	257 166 591	0,02
2016	Exercise of warrants	21 800	5 165 132	1 089 985	258 256 576	0,02
2016	New issue	329 060	5 494 192	16 452 991	274 709 567	0,02
2016	New issue	1 791	5 495 982	89 543	274 799 110	0,02
2016	New issue	20 977	5 516 959	1 048 842	275 847 952	0,02
2016	Exercise of warrants	9 955	5 526 915	497 768	276 345 720	0,02
2016	Exercise of warrants	10 680	5 537 595	534 000	276 879 720	0,02
2016	Exercise of warrants	1 000	5 538 594	49 992	276 929 712	0,02
2017	Exercise of warrants	4 615	5 543 210	230 768	277 160 480	0,02
2017	Exercise of warrants	40 000	5 583 210	2 000 000	279 160 480	0,02
2017	Exercise of warrants	9 173	5 592 383	458 652	279 619 132	0,02
2017	New issue	21 424	5 613 807	1 071 203	280 690 335	0,02
2017	Exercise of warrants	23 550	5 637 357	1 177 520	281 867 855	0,02
2017	Exercise of warrants	3 000	5 640 357	150 003	282 017 858	0,02
2017	New issue	20 152	5 660 509	1 007 578	283 025 436	0,02
2017	Exercise of warrants	250	5 660 759	12 504	283 037 940	0,02
2018	New issue	413 636	6 074 395	20 681 797	303 719 737	0,02
2018	New issue	404 960	6 479 354	20 247 981	323 967 718	0,02
2018	Exercise of warrants	24 633	6 503 987	1 231 650	325 199 368	0,02
2018	Exercise of warrants	1 924	6 505 911	96 186	325 295 554	0,02
2019	Conversion of Convertible Loan	81 446	6 587 357	4 072 295	329 367 849	0,02
2020	New issue	658 735	7 246 092	32936784	362 304 633	0,02

Shareholders

Starbreeze had 29,152 shareholders (29,680 shareholders) as of December 30, 2019, of which 15 percent were foreign. 74 percent of the shareholders were male, 23 percent female and 3 percent legal entities. The holding of legal entities represented 58% of the share capital. See list of the company's ten largest shareholders below.

Shareholders per March 31, 2019

Shareholders	Class A shares	Class B shares	Total	Holding, %	Voting rights, %
Societe Generale, Securities Services SPA	26 657 287	6 018 948	32 676 235	9.02	24.08
Swedbank Robur ¹⁾	10 180 153	43 327 893	53 508 046	14.77	12.82
Första AP-Fonden	7 795 179	35 370 596	43 165 775	11.91	10.01
Fjärde AP-Fonden	11 320 895	0	11 320 895	3.12	10.00
Swedfact Holding AB	4 173 890	0	4 173 890	1.15	3.69
Förs. Bolaget, Avanza Pension	1 450 029	15 980 220	17 430 249	4.81	2.69
Michael Hjort ²⁾	1 429 105	0	1 429 105	0.39	1.26
Nordnet Pensionsförsäkring AB	515 508	5 126 606	5 642 114	1.56	0.91
Banque Internationale A Lux	0	6 560 892	6 560 892	1.81	0.58
Johansson, Stefan	650 000	35 860	685 860	0.19	0.58
Other	21 358 195	164 353 377	185 711 572	51.27	33.38
Total	85 530 241	276 774 392	362 304 633	100	100

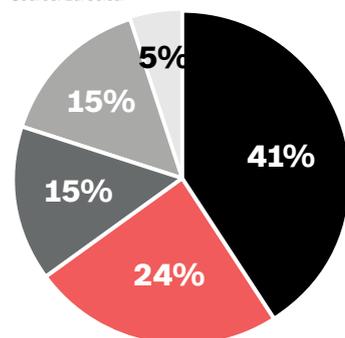
Source: Euroclear

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

²⁾Direct and via Indian Nation Aktiebolag.

Distribution of equity by shareholder category per March 31 2019

Source: Euroclear



- Swedish individuals
- Financial legal entities
- Pension insurance funds
- Foreign owners
- Other legal entities

Distribution of shares by holding March 31 2019

Holding	Number of shareholders	Number of Class A shares	Number of Class B shares	Holding, %	Voting rights, %
1-500	13 141	535 370	1 625 011	0.6	0.62
501-1 000	3 825	661 552	2 328 588	0.83	0.79
1 001-5 000	7 369	3 248 825	14 837 614	4.99	4.18
5 001-10 000	2 038	2 247 353	13 001 814	4.21	3.13
10 001-15 000	790	1 267 608	8 500 807	2.7	1.87
15 001-20 000	516	1 399 930	7 825 077	2.55	1.93
20 001-	1 473	76 169 603	228 655 481	84.14	87.48
Sum	30 249	53 397 677	271 897 877	100.00	100.00

Source: Euroclear

Outstanding incentive programs

Warrant program 2018/2021

At the Annual General Meeting in May 2018, a decision was taken on a special share-based incentive program for senior executives and certain other key employees, in order to handle new recruitments and promotions. In total,

up to 3,000,000 warrants, entitled to subscribe for 3,000,000 class B shares, may be issued under the special incentive program with a maturity of three years, with a strike price equal to 200 percent of the share price at the time (22.73 SEK). As of December 31, 2019, 625,275 of these

warrants were all issued with a maturity until June 2021.

As of December 31, 2019, none of the warrants in the warrant program have been exercised. For further information, see Note 31.

Dividend and dividend Policy

Starbreeze intends to use the cash flow generated to finance the continued development and growth of the business and thus not to pay dividends in the next few

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

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

Authorizations

The Annual General Meeting on June 4, 2019 resolved to issue an authorization to the Board of Directors on one or more occasions, until the end of the next Annual General Meeting, with or without deviation from the shareholders' preferential rights, decide on a new issue of

shares, both Class A shares and Class B shares, or of convertibles or warrants entitled to Class A shares and/or Class B shares, equivalent (in the exercise of such convertibles or options where applicable) a maximum of ten per cent of the outstanding at any time number of shares,

for cash payment (but not by set-off or in kind). The issue price shall not be less than a market price. Other conditions are decided by the Board of Directors and shall be market-based.

CORPORATE GOVERNANCE

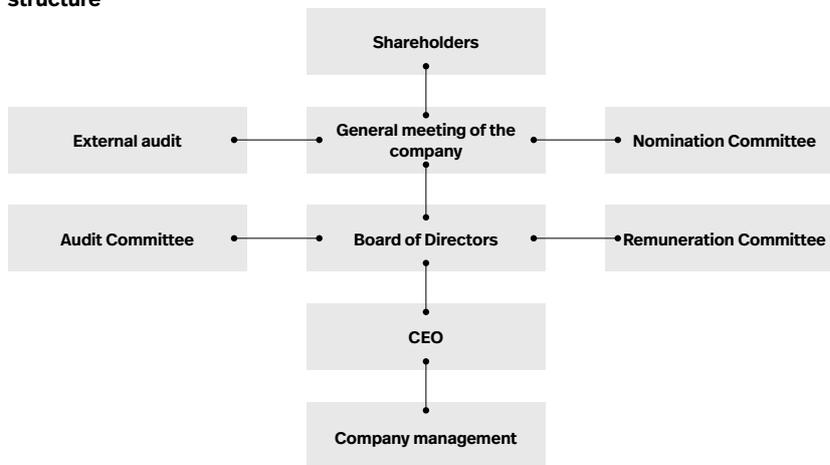
About corporate governance

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

The internal control documents mainly include the Board's rules of procedure, the CEO instruction, instructions for financial reporting and authorization and finance policy manuals. In addition, Starbreeze also has a number of policy documents and manuals that contain rules and recommendations, which include principles and provide guidance in the company's operations as well as for its employees.

Companies that apply the Code are not obliged to comply at all times with every rule included in the Code. If the

Starbreeze corporate governance structure



company finds that a certain rule does not suit the company's particular circumstances, the company may choose an alternative solution, provided that the company then provides details of such deviation and the alternative solution (in accordance with the 'comply-or-explain' principle). Starbreeze has been applying

the Code since October 2, 2017, when the company was listed on Nasdaq Stockholm. Ahead of the 2019 Annual General Meeting, the company noted one deviation from the Code according to section 10.3, third paragraph – information that was unavailable three weeks prior to the meeting.

Annual General Meeting

The shareholders' influence in the company is exercised at the general meeting of the company, which is the company's highest decision-making body. Any shareholder who, on the record date for the general meeting, is entered in the share register maintained by Euroclear Sweden AB and recorded in a VPC register or in a securities account has the right to participate, in person or via an authorized representative. The meeting may decide on all matters concerning the company which do not explicitly fall under the exclusive competence of another company body under the Swedish Companies Act or the articles of association. For example, the meeting may resolve on increasing or decreasing the share capital, amendments to the articles of association and the company going into liquidation. With regard to the issue of new shares, convertible shares or warrants, in addition to resolving on such issues itself the meeting also has the opportunity to grant authority to the Board of Directors to resolve on such issues. Each shareholder,

regardless of the size of their shareholding, has the right to have a specific matter addressed at the general meeting of the company. Shareholders who wish to exercise this right must submit a written request to the company's Board of Directors. Such a request should normally be received by the Board of Directors in time for the matter to be included in the notice convening the general meeting of the company.

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

the company's auditors.

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

Notice convening a general meeting of the company shall be published via an advertisement in Post- och Inrikes Tidningar and on the company's website. When the convening notice is published, information that notice has been given shall be advertised in Dagens Industri. Notice convening ordinary general meetings of the company and extraordinary general meetings where amendments to the articles of association are to be addressed will be issued no earlier than six (6) and no later than four (4) weeks prior to the general meeting of the company. Notice

convening other extraordinary general meetings will be issued no earlier than six (6) and no later than three (3) weeks prior to the general meeting of the company. The minutes of meetings are made available on the company's website no later than two weeks after the meeting.

In the 2019 financial year, the Annual

General Meeting took place on June 4, 2019. On

March 7, 2019, an extraordinary general meeting was held at which it was resolved, as proposed by the Nomination Committee, to elect Jan Benjaminson, Torgny Hellström and Kerstin Sundberg as new directors for the period up to

and including the next Annual General Meeting.

During the 2020 financial year, one extraordinary general meeting has so far taken place. The next Annual General Meeting is scheduled to take place on May 13, 2020.

Nomination Committee

At the Annual General Meeting on June 4, 2019, a decision was taken to adopt a procedure for the appointment of a nomination committee prior to forthcoming AGMs.

In accordance with this procedure, the Nomination Committee will consist of the Chairman of the Board and a maximum of four members, who will be appointed by the largest shareholders or groups of shareholders in terms of voting rights. The four largest shareholders in terms of voting rights will be contacted on the basis of the company's list of registered shareholders at the last banking day in August, provided by Euroclear. Any shareholder who is not registered in Euroclear and who wishes to be represented on the Nomination Committee must notify the Chairman of the Board no later than September 1 and be able to confirm the nature of their ownership. In assessing which shareholders are the four largest in terms of voting rights, a

group of shareholders shall be deemed to be an owner if they (i) have been grouped as owners in the Euroclear system, or (ii) have announced and communicated to the company in writing that they have entered into a written agreement to take a long-term, collective approach to the company's management through the coordinated exercising of voting rights. The Chairman of the Board shall, as soon as possible after the end of August, convene the four largest shareholders in the company in terms of voting rights to form the Nomination Committee. If one of the four largest shareholders in terms of voting rights waives their right to appoint a member to the Nomination Committee, the next shareholder in order of size will be given the opportunity to appoint a member, but no more than ten shareholders need be consulted. The chairman of the Nomination Committee shall, unless the members agree otherwise, be the member representing the largest

shareholder. The names of the committee members and the names of the shareholders who appointed them and details of how to contact the Nomination Committee shall be published as soon as the Nomination Committee is appointed, which will be no later than six months prior to the Annual General Meeting.

The term of office of the Nomination Committee extends up until the appointment of a new Nomination Committee. No fees are paid to the members of the Nomination Committee. However, the company will reimburse reasonable costs incurred by the Nomination Committee in performing its duties.

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

Composition of the Board of Directors

Name	Audit and Remuneration Committee	Held post since	Independent of company/shareholders	Attendance Board meetings	Attendance Audit Committee	Attendance Remuneration Committee
Torgny Hellström	Audit Committee and Remuneration Committee	2019	Yes/Yes	19/19	8/8	1/1
Kerstin Sundberg	Audit Committee (Chair)	2019	Yes/Yes	19/19	8/8	-
Jan Benjaminson	Audit Committee	2019	Yes/Yes	19/19	8/8	-
Harold Kim	-	2016	No/No	11/19	-	-
Stefano Salbe	-	2019	No/No	6/9	-	-
Tobias Sjögren	Remuneration Committee	2019	Yes/Yes	8/9	-	1/1
Matias Myllyrinne	-	2013	Yes/Yes	8/10	-	-

of auditors and auditors' fees and how the Nomination Committee is to be appointed.

The members of the Nomination Committee shall be published on the company's website no later than six months

Board of Directors

The tasks of the Board of Directors

The Board of Directors bears ultimate responsibility for the company's organization and management of the company's operations, which are conducted in the interests of the company and all shareholders. Some of the Board's main tasks include managing strategic issues regarding operations, financing, establishments, growth, earnings and financial position, and to monitor the company's financial situation on an ongoing basis. The Board of Directors also makes sure that effective systems are in place to monitor and control the company's operations, and ensures that the company's disclosure of information is transparent, accurate, relevant and reliable.

Size and composition of the board

According to Starbreeze's articles of association, the Board of Directors shall consist of a minimum of three and a maximum of eight directors with a maximum of two deputies. Directors are normally elected annually at the Annual General Meeting for the period until the end of the next Annual General Meeting, but additional directors may be elected during the year at an extraordinary general meeting.

At the time of the publication of the Annual Report, the Board of Directors consists of six individuals: Torgny Hellström (Chairman), Kerstin Sundberg, Jan Benjaminson, Tobias Sjögren, Harold Kim and Stefano Salbe.

At the 2019 AGM, directors Jan Benjaminson, Torgny Hellström, Harold Kim and Kerstin Sundberg were re-elected, and Tobias Sjögren and Stefano Salbe were elected as new directors.

All directors are elected for the period until the end of the next Annual General Meeting, which will be held on May 13, 2020. However, each director is entitled to step down from the Board at any time.

The Nomination Committee has concluded that Torgny Hellström, Jan Benjaminson, Kerstin Sundberg and Tobias Sjögren are independent in relation to both the company and company man-

agement, as well as major shareholders.

The company's Nomination Committee for the 2020 Annual General Meeting and for the period until the appointment of a new Nomination Committee consists of: Ulf Virgin (Digital Bros), Åsa Nisell

and statutory Board meeting. The composition of the Board thus satisfies the Code's requirements in terms of independence.

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

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

Chairman of the Board

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

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

Board procedures

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

(Swedbank Robur Fonder), Ossian Ekdahl (Första AP-fonden), Michael Hjorth (Indian Nation) and Torgny Hellström (Chairman of the Board).

statutory Board meeting.

During the 2019 financial year, 19 minutes meetings took place. Details of each director's attendance at Board and committee meetings are provided in the table on page 29.

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

Board committees

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

Audit Committee

The Audit Committee is responsible for preparing the Board's work of quality assuring the company's financial reporting. Furthermore, the Audit Committee establishes guidelines for which non-audit services the company may procure from the company's auditors. The committee is also tasked with forwarding its evaluation of the audit work to the Nomination Committee in the preparation of the Nomination Committee's proposal for the Annual General Meeting regarding the election of auditors and the amount of the audit fee. During the 2019 financial year, the Audit Committee consulted with the company's auditors on the existing accounting assessments. Furthermore, the Audit Committee has proposed measures regarding the company's ongoing internal controls in connection with the Group's adjusted operations.

Since the statutory Board meeting following the 2019 AGM, the Audit Committee has consisted of: Kerstin Sundberg (chair), Jan Benjaminson and Torgny Hellström.

Remuneration Committee

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

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

Since the statutory Board meeting following the 2019 AGM, the Remuneration Committee has consisted of: Torgny Hellström (chairman) and Tobias Sjögren.

Remuneration of directors

The remuneration of directors elected by the Annual General Meeting is decided by the general meeting of the company. At the Annual General Meeting on June 4, 2019, it was resolved that a fee of SEK

950,000 would be paid to the Chairman of the Board and SEK 280,000 each to other directors who are not employees of the company, with the exception of Stefano Salbe, who has declared that he would waive remuneration.

In addition, the Annual General Meeting approved a fee of SEK 75,000 each to the chairman and member of the Remuneration Committee. A fee of SEK 400,000 was decided on for the chair of the Audit Committee and SEK 175,000 to its members. Fees are paid to the auditor according to approved invoices. Directors' fees for 2019 are detailed on page 31.

Evaluation of board performance

The work of the Board of Directors is evaluated annually for the purposes of developing the board's working methods and efficiency. The Chairman of the Board is responsible for such evaluation and for

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

In 2019, an evaluation of the Board's work was carried out and presented to the Nomination Committee. The Nomination Committee discussed what experiences and skills are required on the Board, including in light of the now completed corporate restructuring process and core operations as defined by the company.

CEO and other senior management

Tasks of the CEO and other senior management

The CEO is appointed by the Board of Directors and oversees the Group's day-to-day management in accordance with the Board's guidelines and instructions. The CEO is responsible for keeping the Board informed of the company's development and reporting on material deviations from established business plans

and on events that have a major impact on the company's performance and operations, and for producing relevant decision-making documentation for the Board, for example, regarding establishments, investments and other strategic issues. Group management, led by the company's CEO, consists of persons responsible for significant business areas within Starbreeze.

Remuneration of the CEO and other senior management

Salaries, variable remuneration and other benefits were paid to senior management personnel in 2019, including the CEO, in a total amount of SEK 28,946 thousand (28,946). Share-based remuneration amount to SEK 27 thousand (27). Defined contributions to pension plans are paid for senior management personnel corre-

Board and senior management, 2019 see note 12 & 13 for details	Base pay/ director's fee, SEKK	Variable pay, SEKK	Other benefits, SEKK	Pension expense, SEKK	Share- related pay, SEKK	Total, SEKK	Allocated employee and director stock options	Remaining employee and director stock options	Allotted warrants	Remaining warrants
Michael Hjorth, director/chairman	118	-	-	-	-	118	-	-	-	-
Matias Myllyrinne, director	88	-	-	-	-	88	-	-	-	-
Torgny Hellström, Chairman of the Board	1 175	-	-	-	-	1 175	-	-	-	-
Jan Benjaminson, director	395	-	-	-	-	395	-	-	-	-
Harold Kim, director	373	-	-	-	-	373	-	-	-	-
Kerstin Sundberg, director	602	-	-	-	-	602	-	-	-	-
Tobias Sjögren, director	207	-	-	-	-	207	-	-	-	-
Stefano Salbe, director	-	-	-	-	-	0	-	-	-	-
Mikael Nermark, CEO.	5 847	2 095	176	246	-	8 364	-	-	-	100 000
Other senior manage- ment personnel; average of 2.6 individuals, 3 indi- viduals at year-end	8 598	-	32	352	-	8 982	-	-	-	-
TOTAL	17 403	2 095	208	598	-	20 304	-	-	-	-

sponding to costs under the ITP plan.

Costs for share options granted to employees were charged against profit and loss for 2019 in the amount of SEK 983 thousand (983), see Note 13.

Guidelines for remuneration of senior management personnel

The Swedish Companies Act requires the general meeting to decide on guidelines for remuneration of the CEO and other senior management personnel. At the Annual General Meeting on June 4, 2019, the guidelines proposed by the Board of Directors for remuneration of the company's senior management personnel were adopted as detailed below.

The company will offer market-based terms that enable the company to recruit and retain skilled personnel. Remuneration of company management will consist of fixed pay, pension benefits and other standard benefits. In addition, the Board evaluates on an annual basis whether share-based or share price-based incentive programs should be proposed to the AGM.

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

The Board of Directors also decides on variable remuneration in the form of cash bonuses to the company's senior management personnel. Variable remuneration on an annual basis is capped at 75 percent of the fixed annual salary of the CEO and 50 percent of the fixed annual salary of other senior management personnel.

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

The CEO is required to give six months' notice of resignation and the company is required to give nine months' notice of termination of employment. Notice periods for other senior management personnel range from three to nine months. There are no agreements on severance pay.

The Board of Directors is entitled to deviate from the guidelines above if it finds that there are special circumstances to justify such a deviation.

The Board of Directors' proposal for guidelines for remuneration to senior

management for the 2020 AGM

These guidelines include senior management of Starbreeze, who are those who from time to time are part of the Company's management team. The guidelines shall apply to remuneration agreed upon, and changes made to already agreed remuneration, after the guidelines have been adopted by the Annual General Meeting. The guidelines shall apply to remuneration agreed upon, and changes made to already agreed remuneration, after the guidelines have been adopted by the Annual General Meeting. The guidelines do not cover remuneration decided by the Annual General Meeting.

In the case of employment relationships subject to rules other than Swedish, appropriate adjustments may be made to comply with mandatory such rules or local practices, in which case the overall purpose of these guidelines shall be met.

The guidelines' promotion of the company's business strategy, long-term interests and sustainability

The company's business strategy is briefly as follows.

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

Starbreeze's main business consists of its own development of video and computer games, which are financed in whole or in part from own resources. The majority of the company's employees have as their main occupation to develop the company's products. The games are then distributed mainly through digital platforms such as Steam, or in partnership with other companies for physical distribution. The company's end customer is the consumers who buy the game through the different gaming platforms or retailers.

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

The Company shall offer market conditions that allow the Company to recruit and retain competent personnel.

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

The forms of compensation, etc.

Remuneration to senior management may consist of fixed salary, variable remuneration, pension and other customary benefits. In addition, the Board of Directors shall annually evaluate whether share-based or share price-related incentive programs should be proposed to the Annual General Meeting. Such share-based or share price-related incentive programs are decided by the Annual General Meeting and are therefore not covered by these guidelines.

As a general rule, the fixed salary is reviewed once a year and shall take into account the individual's qualitative achievement. Remuneration to the CEO and other senior management shall be market-based.

The Board of Directors shall also decide on variable remuneration in the form of cash bonuses to the Company's senior management. The variable remuneration shall be linked to predetermined and measurable criteria. Variable remuneration on an annual basis may not exceed 75 per cent of the fixed annual salary of the Managing Director and 50 per cent of the fixed annual salary of other senior management.

For the CEO and senior management, defined contribution pension contributions are paid corresponding to the cost according to the usual ITP plan.

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

In the case of employment relationships subject to rules other than Swedish, in the case of pension benefits and other benefits, appropriate adjustments are made to comply with mandatory such rules or local practices, with the overall purpose of these guidelines being met.

Termination of employment

In the event of termination by the CEO, there is a notice period of six months and termination by the Company is subject to a notice period of nine months.

Other senior management shall have a notice period of three to nine months. There shall be no severance pay.

In addition, compensation for any restriction of competition may be paid. Such compensation

shall compensate for any loss of income and shall be paid only to the extent that the former executive is not entitled to severance pay. The remuneration shall not exceed 60% of the fixed

cash salary at the time of termination, subject to mandatory collective bargaining rules, and shall be paid for the period of the commitment to restrict competition, which shall be increased by no more than 18 months after the termination of employment.

Salary and conditions of employment for employees

When preparing the Board's proposal for these remuneration guidelines, the salary and terms of employment for company's employees have been taken into account by taking into account data on employees' total remuneration, components and the increase and rate of increase in compensation over time have formed part of the committee's and the Board's decision-making documents in evaluating the fairness of the guidelines and the limitations resulting from them.

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

The Board of Directors has set up a remuneration committee. The committee's tasks include preparing the Board's proposal for guidelines for remuneration to senior management. The Board of Directors shall draw up proposals for guidelines at least every four years and submit the proposal for a resolution at the Annual General Meeting. The guidelines shall apply until new guidelines are adopted by the General Meeting. The Remuneration Committee shall also monitor and evaluate variable remuneration programmes for company management, the application of guidelines for remuneration to senior management as well as current remuneration structures and remuneration levels in the company. In the Board's consideration of, and decisions on, remuneration-related issues, neither the CEO nor other members of the management of the company shall attend, in so far as they are the focus of the discussion.

Depart of the guidelines

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

Transitional provisions applicable to the 2020 Annual General Meeting

At the time of the Annual General Meeting on May 13, 2020, previously resolved benefits that had not been due amounted to an amount of 0 SEK.

Auditing and control

External auditor

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

In addition to the auditor's report, the auditor normally also provides review reports on the Q3 interim financial report).

The AGM held on June 4, 2019, reappointed auditing firm Öhrlings PricewaterhouseCoopers AB, (Torsgatan 21, 113 21, Stockholm, Sweden) as the company's auditor for the period until the end of the 2020 AGM. Öhrlings PricewaterhouseCoopers AB was also the company's auditor for 2015, 2016, 2017, 2018, 2019 and the period prior to the 2020 AGM. Authorized public accountant Nicklas Kullberg is the auditor in charge. Nicklas Kullberg is a member of FAR, the institute for the accountancy profession in Sweden. The auditor's report is signed by Nicklas Kullberg.

Remuneration of the auditor

Remuneration of the auditor is decided by the AGM according to the Nomination Committee's proposal. The AGM held on June 4, 2019, decided that fees to the

auditor would be paid in accordance with approved invoices.

Internal auditing and control

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

The overarching purpose of internal control is to obtain reasonable assurance that the company's operational strategies and objectives are followed up and shareholders' investments protected. Internal control should also determine, with reasonable assurance, that external

financial reporting is reliable and prepared in accordance with generally accepted accounting practices, that it complies with applicable laws and regulations and with rules applicable to listed companies.

Control environment

Internal control at Starbreeze is based on a control environment that encompasses the organization, decision paths, duties and powers. The Board of Directors has written rules of procedure that clarify the Board's responsibilities and regulate the division of work among the directors. The board's rules of procedure also specify the issues that must be submitted to the Board for decisions. The division of roles between the Board of Directors and the CEO is communicated in the Board's rules of procedure and in its instruction to the CEO. In addition, the CEO manages operations based on the Swedish Companies Act, other laws and ordinances, regulations applicable to listed companies, the Swedish Corporate Governance Code, etc. The Board of Directors monitors compliance with established principles of financial reporting and internal control and maintains purposeful contact with the company's auditors. Company management is responsible for the internal control system required to manage

material risks in ongoing operations. The Audit Committee also prepares matters for decisions by the Board in order to maintain an effective control environment.

Risk assessment and control activities

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

Risk management

Material risks that affect internal control of financial reporting and operational controls are identified and managed at Group, business area and subsidiary levels. Within the Board, the Audit Committee is responsible for ensuring that material financial risks and risks of misstatements in financial reporting are identified and prepared for decisions by the Board regarding possible corrective measures to ensure accurate financial reporting. Special priority is awarded to identifying processes where the risk of

material misstatement is relatively higher due to the complexity of the process or in contexts that involve high monetary values.

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

Follow-up

The Board of Directors continuously evaluates the information provided by company management and the Audit Committee. The work of the Board of Directors also includes ensuring that measures are taken regarding any deficiencies, as well as measures recommended in connection with external audit and internal follow-up of internal control

implemented by the company. Once the Board has received an analysis of internal control, the Audit Committee prepares proposals for the Board regarding measures to address any deficiencies and weaknesses identified.

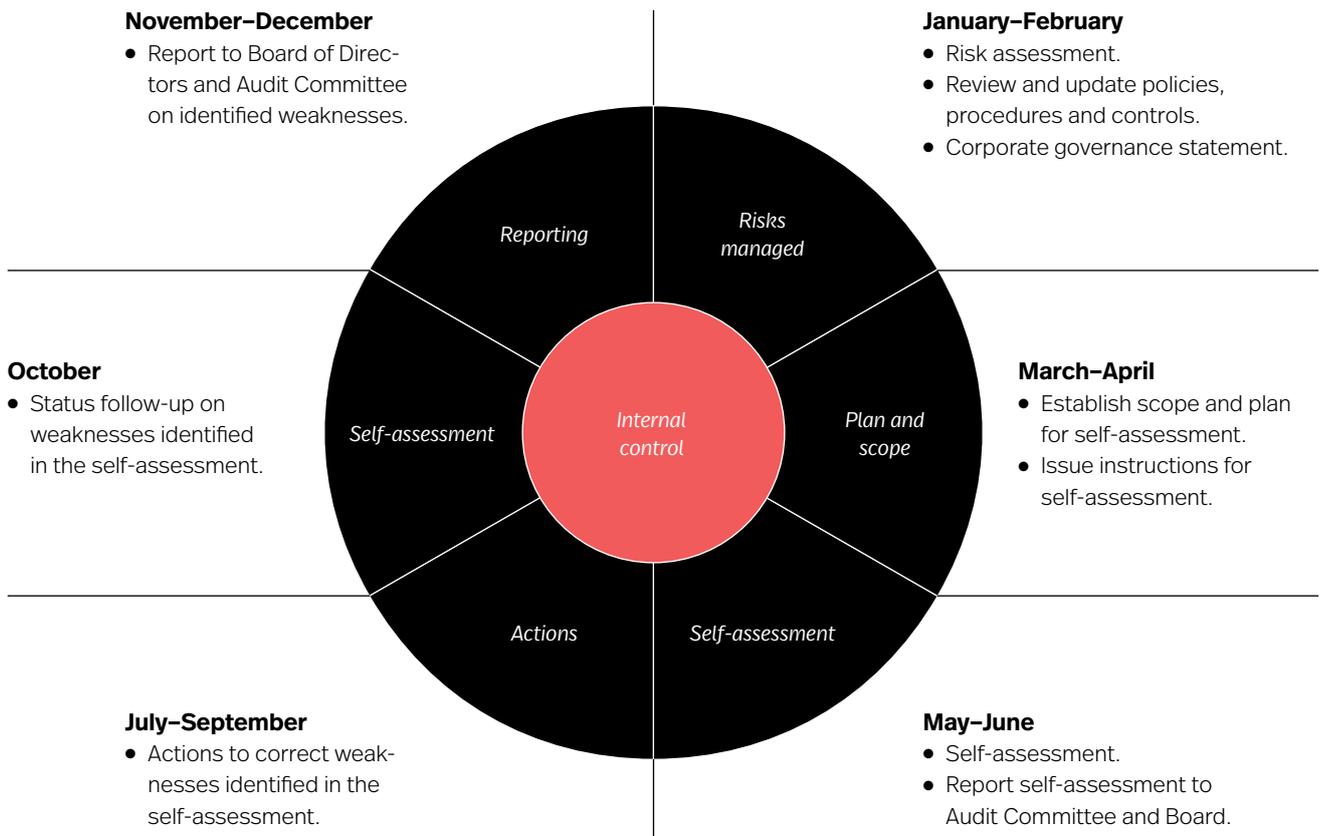
Towards the end of the year, the Audit Committee receives a final report on the outcomes and status of internal control. Based on this report, the Audit Committee prepares a proposal on improvement measures for submission to the Board. This is a continuous process according to the annual cycle for auditing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

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

Starbreeze AB (publ) and five subsidiaries in reconstruction in 2019

On December 3, 2018, Stockholm District Court granted reconstruction of the companies Starbreeze AB (publ) and its Swedish subsidiaries Starbreeze Publishing, Starbreeze Production, Starbreeze Studios, Enterspace and Enterspace International. On December 6, 2019, a successful conclusion of the reconstruction was reached and Stockholm District Court approved the composition agreement.

Starbreeze annual cycle for auditing and control



Board of Directors and auditors



Torgny Hellström

Chairman of the Board since extraordinary general meeting 2019

Born: 1958.

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

Other roles: Chairman of Precise Biometrics.

Holdings in the company: Directly or indirectly owns 250,000 Class B shares

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



Jan Benjaminson

Director since extraordinary general meeting 2019

Born: 1958

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

Other roles: Founder and Chairman of the Board of Level Eight AB

Holdings in the company: -

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



Hyung Nam Kim (Harold Kim)

Director since 2016

Born: 1977

Education: Bachelor of Science, University of Southern California Marshall School of Business.

Principal occupation: Vice President of Business Development for Smilegate Holdings Inc. and Acting Director of SG Interactive Inc.

Other roles: Acting Director of SG Interactive Inc. and Vice President of Business Development for Smilegate Holdings Inc.

Holdings in the company: -

Harold Kim is not independent in relation to the company, its management and major shareholders.

Changes to the Board during the financial year

On December 10, 2018, four Board members asked to step down from the Board of directors and as a result Starbreeze's Board of Directors was without a quorum from December 10, 2018, up until the date of the extraordinary general meeting on March 7, 2019.



Kerstin Sundberg

Director since extraordinary general meeting 2019

Born: 1954

Principal occupation: Kerstin Sundberg has a background as an authorized public accountant and financial advisor, and has been a partner at Deloitte for the past 17 years. In addition to auditing large and medium-sized listed and unlisted Swedish as well as international companies in various industries, including media and telecommunications, Kerstin has extensive experience in M&A and transaction services.

Other roles: Member of the Board of WWF Sweden.

Holdings in the company: -

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



Tobias Sjögren

Director since 2019 AGM

Born: 1975.

Education: EMBA Gruppen

Principal occupation: Since 1996, Tobias has been active in the video game industry in production, business development, sales and management. Most recently, Tobias was CEO of White Wolf Entertainment and he has previously worked at Paradox Interactive, Stardoll and the international agent company DDM Agents. Tobias was head of DICE Stockholm's studio during the launch of the first Battlefield game 17 years ago. Tobias is currently CEO of Fox in a Box.

Other roles: CEO and Board member of the company Fox in a Box Holding AB.

Holdings in the company: -

Tobias Sjögren is independent in relation to the company, its management and major shareholders.



Stefano Salbe

Director since 2019 AGM

Born: 1965.

Education: Graduate degree from University of Bocconi

Principal occupation: Since 2000 CFO and Board member of Digital Bros S.P.A and the subsidiary 505 Games.

Other roles: CFO and Board member Digital Bros S.P.A and in 505 Games Srl.

Holdings in the company: -

Stefano Salbe is not independent in relation to the company, its management and major shareholders.

Auditors

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

Nicklas Kullberg

Auditor in charge

Auditor of Starbreeze AB (publ) since 2015.

Born: 1970

Authorized Public Accountant.

Senior management



Mikael Nermark

*CEO since December 2018
(Deputy CEO since 2009, CEO between 2011 and 2013)*

Born: 1970

Education: Business, Stockholm University.

Background: Executive and expert in the games industry for 20 years.

Holdings in the company: Directly or indirectly owns 623,433 Class B shares.



Claes Wentzel

Acting CFO since December 2018

Born: 1962

Education: Bachelor of Science in Business Administration Stockholm University

Background: Financial Advisor Ocopeptides AB (publ.), Group CFO Catena Media PLC, CFO Pricer AB (publ.), Financial Advisor Doro AB (publ.), Financial Advisor Mycronic AB (publ.)

Holdings in the company: Directly or indirectly owns 1,000,000 Class B shares.



Maeva Sponbergs

*Chief Commercial Officer
(prior to this EVP of Communications since 2017,
Head of Investor Relations 2015 & Head of Operations 2014)*

Born: 1980

Education: IT Project Management, IHM Business School.

Background: Nineteen years' industry experience and many years of experience in communications and investor relations.

Holdings in the company: Directly or indirectly owns 71,137 Class B shares.

Operational management team



Per Juhlén

Head of Production since 2019

Born: 1973

Education: -

Background: 20 years of experience working in the gaming industry in senior positions at Ubisoft, most recently as Executive Producer for the studio in Montreal, Canada.

Holdings in the company: -



Charlotte Albertsson

Head of Business and Financial Control since 2018 (prior to this Head of Financial Control 2017, Financial Controller 2016)

Born: 1987

Education: International MBA, Linköping University.

Background: Worked as an economist for seven years for companies including Qliro and Deloitte.

Holdings in the company: -



Martin Ternheim

HR Director since 2019

Born: 1977

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

Background: Worked in HR for more than 15 years, most recently as HR Manager at Telenor.

Holdings in the company: Directly or indirectly owns 101,168 Class B shares.

FINANCIAL OVERVIEW

Condensed consolidated balance sheet

SEK thousand	Full year 2019	Full year 2018	Full year 2017	Full year 2016
Operating revenue				
Net sales	280 002	349 955	36 1447	345 463
Operating costs	-784 364	-1 927 760	-512 906	-289 009
Operating profit/loss (EBIT)	-504 362	-1 577 805	-151 459	56 454
Net financial income/expenses	51 938	230 556	-24 726	-554
Profit/loss before tax	-452 424	-1 347 249	-176 185	55 900
Income tax	51 325	10 897	20 855	1 191
Net profit/loss for the period	-401 099	-1 336 352	-155 330	57 091

Condensed consolidated balance sheet

January 1–December 31, SEK thousand	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
Assets				
Non-current assets				
Non-current intangible assets	384 565	787 459	1 973 404	1 374 342
Property, plant and equipment	76 614	60 499	98 901	23 458
Total non-current assets	461 179	847 958	2 072 305	1 397 800
Current assets	129 709	155 468	386 859	751 141
Available-for-sale assets	1 084	83 068	-	-
Total assets	591 972	1 086 494	2 459 164	2 148 941
Equity and liabilities				
Equity	6 158	339 006	1 282 399	1 370 223
Liabilities				
Non-current liabilities	184 196	159 314	983 765	691 768
Current liabilities	400 155	583 310	193 000	86 950
Available-for-sale liabilities	1 463	4 864	-	-
Total liabilities	585 814	747 488	1 176 765	778 718
Total equity and liabilities	591 972	1 086 494	2 459 164	2 148 941

Condensed consolidated statement of cash flows

SEK thousand	Full year 2019	Full year 2018	Full year 2017	Full year 2016
Cash flow from operating activities	49 508	49 906	-21 086	15 291
Cash flow from investing activities	-36 239	-559 224	-620 107	-289 754
Cash flow from financing activities	-	344 334	208 913	853 463
Cash flow for the period	13 269	-164 984	-432 280	579 000
Cash and cash equivalents at the beginning of the period	69 289	233 757	669 380	85 354
Exchange difference in cash and cash equivalents	229	516	-3 343	5 026
Cash and cash equivalents at the end of the period	82 787	69 289	233 757	669 380

Group's alternative performance measures

	Full year 2019	Full year 2018	Full year 2017	Full year 2016
EBITDA margin, %	-41,6	-3,0	-14,8	16
Profit margin, %	-161,6	-385,0	-48,7	10,7
Basic earnings per share, SEK	-1,22	-4,2	-0,55	-
Diluted earnings per share, SEK	-1,22	-4,2	-0,55	-
Equity/assets ratio, %	1,0	31,5	52,1	64
Number of shares at the end of the period before dilution	329 367 849	325 295 554	283 037 940	276 879 720
Number of shares at the end of the period after dilution	329 367 849	345 895 038	306 443 723	304 352 451
Average number of shares before dilution	328 349 775	317 956 811	280 309 967	255 276 469
Average number of shares after dilution	328 349 775	317 956 811	280 309 967	257 234 798
Average number of employees	331	634	278	151
Number of employees at the end of the period	127	304	650	212

Definitions, Group's alternative performance measures

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

EBITDA

Earnings before interest, tax, depreciation and amortization

EBITDA margin

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

Profit margin

Profit or loss after financial items as a percentage of the sum of revenue and capitalized development costs.

Earnings per share

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

Equity/assets ratio

Equity as a percentage of total assets.

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DIRECTORS' REPORT CONT.

The Board of Directors and Chief Executive Officer of Starbreeze AB (publ), 556551-8932, hereby present the annual accounts and consolidated financial statements for the financial year beginning January 1, 2019 and ending December 31, 2019, Starbreeze AB's twenty-second financial year. Unless otherwise specified, the information presented in the annual accounts relates to the Group. Information in parentheses refers to the preceding year.

About the business

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

Starbreeze was founded in 1998 and has since developed into a well-established developer and publisher of computer and video games with offices in several countries around the world and with its main business in Stockholm. During 2019, the business was divided into three business areas: Starbreeze Games with in-house game development, Publishing with publishing activity and VR Tech & Operations with technology and software development in virtual reality (VR) and operation of VR parks.

Starbreeze AB and five subsidiaries were under corporate reconstruction until December 6, 2019 when the Stockholm District Court approved the Reconstruction Plan. The company's core business today consists of game development on proprietary IPs. Other operation is part of what has been defined as non-core business, and no resources have been charged to these business areas since the latter part of 2019.

The Starbreeze Group comprises the parent company Starbreeze AB (publ) and the subsidiaries Starbreeze Studios AB, Starbreeze Publishing AB, Starbreeze Production AB, Starbreeze USA Inc, Starbreeze IP LUX, Starbreeze IP LUX II S.à.r.l, Starbreeze LA Inc, PAYDAY Production LLC, Starbreeze Paris SAS, New Starbreeze Studios AB, New Starbreeze Publishing AB, Starbreeze VR AB, Starbreeze Ventures AB, Starbreeze Barcelona SL, Starbreeze Middle East FZE, Enterspace AB,

Enterspace International AB, Dhruva Infotech Ltd, Nozon and Parallaxter. Dhruva Infotech Ltd and Nozon were sold in the second quarter of 2019. Starbreeze Middle East FZE went into voluntary liquidation in December 2019. The Group also owns 33.3 percent of the joint venture StarVR Corporation.

Significant events during the year

In February, May and August, Starbreeze requested an extended reconstruction period. The Stockholm District Court on each occasion granted approval for the corporate reconstruction to continue.

In February, a five-year distribution agreement was signed for PAYDAY: Crime War with Universal Games and Digital Platforms

In February, it was announced that Starbreeze had reached agreement with OtherSide Entertainment to sell back the publishing rights to the game System Shock 3.

On February 27, Starbreeze received a notice of termination of the license agreement for the title OVERKILL'S The Walking Dead (OTWD) from Skybound, which owns the rights to the title.

On March 7, an Extraordinary General Meeting was held, which resolved to appoint Jan Benjaminson, Torgny Hellström and Kerstin Sundberg as full Board members for the period up to the end of the next Annual General Meeting. Torgny Hellström was elected Chairman of the Board.

On April 4, Acer Inc. elected to convert its convertible bond in Starbreeze, whereupon the convertible bond was converted to 4,072,295 new Starbreeze B shares.

On April 26, Starbreeze sold back the rights to the game 10 Crowns to Mohawk Games.

On May 12, Starbreeze signed an agreement to sell its shares in the Indian subsidiary Dhruva. The total proceeds of the sale were USD 7.9 million.

On June 4, an Annual General Meeting of Starbreeze was held. The Meeting resolved that no dividend be paid for the financial year January 1 to December 31, 2018. Jan Benjaminson, Torgny Hellström, Harold Kim and Kerstin Sundberg were re-elected to the Board,

and Tobias Sjögren and Stefano Salbe were elected as full members.

On June 4, it was announced that a reorganization aimed at streamlining the business and saving costs had been initiated. As part of this, the number of employees was reduced by approximately 60 and a monthly saving of approximately SEK 3 million was fully implemented in November 2019.

On June 9, Starbreeze and Microsoft Corporation signed an agreement under which Starbreeze transfers all publishing rights and commitments to the title Psychonauts 2 to Microsoft for a payment of USD 13.2 million.

On September 19, Universal Games and Digital Platforms decided to phase out most of their mobile game publishing business. The cooperation on the publishing contract for PAYDAY: Crime War, which was signed in February 2019, was consequently ended.

On October 11, Starbreeze submitted an assessment of the business's future cash flows because of the reconstruction work then underway. The Company expects cash flow to be positive, based on expected new publishing agreements in 2020 and the expected launch of PAYDAY 3 in 2022-2023.

On November 7, a new DLC was released for PAYDAY 2, resulting in the number of concurrent users rising to 56,582, the highest level since spring 2018.

On December 6, Starbreeze's corporate reconstruction was successfully completed and the reconstruction plan was approved by the Stockholm District Court.

As part of the reconstruction plan, Starbreeze and Smilegate agreed on changes to convertible bond terms, with maturity extended to December 2024 and an additional extension fee of SEK 165 million. The debt has been subordinated to other liabilities and runs for five years at zero per cent interest. An agreement was also reached to terminate the cooperation on the Crossfire-related project, resulting in an impairment of capitalized development expenses of SEK 111 million.

Stock option program

As of December 31, 2019, there are no outstanding employee stock options, and allocated outstanding warrants amount to 625,275. See also Note 31.

Events after the end of the financial year

The following is a summary of significant events after the financial year, for detailed information about events during the financial year go to Starbreeze.com.

Increased revenue split from Steam

Steam, Starbreeze's main digital distribution platform, normally applies a 70/30 revenue split after tax and returns to its partners. The platform owner Valve announced in the fall of 2018 that it had begun to apply a stepped approach by which games that meet certain sales criteria can qualify for an additional 5% or 10% revenue share in addition to the normal 70%. PAYDAY 2 with its DLCs met the first sales criterion on January 3, resulting in the game's future revenue split giving Starbreeze 75% from Steam after tax and returns.

An Extraordinary General Meeting was held on January 13, 2020. The Extraordinary General Meeting resolved in accordance with the Board's proposal to amend the terms of the company's outstanding convertible loan, by which the maturity date of the convertible bond is extended to December 2024 and the conversion price is set at SEK 2.25 per share.

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

Starbreeze sold its wholly owned subsidiary Parallaxter in February 2020.

Starbreeze has continuously evaluated the impact on operations of the current COVID-19 pandemic. Since the majority of day-to-day operations and game development can take place remotely, the focus has been on preparing the infrastructure for remote working. All

employees can currently work from home. The company's assessment is that the short-term impact on ongoing projects is small, however the long-term effects on future business and the impact on the efficiency of the project organizations may result in delayed deliveries.

Ongoing revenue-generating business is not directly affected as the majority of revenue comes from a digital distribution model via Steam, where the availability of the product and contact between players remain unbroken despite overarching societal measures aimed at reducing physical social contact.

Net sales and earnings

The financial year covers 12 months (January-December 2019).

Net sales decreased by 20 percent to SEK 280.0 million (350.0), of which PAYDAY accounted for SEK 109.4 million (97.7). Revenue from the sale of PAYDAY on Steam and console was SEK 66.9 million. Coverage of PAYDAY development expenses for PAYDAY: Crime War amounted to SEK 42.5 million. Sales include sale of the publishing rights for Psychonauts 2, 10 Crowns and System Shock 3 for a total of SEK 140.8 million. External revenues from Dhruva totalled SEK 14.7 million (34.8) during the year. The subsidiary Dhruva was sold on May 17, 2019. The comparative figures include revenues for Dead by Daylight of SEK 133.7 million and Overkill's The Walking Dead of SEK 34.1 million.

Direct costs amounted to SEK 661.5 (1,733.9), of which SEK 364.8 million (1,560.1) was depreciation, amortization and impairments. Capitalized development expenses reduced direct costs by SEK 51.0 million (252.6).

Selling and marketing expenses amounted to SEK 12.0 million (91.4). The reduction is mainly due to lower personnel costs and the fact that no major projects have been launched.

Administrative expenses amounted to SEK 109.6 million (115.7), of which SEK 23.1 million (5.7) relates to amortization. The increase in amortization is mainly due to the application of IFRS 16, which has led to amortization of SEK 16.9 million. Capitalized development expenses reduced administrative expenses by SEK 39.1 million (45.5). Reconstruction expenses for 2019 amount to SEK 36.5 million.

Other operating income/expenses amounted to SEK -1.2 million (13.3). The

decrease is mainly due to capital losses of SEK 30.6 million related to the divestments of the subsidiaries Dhruva and Nozon. Other income/expenses also includes exchange differences.

Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to SEK -116.5 million (-10.3).

Net financial income/expense amounted to SEK 51.9 million (230.6). Net financial income/expense consisted largely of the revaluation of additional purchase prices of SEK 84.1 million (259.2), of which SEK 1.4 million (-3.9) in exchange rate effects. The earnout relating to Dhruva, SEK 4.5 million, has been derecognized in the closing balance sheet, as the subsidiary was sold in May 2019. Interest expense on convertible loans was SEK 18.0 million (21.4), share of income from the joint venture StarVR Corporation amounted to SEK -1.5 million (-37.2), remeasurement of derivatives attributable to Smilegate's convertible bond of SEK 0.0 million (SEK 8.2 million). The cost of credit including interest for short-term financing raised during the reconstruction was SEK 5.0 million (0.0). Interest expense for the overdraft facility was SEK 4.1 million (6.2).

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

Financial position

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

Capitalized expenses for in-house game and technology development amounted to SEK 81.5 million (170.9) and relate to in-house game development projects. In the comparison period, technology development also refers to the VR Tech & Operations business area.

The book value for investments in publishing projects was SEK 4.1 million (188.0). The decrease is mainly due to the Group selling the publishing rights to System Shock 3, Psychonauts 2 and 10 Crowns for a total book value of SEK 169.2 million in the first half of 2019.

Amortization and impairment of intangible assets amounted to SEK 326.9 million (1,438.5) for the full year 2019.

Trade and other receivables amounted to SEK 10.4 million (39.5). Prepaid expenses and accrued income at the end of the period amounted to SEK 33.4

million (46.6). SEK 13.4 million (17.6) relates to receivables for digital sales via Steam, PlayStation Store, Xbox Live and Switch.

At the balance sheet date, available-for-sale assets amounted to SEK 1.1 million (83.1) and available-for-sale liabilities amounted to SEK 1.5 million (4.9). These relate to the subsidiary Parallaxter, which was divested in February 2020. The comparison figures include the subsidiary Dhruva, which was sold in May 2019, and the now fully amortized IP rights to the Cinemaware library. The latter are no longer classified as available for sale.

Consolidated equity on the reporting date amounted to SEK 6.2 million (339.0) and the equity-to-assets ratio was 1.0 percent (31.5).

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

Non-current liabilities to Nordea amounted to SEK 94.3 million as of December 31. The non-current portion of the lease liability arising from recognition according to IFRS 16 amounts to SEK 55.3 million. Non-current liabilities also include non-current trade payables of SEK 12.3 million and a deferred tax liability of SEK 7.9 million.

The liability for earnouts decreased to SEK 0.1 million (88.6). As the entire value of the PresenZ technology has been impaired, the liability for earnout for the subsidiary Parallaxter has also been reversed. The remaining amount relates to ePawn. The balance sheet item is measured at fair value and the change is recognized in net financial income and expense in profit or loss. As the subsidiary Dhruva has been divested, the liability for earnouts related to this company also reduced the liability during the year.

Trade payables and other liabilities at the end of the period amounted to SEK 342.5 million (519.4). The balance includes the convertible loan from Smilegate of SEK 213.9 million, which before renegotiation matured in February 2020. After the financial year, the loan was renegotiated and extended until December 2024 following a resolution at a General Meeting held in January 2020. This item otherwise relates mainly to the current portion of outstanding loans. Accrued expenses and deferred income

at the end of the period amounted to SEK 38.5 million (63.9).

Cash flow

Cash and cash equivalents as of January 1, 2019 amounted to SEK 69.3 million (233.8).

Cash flow from operating activities amounted to SEK 49.5 million (49.9). Cash flow from operating activities before change in working capital, SEK 73.2 million (-22.0), has improved due to the positive trend in operating profit. Among other things, the Group has carried out a restructuring of its operations, which at the end of the year had a major impact on costs. At the same time, working capital has decreased by SEK -23.7 million (71.9) mainly due to Acer's redemption of its convertible bond. Trade payables and personnel-related liabilities also decreased compared with the previous year. Trade receivables also decreased significantly during the year.

Cash flow from investing activities was SEK -36.2 million (-559.2). Investments in property, plant and equipment decreased compared with the previous year and were limited to equipment necessary for game development. The parent company sold two of its subsidiaries, Dhruva and Nozon, which contributed SEK 67.2 million to the Group. Development expenditure decreased significantly in comparison with the previous year, which is due to the Group concentrating on what has been defined as its core business, and the workforce has therefore been significantly reduced. The sale of the subsidiary Dhruva has also reduced the Group's capitalization of development expenses.

Cash flow from financing operations amounted to SEK 0.0 million (344.3). In the comparison period, rights issues contributed to a strong positive cash flow. No amortization of liabilities took place during the year. New liabilities relate to interest that has not been paid and has therefore increased the liabilities. See Note 40.

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

Investments

During the period, the Group's investments in property, plant and equipment amounted to SEK 2.1 million (92.1). In addition, investments in

proprietary game and technology development amounted to SEK 92.4 million (333.9)

OVERKILL's The Walking Dead accounted for a large portion in the comparison period.

Investments in publishing projects amounted to SEK 8.4 million (126.6).

Impairments

Starbreeze regularly tests assets with indefinite useful lives for impairment to ensure that the carrying amounts of assets do not exceed fair value. During the financial year, this resulted in an impairment loss of SEK 324.8 million. Most of the impairments are attributable to VR investments, which is charged to the VR Tech and Operations segment. Part of the reason why the Group applies the impairments is that the opportunities to commercialize VR technologies have proved to be futile.

Impairments in the Starbreeze Games segment are attributable to the game Crossfire. Starbreeze and Smilegate have decided to terminate the partnership with Crossfire, and all rights to the game have been returned to Smilegate.

Research and development

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

Environmental impact

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

Sustainability

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

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

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

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

Employees

The company had 127 (604) employees at the end of the year, of whom 112 men and 15 women. The average age of employees as of December 31, 2019 was 34 (32). For more information see Notes 9, 11 and 12 and the Group's sustainability report, which can be found on the website.

Remuneration of the Board of Directors and senior management personnel

Guidelines adopted and proposed for the 2020 AGM on remuneration of the Board of Directors and senior management are presented in the Corporate Governance report on page 28. Costs of remuneration of senior management personnel in 2019 are specified in Note 13.

Parent company

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

The parent company had net sales in 2019 of SEK 59.0 million (55.3), and profit/loss before tax was SEK -14.7 million (-1,040.0). Profit/loss after tax was SEK -14.7 million (-1,063.4).

Shares in subsidiaries decreased to SEK 295.8 million (514.6). The decrease relates to impairment of shares in the

subsidiaries Parallaxter, Enterspace AB and Lux 2 Sarl. The shares in the sold subsidiaries Dhruva and Nozon were already impaired in the annual accounts for 2018.

At the end of the period, cash and cash equivalents amounted to SEK 12.0 million (8.0), and the parent company's equity was SEK 581.1 million (529.5).

Non-current liabilities increased to SEK 306.1 million (88.6). The increase is mainly due to the fact that intra-Group liabilities have been recognized as non-current under the reconstruction plan. Acer converted its loan during the year. The liability for deferred purchase prices amounts to SEK 0.1 million (88.6).

Shares and ownership structure

Starbreeze shares have been listed on Nasdaq Stockholm in the Small Cap segment since October 2, 2017. The shares are traded under the tickers STAR A and STAR B with the ISIN codes SE007158928 and SE0005992831.

On December 31, 2019, the closing price was SEK 1.85, compared with SEK 1.23 on December 31, 2018 for Class A shares and SEK 1.86 compared with SEK 0.82 for Class B shares. At year-end, the total market capitalization was approximately SEK 612 million, compared with approximately SEK 289 million in the previous year.

Share capital at year-end amounted to SEK 6,587 thousand (6,506 as of December 31, 2018) divided into 329,367,849 shares (325,295,554), of which 53,001,992 Class A shares (53,490,727 Class A shares) and 276,365,857 Class B shares (271,804,827 B-shares). During the second quarter of 2019, Acer exercised its convertible bonds, with the result that equity increased by SEK 71.7 million and the number of Class B shares increased by 4,072,295. The number of Class B shares increased by 4,561,030 and the number of Class A shares decreased by 488,735 during the year.

Starbreeze had 30,556 shareholders (30,494) at the end of the year. The three largest shareholders at year-end were Bo Andersson Klint with 6.17 percent of share capital and 23.75 percent of voting rights, Smilegate Holdings with 2.92 percent of share capital and 5.21 percent of voting rights and Swedbank Robur with 14.57 percent of share capital and 6.55 percent of voting rights. For more information about the shares and

shareholders, see Shares and Shareholders.

Risks and uncertainties

Internal control and risk management at Starbreeze are described in the Corporate Governance Statement. The most material operational risks for Starbreeze are described below, in no particular order. For the Group's management of continued operations, see Note 3D.

Risks related to external developers

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

Delays in projects

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

Low revenues upon release of games or other products

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

Dependence upon key individuals

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

Financing needs and capital

In the framework of Starbreeze's operations, revenues will often be unevenly distributed over time, with an impact on liquidity over time. There is therefore a risk that the company will

need to be capitalized in the future. There is also a risk that the company, at any given time, might not be able to raise additional capital or might not be able to raise capital on terms favorable to existing shareholders.

The company does not currently have enough secured funds to guarantee continued operation for the next 12 months and is expected to have a liquidity shortage in the fourth quarter of 2020 unless additional funds are supplied.

See also Note 3 D.

Intellectual property rights

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

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

Currency risks

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

Risk of impairment of goodwill and other intangible assets

The consolidated balance sheet consists largely of goodwill and other intangible assets, which amounted in total to SEK 369 million as at December 31, 2019. The company continuously monitors relevant circumstances that have an impact on the company's business and general financial situation and the possible impact that such circumstances may have on the measurement of the company's goodwill and other intangible assets. It is possible that changes in such circumstances, or in the many factors the company takes into consideration in connection with its judgments, assumptions and estimates in connection with the measurement of goodwill and other intangible assets, might require the company to impair goodwill and other intangible assets in the future.

Proposed disposition of profits

	Parent
SEK	2019-12-31
Retained earnings (- loss)	-1 059 812 429
Share premium reserve	1 649 032 607
Net profit (-loss) for the year	-14 694 781
Carried forward	574 525 397

The Board of Directors proposes that retained earnings of SEK 574,525,397 be carried forward.

Dividend

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

Annual General Meeting

The Annual General Meeting of shareholders in Starbreeze AB (publ), 556551-8932, will be held on Wednesday May 13, 2020 at 4.00 pm at Biograf Skandia, Drottninggatan 82 in Stockholm.

Consolidated statement of comprehensive income

SEKk	Note	2019	2018
Net sales	2, 4, 11		
Direct costs	5, 6, 8	280 002	349 955
Gross profit (-loss)	5	-381 518	-1 383 948
Selling and marketing costs	8, 12, 13	-12 048	-91 397
Administrative expenses	8, 9, 12, 13	-109 609	-115 722
Other revenue	7	19 221	13 262
Other expenses	8, 10, 14	-20 408	-
Operating profit (-loss), EBIT		-504 362	-1 577 805
Financial income	15	84 266	295 817
Financial expenses	15	-30 866	-28 028
Share of profit or loss from holdings recognized using the equity method of accounting	43	-1 462	-37 233
Profit (-loss) before tax		-452 424	-1 347 249
Income tax	17	51 325	10 897
Net profit (-loss) for the year		-401 099	-1 336 352
Net income attributable to:			
Capitalize Owners		-401 249	-1 337 017
Non-controlling interests		150	665
Other comprehensive income that may subsequently be reclassified to profit and loss			
Impairment of unlisted shares		-	-11 501
Exchange differences		4 162	23 526
Total comprehensive income for the year		-396 937	-1 324 327
Total comprehensive income attributable to:			
Capitalize Owners		-397 087	-1 324 992
Non-controlling interests		150	665
Earnings per share attributable to owners of the parent during the period (SEK)			
Basic earnings per share, SEK	18	-1,22	-4,20

Financial position, Group

SEKk	Note	2019-12-31	2018-12-31
Assets	1, 2, 3, 4		
Non-current assets			
<i>Intangible assets</i>			
Goodwill	21	43 601	57 169
Other intangible assets	21	240 221	356 071
Capitalized expenditure for own games and technology development	21	81 518	170 919
Investments in publishing projects	21	4 056	187 970
<i>Financial assets</i>	25, 26		
Financial assets	23	6 258	10 348
Investments in joint ventures	43	3 195	4 656
Non-current lease receivable		5 716	
Deferred tax assets	17	-	326
<i>Property, plant and equipment</i>			
Computers and other equipment	22	12 850	60 499
Right-of-use asset - buildings	10	63 764	
Total non-current assets		461 179	847 958
Current assets			
Inventories	19	-	44
Trade and other receivables	27	10 391	39 536
Current lease receivable	10	3 106	-
Prepaid expenses and accrued income	28	33 425	46 599
Cash and cash equivalents	29	82 787	69 289
Total current assets		129 709	155 468
Assets held for sale	45	1 084	83 068
Total assets		591 972	1 086 494
Equity and liabilities			
<i>Equity attributable to owners of the parent</i>	20, 30, 31		
Share capital		6 587	6 506
Other capital contributions		1 711 334	1 639 516
Reserves		21 400	17 098
Retained earnings including profit or loss for the year		-1 733 163	-1 326 061
Non-controlling interests		-	1 947
Total equity		6 158	339 006
Non-current liabilities			
Non-current liabilities, earnouts	33	62	88 586
Deferred tax liabilities	17	7 853	56 269
Non-current lease liability	10	55 272	-
Other non-current liabilities	42	121 009	14 459
Total non-current liabilities		184 196	159 314
Current liabilities			
Trade and other payables	34, 42	342 468	519 421
Current lease liability	10	19 181	-
Accrued expenses and deferred income	35	38 506	63 889
Total current liabilities		400 155	583 310
Liabilities held for sale	45	1 463	4 864
Total liabilities held for sale		1 463	4 864
Total liabilities		585 814	747 488
Total equity and liabilities		591 972	1 086 494

Conso lidated statement of changes in equity

SEKk	Share capital	Other capital contributions	Reserves	Retained earnings (-loss)	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	6 506	1 639 516	17 098	-1 326 061	337 059	1 947	339 006
Adjustment in opening balance 2018	-	-	140	-429	-289	-	-289
Net profit (-loss) for the year	-	-	-	-401 249	-401 249	150	-401 099
Disposal of subsidiary with minority	-	-	-	-	-	-2 123	-2 123
Exchange differences	-	-	4 162	-	4 162	26	4 188
Total comprehensive income	-	-	4 302	-401 678	-397 376	-1 947	-399 323
Transactions with shareholders							
New issue through exercise of convertible bonds	81	71 632	-	-	71 713	-	71 713
Shareholders' contributions according plan for reorganization of Enterspace Group	-	186	-	-	186	-	186
Issue costs recognized in equity	-	-	-	-5 424	-5 424	-	-5 424
Total contribution from and value transfers to shareholders, recognized directly in equity	81	71 818	-	-5 424	66 475	-	66 475
Balance at 31 December 2019	6 587	1 711 334	21 400	-1 733 163	6 158	-	6 158

SEKk	Share capital	Other capital contributions	Reserves	Retained earnings (-loss)	Total	Non-controlling interests	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 year	-	-	-	-1 337 017	-1 337 017	665	-1 336 352
Impairment of unlisted shares	-	-	-11 501	-	-11 501	-	-11 501
Exchange differences	-	-	23 526	-	23 526	-36	23 490
Total comprehensive income	-	-	12 025	-1 337 017	-1 324 992	629	-1 324 363
Transactions with shareholders							
New issue through exercise of stock options	26	7 365	-	-	7 391	-	7 391
Minoritetens andel avseende aktieägartillskott till dotterbolag	-	-974	-	-	-974	974	-
Vested employee stock options	-	44	-	-	44	-	44
Sale of equity instruments*	-	279	-	-	279	-	279
Tax effect on sale of equity instruments	-	-66	-	-	-66	-	-66
Nyemission	819	389 295	-	-	390 114	-	390 114
Non-cash issue	-	-	-	-	-	-	-
Issue costs recognized in equity	-	-	-	-21 522	-21 522	-	-21 522
Tax effect of issue costs recognized in equity	-	-	-	4 730	4 730	-	4 730
Total contribution from and value transfers to shareholders, recognized directly in equity	845	395 943	-	-16 792	379 996	974	380 970
Balance at 31 December 2018	6 506	1 639 516	17 098	-1 326 061	337 059	1 947	339 006

Consolidated statement of cash flows

SEKk	NOTE	2019	2018
Operating activities			
Cash flow from operations		-504 362	-1 577 805
Adjustment for non-cash items	40	586 897	1 570 700
Interest paid	40	-13 433	-14 440
Interest received		-	-
Income taxes paid		-	-473
Cash flow from (-used in) operating activities before changes in working capital		69 102	-22 018
Cash flow from changes in working capital			
Increase (-)/decrease (+) in operating receivables		32 538	63 110
Increase (+)/decrease (-) in operating liabilities		-56 264	8 814
Cash flow from (-used in) operating activities		45 376	49 906
Investing activities			
Purchase of property, plant and equipment		-2 092	-92 071
Sold non-current assets		217	-
Divested subsidiaries	38	67 202	-
Investments in other financial assets		-1 067	-6 607
Investments in own games and technology		-92 412	-333 947
Investments in publishing projects		-8 087	-126 599
Cash flow from (-used in) investing activities		-36 239	-559 224
Financing activities			
New issue		-	390 114
Costs related to new issues		-	-16 879
Payments for warrants		-	7 304
Increase in loans	40, 44	4 132	159 476
Repayment of loans		-	-195 681
Cash flow from financing activities		4 132	344 334
Cash flow from (-used in) the year		13 269	-164 984
Cash and cash equivalents at the beginning of the year		69 289	233 757
Exchange differences in cash and cash equivalents		229	516
Cash and cash equivalents at the end of the year		82 787	69 289
Total available cash and cash equivalents	29	82 787	69 289

Parent Company income statement

SEKk	NOTE	2019	2018
	1, 2, 3, 4		
Net sales	6	58 990	55 304
Other operating revenue	7	25 037	9 277
Total revenue		84 027	64 581
Other external expenses	8, 9, 10	-59 586	-41 891
Employee benefits expenses	11, 12, 13	-38 574	-53 835
Depreciation of property, plant and equipment	22	-217	-579
Other operating expenses	14	-7 078	-
Operating profit (-loss)		-21 428	-31 724
Profit from holdings in group companies		-224 439	-978 508
Other financial income	15	98 039	28 338
Financial expenses	15	-54 260	-63 077
Profit (-loss) after net financial income (-expense)		-202 088	-1 044 971
Appropriations	16	187 393	5 007
Profit (-loss) before tax		-14 695	-1 039 964
Income tax	17	-	-23 433
Net profit (-loss) for the year		-14 695	-1 063 397

Parent Company balance sheet

SEkk	NOTE	2019-12-31	2018-12-31
Assets	1,2,3,4		
Non-current assets			
<i>Property, plant and equipment</i>			
Computers and other equipment	22	421	587
<i>Financial assets</i>			
Investments in group companies	24	295 806	514 595
Deferred tax assets	17	-	-
Investments in joint venture	43	4 656	4 656
Other financial assets	23	585	585
Total non-current assets		301 468	520 423
Current assets			
Trade receivables	27	-	37
Receivables from group companies		1 080 277	387 141
Other receivables		-	5 816
Prepaid expenses and accrued income	28	837	950
Short-term deposits		-	-
Cash and cash equivalents	29	12 009	8 002
Total current assets		1 093 123	401 946
Total assets		1 394 591	922 369
Equity and liabilities			
Equity	20,30,31		
Share capital		6 587	6 506
Non-registered share capital		-	-
Statutory reserve		-	-
<i>Non-restricted equity</i>			
Fair value reserve		-	-
Share premium reserve		1 649 033	1 577 401
Retained earnings (-loss)		-1 059 812	9 007
Net profit (-loss) for the year		-14 695	-1 063 397
Total equity		581 113	529 517
Provisions			
Other provisions	32	31 230	-
Total provisions		31 230	-
Non-current liabilities			
Non-current liabilities, group		305 865	-
Non-current liabilities, earnouts	33	62	88 586
Other non-current liabilities		198	-
Total non-current liabilities		306 125	88 586
Current liabilities			
Trade payables	34	8 060	7 849
Liabilities to group companies		239 012	4 860
Other liabilities		218 022	275 405
Accrued expenses and deferred income	35	11 029	16 152
Total current liabilities		476 123	304 266
Total equity and liabilities		1 394 591	922 369

Parent Company statement of changes in equity

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

SEKk	Restricted reserves		Non-restricted reserves		Total equity
	Share capital	Fair value reserve	Share premium reserve	Retained earnings (-loss)	
Balance at 1 January 2018	5 661	328	1 180 697	25 813	1 212 499
Fair value reserve	-	-328	-	-	-328
New issue through exercise of employee stock options	26	-	7 365	-	7 391
Vested employee stock options	-	-	44	-	44
New issue	819	-	389 295	-	390 114
Issue costs recognized in equity	-	-	-	-21 541	-21 541
Tax effects on issue costs recognized in equity	-	-	-	4 735	4 735
Profit (-loss) for the year	-	-	-	-1 063 397	-1 063 397
Balance at 31 December 2018	6 506	-	1 577 401	-1 054 390	529 517

Parent Company statement of cash flows

	NOTE	2019	2018
Operating activities			
Cash flow from operations		-21 428	-31 724
Adjustment for non-cash items	40	1 202	-57 419
Interest paid		-4 301	-22 192
Income taxes paid		-	-5 310
Cash flow from (-used in) operating activities before changes in working capital		-24 527	-116 645
Cash flow from changes in working capital			
Increase (+)/decrease (-) in operating liabilities		-687 170	151 059
Cash flow from (-used in) operating activities		171 857	-482 062
Cash flow from (-used in) operating activities		-539 840	-447 648
Investing activities			
Purchase of property, plant and equipment		-	-56
Divested subsidiaries		67 202	-
Increase (-) / decrease (+) in Short-term deposits		-	-5 633
Cash flow from (-used in) investing activities		67 202	-5 689
Financing activities			
New issue		-	389 957
Costs related to new issues		-	-16 879
Payments for stock options		71 713	7 304
Group contribution		187 393	4 991
Increase in loans and other non-current liabilities		306 063	-
Repayment of loans		-88 524	-
Cash flow from (-used in) financing activities		476 645	385 373
Cash flow for (-used in) the year		4 007	-67 964
Cash and cash equivalents at the beginning of the year		8 002	75 353
Exchange differences in cash and cash equivalents		-	613
Cash and cash equivalents at the end of the year		12 009	8 002
Total available cash and cash equivalents	29	12 009	8 002

NOTES

1 General information

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

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

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

The Board of Directors approved the consolidated financial statements for publication on April 2, 2020.

2 Summary of key accounting policies

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

2.1 Basis for preparing the parent company and consolidated financial statements

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

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

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

2.1.1 Changes to accounting policies and disclosures

A. New and amended standards applied by the Group

The Group applies the standard IFRS 16 Financial Leases for the first time for the financial year beginning January 1, 2019. See section 2.20 Leases below and Note 10.

No other IFRS or IFRIC interpretations mandatorily effective for the first time for the financial year beginning on January 1, 2019 have had a material impact on the Group.

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

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

2.2 Consolidated financial statements

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

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

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

Acquisition-related expenses are recognized when they arise.

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

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

2.3 Segment reporting

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

During the financial year Starbreeze reported by segment: Starbreeze Games, Publishing and VR Tech & Operations. The Starbreeze Games segment consists of Starbreeze's portfolio of games developed in-house. Revenues for the year mainly relate to sales revenue and royalties for the

rights to PAYDAY. The year's revenues for the business area also include Starbreeze's ongoing game project PAYDAY: Crime War and the Crossfire project, which as of December 31 has been transferred to Smilegate. The Publishing segment consists of Starbreeze's publishing business, where Starbreeze acts as the publisher for games developed by other game developers. The VR Tech & Operations segment consists of Starbreeze's virtual reality (VR) technology and software development, which includes the development of the StarVR headset and the VR film format PresenZ which was sold with the sale of the subsidiary Parallaxter in February 2020. Group-wide costs and projects that are not attributable to the above segments are reported under Other.

2.4 Foreign currency translation

Functional currency and presentation currency

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

Transactions and balance sheet items

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

Group companies

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

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

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

2.5 Property, plant and equipment

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

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

- Computers 3 years
- Other equipment 5 years

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

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

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

2.6 Non-current intangible assets

A. Goodwill

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

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

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

B. Capitalized expenditure on game and technology development

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

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

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

During the year, the Group capitalized game development expenses related to PAYDAY 2, PAYDAY 3 and PAYDAY: Crime War. Development expenses for the game Crossfire fully impaired at December 31 were also capitalized during the year.

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

C. Rights to software

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

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

Rights relating to the PAYDAY game are amortized on a straight-line basis over an estimated useful life of 10 years.

D. Licenses and other rights

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

2.7 Impairments of non-financial assets

Assets that have an indefinite useful life are not amortized, but are tested annually to assess any requirement for impairment. Assets that are amortized are assessed for decline in value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and its value in use. During the year, the Group impaired non-financial assets of SEK 324.7 million.

2.8 Financial instruments

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

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

Classification and measurement of financial assets on initial recognition

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

Subsequent valuation of financial assets

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

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

The Group has no financial assets in the categories of fair value through profit or loss and through other comprehensive income in 2019.

The classification is determined by both:

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

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

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

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

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

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

Classification and measurement of financial liabilities

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

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

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

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

2.9 Impairment of financial assets

The Group assesses the value of the financial assets by judging the strengths and weaknesses of customers and other contracting parties based on the information available. Receivables overdue more than 6 months relate to the VRtech and Operations segment and have been reserved in full. Since the company's other receivables relate to a small number of counterparties that are financially strong and pay according to plan or previous payment patterns, while the Group has historically not had any significant loan losses, it is judged that any loss provisions in addition to the receivables already reserved need not be recognized due to insignificant amounts.

2.10 Trade receivables

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

As the Group's customers are few in number and financially strong, credit risk in the Group is low. The revenue does not come from end customers. Since the Group has historically not had any material loan losses, it is judged that a provision for any future loan losses does not amount to material sums.

2.11 Cash and cash equivalents

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

2.12 Share capital

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

2.13 Trade payables

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

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

2.14 Borrowing

Utilized overdrafts are recognized as borrowing among current liabilities in the balance sheet to the extent expected to be paid within 12 months. As of December 31, 2019, the amount was SEK 15 million and has been assessed on the basis of forecasts that formed the basis for the reconstruction plan. The rest of the overdraft is recognized as non-current.

The company has issued convertible debt instruments, i.e. what are known as compound instruments, where the holder can demand conversion to shares and where the number of shares to be issued is not affected by changes in the fair value of the shares. The liability component of a compound instrument is initially recognized at the fair value of a comparable liability that does not confer a right to convert the liability to shares. The complete terms and conditions of these convertible debt instruments are available on the company's website.

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

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

2.15 Current and deferred tax

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

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

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

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

2.16 Employee benefits

Pension obligations

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

Post-employment benefits

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

Profit participation and bonus plans

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

2.17 Share-based remuneration

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

The Group has a warrant program for senior management personnel and certain other key personnel, in order to manage new recruitments and promotions. This program is described in Note 31.

2.18 Provisions

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

Provisions are measured at the present value of outflows of resources expected to be required to settle the obligation. In this context, a pre-tax discount rate is used that reflects the current market assessments of the time-dependent value of money and the risks specific to the provision. The increase in the provision consequent upon the passage of time is recognized as interest expense. As of December 31, there are no provisions in the Group. In the parent company, a guarantee for loans from Nordea to the subsidiary Enterspace International AB has been recognized as a provision when the subsidiary is not expected to be able to fulfil its payment obligation. The subsidiary has gone into liquidation.

2.19 Revenue recognition

The Group's regular revenue comes mainly from end customers who pay a one-off price for the game as well as from the sale of DLCs, i.e. add-on packs to games. These models are described in more detail on page 11. 20% of Group sales for 2019 were made through the platform owner Steam. Revenue from Steam and other platforms is billed monthly or quarterly in the month after the sales period. The terms of payment vary from direct payment on receipt of invoice to 30 days from invoice date. The transaction price consists of agreed royalties.

Revenue from customers who buy games is often shared among more than one party, depending on the role of the party in the deal. Various shares of gross revenue from customers are obtained depending upon whether a party is a distributor, publisher, developer or owner of rights upon which the game is based. For every agreement to which the Group is a party, an analysis is made of the role and the implications, in terms of accounting, of acting as the principal or the agent in the revenue flow. Where the Group is assessed as the principal for a revenue flow, the revenue is recognized gross as net sales, and the revenue shares passed on to other parties are recognized as costs in the income statement. At present, the Group is classified as the agent in all contracts and thus recognizes the net of revenues and shares passed on to the principal as net sales. Royalties for games sold are recognized as revenue in the period in which the sales were made in accordance with the rules of IFRS 15. Under some agreements, Starbreeze sells the distribution right of a game IP for a specific platform. This usually occurs during the game's development. Starbreeze recognizes this payment as a liability until the game is completed and delivered. After delivery of the base game, which is performance commitment 1, the liability is taken up as revenue. Any future revenue sharing which may flow to Starbreeze will be taken up as revenue on an ongoing basis. This revenue stream relates to Performance Commitment 2, which is future DLCs that will be contractually provided if the game is successful.

When games are sold to the retail trade, it is not Starbreeze that either owns the product or bears the risk after delivery to the stores. The Group thus receives royalties on sold units only when the end consumer has purchased the game, and not when the product has been delivered to the retailer. Stores are not able to return any goods sold.

In 2019, revenues also consist largely of the sale of the publishing rights for System Shock 3, Psychonauts 2 and 10 Crowns. These sales have been recognized as turnover under IFRS 15 based on written agreements with identified and fulfilled performance commitments between Starbreeze and the buyers and control has been transferred to the counterparties. In the case of System Shock 3 and 10 Crowns, future royalty revenues were included as part of the agreement. These have not been taken up as revenue in accordance with IFRS 15.

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

2.20 Leases

IFRS 16 Leases has been applied as of January 1, 2019. IFRS 16 Leases replaces the previous standard IAS 17 Leases. Starbreeze has chosen to implement the standard according to the simplified transition method, which means that identified leases have not been restated retroactively, i.e. no impact on the comparative figures for periods before 2019. All leases that have been recognized in accordance with IFRS 16 relate to rental premises. Other leases fall under the exemption rules for small-value or short-term contracts and mainly relate to the rental of office machinery.

An adjustment of the financial statements to IFRS 16 means that the Group has taken up an asset class known as Rights-of-Use Buildings. The opening balance for both the asset and the current and non-current liability amounted to SEK 111.5 million on initial recognition in the first quarter. There were no sublease contracts at the beginning of the year. During the year, both premises in the United States were rented out to third parties. The asset in the form of the rights of use has then been reduced and a receivable has instead arisen in the balance sheet. The rental income has been derecognized and interest income has instead been entered in the income statement.

As of the closing date, the Group had a book value of rights of use of SEK 63.8 million. A non-current receivable of SEK 5.7 million and a current receivable of SEK 3.1 million have been recognized in accordance with the standard for sublease contracts. On the liability side, the Group has taken up a non-current liability of SEK 55.3 million and a current liability of SEK 19.2 million. The value of the rights of use has decreased by SEK 16.9 million as a direct result of amortization of the rights of use during the year. Net financial income and expense has been negatively impacted by SEK 2.0 million. The deposit paid for the premises in Stockholm is recognized as a financial asset in the balance sheet. No rental fees had been paid in advance at year-end.

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

Because the company has been in reconstruction and is still dependent on additional financing, no extension options in the contracts have been taken into account in the calculations. Non-lease components such as electricity costs have not been included in the calculations. See also Note 10 Rights of use.

For the comparison year 2018, these agreements have been recognized in accordance with IAS 17. See Note 10 Rights of use. This means that rental fees have been expensed on an ongoing basis as an operating cost accrued over time.

2.21 Statement of cash flows

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

2.22 Earnings per share

Basic

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

Diluted

To calculate diluted earnings per share, the weighted average number of common shares outstanding is adjusted by the dilutive effect of all potential ordinary shares. The parent company has issued stock options that have a potential dilutive effect. In respect of stock options, a calculation is made of the number of shares that could have been bought at fair value for an amount corresponding to the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared to the number of shares that would have been issued under the assumption that the options were exercised. There is no such dilutive effect for the financial year 2019.

2.23 Joint ventures

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

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

2.24 Earnouts

Earnouts are measured at fair value and at the closing day rate. The remeasurement is done through profit or loss and is recognized in net financial income and expense. See Note 4 and Note 33.

2.25 Available-for-sale assets and liabilities

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

2.26 Parent company accounting policies

Presentation format

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

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

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognized at cost less any impairments. Dividends received are recognized as income. When there is indication that investments in subsidiaries or associates have declined in value, the recoverable amount is calculated. If the

recoverable amount is lower than the carrying amount, the asset is impaired. Impairments are recognized under 'Impairment of investments in subsidiaries'.

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

Financial instruments

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

Group contributions

Group contributions are recognized as appropriations.

Deferred income tax

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

Leases

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

Provisions

In the parent company, a guarantee for loans from Nordea to the subsidiary Enterspace International AB has been recognized as a provision when the subsidiary is not expected to be able to fulfil its payment obligation. The subsidiary has gone into liquidation.

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

3 Financial risk management

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

A. Market risk

Currency risk

The Group operates internationally and is subject to currency risks from various currency exposures. Currency risk arises through future business transactions, recognized assets and liabilities and net investments in foreign operations. The Group has the option to use forward contracts to manage the currency risk arising from future business transactions and recognized assets and liabilities. Before foreign currency contracts are concluded, the CEO or CFO discusses any hedging with the Board of Directors, which can decide whether such hedging is to be done. The Group as far as possible matches cash flows in the different currencies and thus obtains a natural form of hedging. Currency flows are monitored

and followed up continuously by the Finance Department. The Group did not hold any forward contracts during the financial year. The Group receives royalties for games sold and other revenues in USD.

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

If the USD exchange rate had been 10 percent higher in relation to SEK, with all other variables constant, revenues for the year as of December 31, 2019 would have been SEK 24.5 million (33.2) higher and costs for the year would have been SEK 0.2 million (14.6) higher.

If the USD exchange rate had been 10 percent lower in relation to SEK, with all other variables constant, revenues for the year as of December 31, 2019 would have been SEK 24.5 million (33.2) lower and costs for the year would have been SEK 0.2 million (14.6) lower.

If the EUR exchange rate had been 10 percent higher in relation to SEK, with all other variables constant, revenues for the year as of December 31, 2019 would have been SEK 0.3 million (2.9) higher and costs for the year would have been SEK 1 million (6.9) higher.

If the EUR exchange rate had been 10 percent lower in relation to SEK, with all other variables constant, revenues for the year as of December 31, 2019 would have been SEK 0.3 million (2.9) lower and costs for the year would have been SEK 1 million (6.9) lower.

Of the net assets that were in foreign currencies at the balance sheet date of December 31, 2019, approximately SEK 42.3 million (22.7) was attributable to USD. If the USD exchange rate had been 10 percent higher/lower than the exchange rate prevailing at December 31, 2019, the Group's profit/equity after tax would have been positively/negatively impacted by approximately SEK 4.2 million (2.3).

Of the net liabilities that were denominated in foreign currencies at the balance sheet date of December 31, 2019, approximately SEK 9.3 million (78.5) was attributable to EUR. If the EUR exchange rate had been 10 percent higher/lower than the exchange rate prevailing as of December 31, 2019, the Group's profit/equity after tax would have been negatively/positively impacted by approximately SEK 0.9 million (7.9).

If the Swedish krona (SEK) had depreciated/appreciated by 10 percent in relation to EUR, with all other variables constant, the restated profit after tax as of December 31, 2019 would have been SEK 9.2 million (17.3) lower/higher.

If the Swedish krona (SEK) had depreciated/appreciated by 10 percent in relation to USD, with all other variables constant, the restated profit after tax as of 31 December 2019 would have been SEK 0.3 million (26) lower/higher.

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

Interest rate risk relating to cash flow and fair value

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

Price risk

The Group is exposed to price risk if it holds investments classified as assets measured at fair value through profit or loss. As of December 31, 2019, the company had no current investments.

B. Credit risk

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

credit risk exposure corresponds to the carrying amount of the financial assets.

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

The credit ratings of partners are regularly assessed to minimize credit risks. Any unpaid amounts are followed up directly and contact is made with the customers. We follow the industry and have ongoing and close contact with our customers. As the Group's customers are few in number and financially strong, credit risk in the Group is low. The revenue does not come from end customers. See also Note 2.19 Impairment of financial assets.

There is no risk regarding remaining intra-Group receivables as all receivables and liabilities are expected to be paid under the established reconstruction plan. See page 33.

C. Liquidity risk

Cash flow forecasts are prepared for the entire Group. The Finance Department regularly prepares and evaluates forecasts for the Group's liquidity reserve. THE CFO is responsible for these being produced and reported to the CEO and the Board of Directors in accordance with the Group's financial policy. The Group has an overdraft facility as of the closing date, see Note 2.14.

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

The following table analyzes consolidated financial liabilities, distributed according to the time remaining to the contractually agreed due date as of the reporting date. The amounts shown in the table are the contractual, undiscounted cash flows with the exception of the convertible loan from Smilegate which has been recognized at amortized cost according to the effective interest method.

The convertible loan to Acer of SEK 71.5 million was converted in April 2019.

The convertible loan to Smilegate that matured before renegotiation in February 2020 and the portion of the overdraft from Nordea that is expected to be paid within 12 months under the reconstruction plan, SEK 15 million, has been reclassified as current liability.

	1-6 months	7-12 months	1-2 years	2-5 years	> 5 years
At 31 December 2019					
Trade and other payables	27 679	32 000	12 285	-	-
Current liability, earnout	-	-	62	-	-
Lease liability	-	19 181	-	55 272	-
Bank overdraft facility, Nordea	-	15 000	63 096	-	-
Trade and other payables, convertible	213 928	-	-	-	-
Other liabilities	-	41 576	12 994	32 634	-
Total	241 607	107 757	88 437	87 906	-

	1-6 months	7-12 months	1-2 years	2-5 years	> 5 years
At 31 December 2018					
Trade and other payables	454 365	65 056	-	-	-
Non-current liability, earnout, ePawn	20	-	70	-	-
Non-current liability, earnouts, Nozon/Parallaxter	-	-	10 267	108 606	166 430
Bank overdraft facility, Nordea	75 770	-	-	-	-
Convertible bond, Smilegate	221 074	-	-	-	-
Other non-current liabilities	30 000	-	8 971	7 676	-
Total	781 229	65 056	19 308	116 282	166 430

D. Capital risk

The CFO continuously monitors the Group's liquidity and capital needs for the next twelve months. If capital is lacking for the period, the Board of Directors is notified immediately. During and after the reconstruction, this has been a priority and particularly closely monitored area.

The company does not currently have enough secured funds to guarantee continued operation for the next 12 months and is expected to have a liquidity shortage in the fourth quarter of 2020 unless additional funds are supplied.

The Board of Directors has assessed whether the assumption of continuation as a going concern is fulfilled. The following are the main measures and assumptions on which the company's assessment is based:

After the 2019 reconstruction, the company is focusing on its core business based on the Payday brand. Payday has a large market value that has been confirmed by the valuation by E&Y in 2019 on behalf of the administrator. Negotiations are ongoing with publishers regarding PAYDAY 3 and PAYDAY: Crime War. A publishing agreement is an essential requirement for further operation and will create financial stability as it means that all production costs will be financed, which would mean that the company will be fully financed over the next 12 months.

The company has external loans from Smilegate (taken over by DigitalBros in March 2020) and Nordea amounting to SEK 323 million (SEK 215 million relates to a convertible loan to Digital Bros that can be converted into shares with a strike price of SEK 2.25 per share). The loans are repaid when the borrowing companies concerned have funds available. The loans run until December 6 2024 after renegotiation after the end of the year.

E. Fair value calculation

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

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

The table on the next page presents the Group's financial assets and liabilities measured at fair value as of December 31, 2019. There were no transfers between the levels during the year.

Level 2 financial instruments

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

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

Level 3 financial instruments

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

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

be based.

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

Financial liabilities		
Conditional earnout	-	62

Fair value calculation, Group 2018	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2018		

Financial liabilities		
Conditional earnout	-	88 661
Derivatives on convertible bond	42	-

Conditional earnout related to acquisition

Balance at 1 January 2019	-	88 662
Exchange rate differences	-	1 434
Remeasurement of liability	-	-85 548
Divested subsidiaries	-	-4 486
Balance at 31 December 2019	-	62

Fair value calculation, Parent 2019	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss at 31 December 2018		

Financial liabilities		
Conditional earnout	-	62

Fair value calculation, Parent 2018	Level 2	Level 3
Financial assets and liabilities measured at fair value through profit or loss as of 31 December 2018		

Financial liabilities		
Conditional earnout	-	88 662
Derivatives on convertible bond	42	-

Conditional earnout related to acquisition

Balance at 31 December 2017	-	88 662
Exchange rate differences	-	1 434
Remeasurement of liability	-	-85 548
Acquisitions during the year	-	-4 486
Balance at 31 December 2018	-	62

4 Key accounting estimates and judgments

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

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

Income taxes

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

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

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

Revenue recognition

Sales of proprietary games are made digitally and physically through external distributors for both PC and game consoles such as PS4, Xbox Live and Nintendo Switch. The gross payment stream in all cases goes through the platform distributor. Starbreeze has judged that agreements for the sale of games developed in-house should be classified as revenue-splitting agreements, meaning that Starbreeze only recognizes its share of revenue in its income statement. For agreements where the judgment is instead that Starbreeze is a party toward the end customer, the company has to recognise the entire revenue gross and the publisher's share of the revenue should be recognized as a deductible cost item, which means the same net profit as with current accounting. Net sales also include the sale of licenses, game franchises or other similar rights as such transactions are of a recurring nature for the Company.

Capitalization of game development expenses

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

Earnout ePawn

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

Earnout Nozon/Parallaxter

Liability relating to contingent consideration, which is linked to the revenue linked to the technology acquired, and which could arise within 10 years of signing of the acquisition agreement has been fully reversed as Nozon was sold in June 2019 and Parallaxter was sold in February 2020. No requirements for earnout from the acquisitions consequently remain in place.

Earnout Enterspace

The amount of contingent consideration, which is linked to the revenue linked to the VR experience centres on Sveavägen in Stockholm and in Dubai, and which may arise within 6 years from signing of the acquisition agreement was impaired as of December 31, 2018 to zero. Both VR experience centres have been closed down, and no earnout requirements from the acquisitions can be appropriate as the company is dormant and has no revenue.

Earnout Dhruva

A contingent consideration, which is linked to the revenue in Dhruva and which could arise within 4 years from signing of the acquisition agreement has been fully reversed as of December 31, 2019, as the subsidiary was sold in May 2019.

Leases

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

Impairment testing of intangible assets

The Group tests annually for impairment of goodwill and other intangible assets with indefinite useful lives, in accordance with IFRS and IAS 36.

Testing is performed more often if there is indication of decline in value.

See Note 21 Intangible assets concerning sensitivity analysis.

Valuation of subsidiary shares and receivables from subsidiaries

The parent company tests each year whether there is a need for impairment of subsidiary shares and receivables from subsidiaries. During the year, the parent company reduced the value of subsidiary shares by SEK 222.6 million (782.5) and impaired receivables from subsidiaries by SEK 24.7 million (196), a total of SEK 247.3 million (978.5).

Going concern

See Note 3 D

5 Segment reporting

Starbreeze reports by segment: Starbreeze Games, Publishing, VR Tech & Operations and Other. Reporting is provided down to operating profit or loss, and assets and liabilities are not reported.

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

Segment reporting, Group

	2019	2018
Starbreeze Games		
Net sales	127 020	168 554
Direct costs	-229 682	-733 612
Gross profit	-102 662	-565 058
Operating costs	-75 563	-111 769
Operating profit (-loss)	-178 225	-676 827
Publishing		
Net sales	146 494	135 145
Direct costs	-199 750	-177 702
Gross profit	-53 256	-42 557
Operating costs	-17 563	-19 768
Operating profit (-loss)	-70 819	-62 325
VR Tech & Operations		
Net sales	2 236	33 654
Direct costs	-219 745	-599 982
Gross profit	-217 509	-566 328
Operating costs	-7 198	-45 540
Operating profit (-loss)	-224 707	-611 868

Other

Net sales	4 252	12 602
Direct costs	-12 343	-222 607
Gross profit	-8 091	-210 005
Operating costs	-22 520	-16 779
Operating profit (-loss)	-30 611	-226 784

Total

Net sales	280 002	349 955
Direct costs	-661 520	-1 733 903
Gross profit	-381 518	-1 383 948
Operating costs	-122 844	-193 856
Operating profit (-loss)	-504 362	-1 577 804
As there are no revenues from transactions with other segments, presented net sales refer to revenues from external customers.		
Profit or loss per segment is distributed through operating profit or loss.		
Operating profit or loss is reconciled against profit or loss before tax as follows:		
Starbreeze Games	-178 225	-676 827
Publishing	-70 819	-62 325
VR Tech & Operations	-224 707	-611 868
Other	-30 611	-226 784
Total	-504 362	-1 577 804
Net financial income or expense	51 938	230 556
	-452 424	-1 347 248

The Group's revenue comes from four different regions as shown below. The Group sells to distributors/platform owners and does not sell directly to consumers. The largest distributor/platform owner, Steam, accounted for 20 percent of sales in 2019.

In 2019, the publishing rights to System Shock 3, Psychonauts 2 and 10 Crowns were sold. These belonged to the Publishing segment and have increased revenues by SEK 140.8 million and direct costs by SEK 169.2 million.

Segment reporting, Group

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

2018	Starbreeze Games	Publishing	VR Tech & Operations	Other
Net sales				
- Games (PC & Console)				
Sweden	5 775	271	-	-
Rest of Europe	27 074	11 425	-	-
USA	82 899	72 260	-	-
Asia	12 270	8 899	-	-
- Services				
Rest of Europe	-	-	-	12 602
USA	-	-	2 728	-
Asia	34 831	-	23 699	-
- Licenses				
USA	3 958	39 236	-	-
- Other				
Sweden	757	1 020	1 612	-
Rest of Europe	30	-	24	-
USA	5	210	-	-
Asia	955	1 824	5 591	-
Total net sales	168 554	135 145	33 654	12 602

Assets and investments, distribution at 31 December 2018

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

Assets and investments, distribution at 31 December 2017

	Sweden	USA	France	Luxembourg	Belgium	Spain	Taiwan	India	United Arab Emirates	Total, Group
Intangible assets	545 289	41 860	14 363	56 637	113 981	-	-	-	-	772 129
Financial assets	5 987	1 613	1 186	47	1 600	240	4 656	6 373	-	21 703
Property, plant and equipment	44 049	6 521	2 044	-	5 855	2 010	-	2 951	19	63 450
Total	595 324	49 994	17 593	56 684	121 436	2 250	4 656	9 324	19	857 282

Impairments have been made as follows:

Impairments by asset class 2019, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Other intangible assets	-	3 869	101 651	-	105 520
Capitalized development cost for own games and technology d	111 327	-	55 394	-	166 721
Investments in publishing projects	-	21 600	-	-	21 600
VR facilities, IT equipment and other equipment	-	-	26 465	4 445	30 910
Summa	111 327	25 469	183 510	4 445	324 751

Impairments in profit and loss and other comprehensive income for the period 2019, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Direct costs	111 327	25 469	183 510	-	320 306
Other comprehensive income	-	-	-	4 445	4 445
Total	111 327	25 469	183 510	4 445	324 751

Impairments by asset class 2018, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Goodwill	32 244	-	324 584	92 080	448 908
Other intangible assets	103 414	-	37 169	80 379	220 962
Capitalized development cost for own games and technology d	433 638	13 234	104 222	6 252	557 346
Investments in publishing projects	-	65 399	-	-	65 399
Financial assets	-	-	-	29 592	29 592
VR facilities, IT equipment and other equipment	-	-	79 647	-	79 647
Total	569 296	78 633	545 622	208 303	1 401 854

Impairments in profit and loss and other comprehensive income for the period, SEKk	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Direct costs	569 296	78 633	545 622	178 711	1 372 262
Finance net	-	-	-	18 091	18 091
Other comprehensive income	-	-	-	11 501	11 501
Total	569 296	78 633	545 622	208 303	1 401 854

6 Net sales

The date of recognition of revenue is as follows:

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

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

Contractual assets and contractual liabilities

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

The Group has no contractual liabilities as of December 31, 2019 (SEK 11.1 million). The liability in the previous year was linked to StarVR. The prepaid income has been reversed as no repayment claims remain.

Remaining unfulfilled performance commitments

All contracts for the sale of services included in development assignments have an original term of no more than one year or are invoiced based on time spent. In accordance with the rules in IFRS 15, no disclosure has been provided on the transaction price of these unfulfilled commitments.

	Group		Parent	
	2019	2018	2019	2018
Development contracts	-	34 831	-	-
Royalties	-	229 458	-	-
Other services	-	85 665	58 990	55 304
Total	-	349 955	58 990	55 304

7 Other operating income

	Group		Parent	
	2019	2018	2019	2018
Exchange differences	-	8 959	-	9 277
Other income	-	4 303	-	-
Total	-	13 262	-	9 277

8 Costs broken down by cost type

	Group		Parent	
	2019	2018	2019	2018
Capitalized development	-92 412	-333 946	-	-
External services	271 176	309 922	58 896	41 554
Employee benefits expenses	187 124	346 032	38 574	53 835
Cost of premises	29 384	51 526	690	338
Other costs	20 408	-	7 078	-
Depreciation, amortization and impairments	387 905	1 567 488	217	579
Total	803 585	1 941 022	105 455	96 305

9 Remuneration of auditors

	Group		Parent	
	2019	2018	2019	2018
Öhrlings Pricewaterhouse-Coopers AB				
Statutory audit	2 099	798	1 886	516
Auditing services in addition to statutory audit	414	1 029	414	1 029
Tax advisory services	213	852	213	852
Other services	210	-	210	-
Other				
Statutory audit	229	-	-	-
Total	3 165	2 679	2 722	2 397

Group: Of the amount for auditing activities other than the statutory audit, SEK 0.4 million relates to PwC Sweden, of fees for tax advisory services, SEK 0.2 million relates to PwC Sweden and of the amount for other services, SEK 0.2 million relates to PwC Sweden.

The total audit fee for the Group increased significantly due to the Group's financial situation and the reconstruction process the company was in for most of the year. These conditions, which have increased risks for the Group as a whole, have led to an increase in audit efforts compared to previous years. The wide difference between the years is also due to the fact that some of what was expensed during the year relates to 2018.

Parent company: For the parent company, of the amount for auditing activities other than the statutory audit, SEK 0.4 million relates to PwC Sweden, of fees for tax advisory services, SEK 0.2 million relates to PwC Sweden, and of the amount for other services SEK 0.2 million relates to PwC Sweden.

10 Rights of use

The Group applies IFRS 16 as of January 1, 2019. The contracts that fall under the standard relate to leases for premises in Sweden, the United States and Spain. Other leases, for example for office machinery, are subject to the exemption rules for contracts with short terms and small value and also continue to be expensed on a straight-line basis in the income statement. The comparative figures for 2018 have not been restated.

The opening balance of both the asset and the current and non-current liability amounted to SEK 111.5 million on initial recognition in the first quarter. There were no sublease contracts at the beginning of the year. During the year, both premises in the United States were leased to third parties.

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

See also Note 2.17.

The effects of the application of IFRS 16 are presented in the tables below.

	December 2019, before IFRS 16	IFRS 16	December 2019, adjusted
Non-current assets			
Intangible assets	369 396	-	369 396
Financial assets	9 453	5 716	15 169
Fixed assets	12 850	63 764	76 614
Current assets	127 687	3 106	130 793
Total assets	519 386	72 586	591 972
Equity	7 552	-1 394	6 158
Non-current liabilities			
Non-current liabilities	121 071	55 272	176 343
Deferred tax liabilities	8 326	-473	7 853
Current liabilities	382 437	19 181	401 618
Total equity and liabilities	519 386	72 586	591 972

	December 2019, before IFRS 16	IFRS 16	December 2019, adjusted
Net sales	280 002		280 002
Direct costs	-661 520		-661 520
Gross profit (-loss)	-381 518		-381 518
	-		-
Selling and marketing costs	-12 048		-12 048
Administrative expenses	-109 711	102	-109 609
Other revenue	19 221		19 221
Other expenses	-20 408		-20 408
	-		-
Operating profit (-loss), EBIT	-504 362		-504 362
	-		-
Net interest income/expense	53 925	-1 987	51 938
Profit (-loss) before tax	-452 424		-452 424
	-		-
Income tax	50 847	478	51 325
	-		-
Profit (-loss) before tax	-399 692	-1 407	-401 099

Right-of-use assets in the balance sheet	2019-12-31
Premises Stockholm	62 265
Premises Barcelona	1 498
Total Right-of use assets	63 764

Change in leases during the year	2019-12-31
Opening balance right-of-use assets, 1 Januari 2019	111 500
Endend agreements	-27 181
Subleases	-1 302
Exchange rates differences	-855
Depreciation of the year	-16 895
Capital loss when entering sublease contracts	-1 503
Closing balance right-of-use assets, 31 December 2019	63 764

Analysis of the lease liability	2019-12-31
Within one year	19 181
1-5 years	55 272
>5 years	-
Total	74 453

Analysis of the lease receivable	2019-12-31
Within one year	3 106
1-5 years	5 716
>5 years	-
Total	8 822

Lease contract 2018

Lease expenses (minimum)	Group	Parent Company
Due within one year	43 259	179
Due within 2-5 years	105 688	-
Due after 5 years or more	8 074	-
Total	157 021	179

Lease expenses	Group	Parent Company
Premises	46 260	687
Equipment	543	251
Total	46 803	938

Average number of employees	2019		2018	
	Total	Of whom, men	Total	Of whom, men
Parent company				
Sweden	19	14	23	14
Subsidiaries				
Sweden	158	139	242	210
France	9	8	10	9
USA	1	-	4	2
Luxembourg	-	-	2	2
Belgium	17	14	23	18
United Arab Emirates	3	2	5	4
Spain	9	9	9	9
India	115	107	286	265
Total	331	293	604	533

11 Average number of employees

Directors and senior management personnel	2019		2018	
	Number on reporting date	Of whom, men	Number on reporting date	Of whom, men
Group				
Directors	6	5	2	2
CEO and senior management personnel	3	2	8	5
Parent company				
Directors	6	5	2	2
CEO and senior management personnel	3	2	8	5

12 Employee benefit expenses

Board of Directors

A fee is paid to the Chairman of the Board and directors as resolved by the Annual General Meeting. Directors' fees resolved by the AGM for the 2019 financial year amount to SEK 2,070 thousand (1,960). The Chairman of the Board receives SEK 950 thousand (700) and the Board members SEK 280 thousand (210) each, with the exception of the director Stefano Salbe, who has waived his right to remuneration. In addition, the Annual General Meeting resolved upon a fee for the Remuneration Committee of SEK 75,000 each for the chair and members. A fee adopted for the Audit Committee of SEK 400,000 for the chair and SEK 175,000 for a member.

An Extraordinary General Meeting held on March 7, 2019, resolved that for the period until the end of the next annual general meeting a fee of SEK 620 thousand should be paid to the new Board. The Chairman of the Board receives SEK 400 thousand and the Board members SEK 55 thousand each. In addition, fees are paid for work on the Audit Committee at SEK 150 thousand for the Chairman and SEK 75 thousand per member. No remuneration is to be paid to the Remuneration Committee for the period until the end of the next annual general meeting.

Chief Executive Officer

The Chairman of the Board negotiates with the CEO regarding the CEO's salary and other terms of employment. The Chairman reports the outcome of these negotiations to the entire Board prior to a final decision being made. Pay and remuneration to the Board of Directors and the CEO includes salary and benefits to the CEO during the year of SEK 8,118 thousand (9,327) and pension expenses of SEK 246 thousand (327). The costs for the CEO relate to the current holder of the position, Mikael Nermark. Salary for Bo Andersson-Klint, the former CEO employed up until December 2018, during the notice period until June 2019 is fully recognized in 2018 but was charged monthly until June 2019. The CEO is required to provide six months' notice of resignation, and the company is required to provide nine months' notice of termination. There are no agreements on severance pay.

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

Senior management personnel

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

Cost of employee compensation

Total	Group		Parent	
	2019	2018	2019	2018
Salaries and other remuneration	138 836	221 876	27 549	35 979
Social insurance costs	44 237	73 732	10 459	16 845
(of which, pension expenses)	9 241	16 412	2 560	3 202
Total	183 073	205 813	38 009	43 377

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

	Board and CEO		Other employees	
	2019	2018	2019	2018
Group	11 076	11 559	127 760	210 317
Parent company	11 076	11 559	16 473	24 420

¹ Mikael Nermark was appointed Starbreeze CEO 2018-12-02, the day before the company applied for corporate reconstruction. Mikael Nermark's task was to lead the work on the corporate reconstruction and was hired on the same terms as the former CEO Bo Andersson. In addition to a fixed remuneration of SEK 4.8 per year, a bonus would be paid if the company was not declared bankrupt. After extensive work by Mikael Nermark and the company's employees,

13 Remuneration of the Board of Directors and senior management personnel

Principles

Principles for remuneration of senior management personnel were established by the Annual General Meeting held in June 2019. Remuneration of the CEO and other senior management personnel is to consist of fixed salary. The Board of Directors is also entitled to decide on variable remuneration in the form of a cash bonus in amounts that do not exceed 75¹ per cent of the fixed annual salary of the CEO and 50 per cent of the fixed annual salary of other senior management personnel on an annual basis.

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

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

Remuneration and other benefits during the financial year

A total amount of salary, variable remuneration and other benefits was paid to senior management personnel, including the CEO, of SEK 12,709 thousand (28,946), as well as an invoiced fee for the CFO of SEK 4,039 thousand (0). Defined contributions to pension plans are paid for senior management personnel corresponding to costs under the ITP plan.

Costs for stock options granted to employees were charged against profit and loss for the year in the amount of SEK 0 thousand (-983).

the corporate reconstruction was successfully completed in December 2019. Against this background, the Board of Directors has granted a bonus to Mikael Nermark representing 45% of the fixed remuneration, which corresponds to SEK 2.1 million. The amount is reported as "Variable remuneration and royalties" on the table on the next page.

Board and senior management

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

Board and senior management

2018	Base pay/director's fee	Variable pay and royalties	Other benefits	Pension expenses	Share-based payments	Total	Granted employee/director stock options	Remaining employee/director stock options	Granted warrants	Remaining warrants
Michael Hjorth, director/chairman	847	-	-	-	-	847	-	-	-	-
Matias Myllyrinne, director	206	-	-	-	-	206	267 000	-	-	-
Eva Redhe, director	161	-	-	-	-	161	267 000	-	267 000	-
Ulrika Hagdahl, director	383	-	-	-	-	383	-	-	-	-
Harold Kim, director	200	-	-	-	-	200	-	-	-	-
Åsa Wirén, director	269	-	-	-	-	269	-	-	-	-
Kristoffer Arwin, director	118	-	-	-	-	118	-	-	-	-
Bo Andersson Klint, CEO/director	8 629	-	295	306	8	9 238	400 000	-	1 091 766	-
Mikael Nermark, deputy CEO	3 203	-	173	226	-	3 602	-	-	100 000	100 000
Other senior management personnel; average of 6.6 individuals, 7 individuals at year-end	12 430	-	87	1 413	19	13 949	705 000	-	1 135 512	-
Total	26 446	-	555	1 945	27	28 973	1 639 000	-	2 594 278	100 000

14 Other operating expenses

	Group		Parent	
	2019	2018	2019	2018
Capital loss divested subsidiary	-30 599	-	-	-
Writedown of debt on group company in liquidation	-5 243	-	-5 243	-
Agreed waived liability to group company hold for sale	15 434	-	-	-
Other expenses	-	-	-1 835	-
Total	-20 408	-	-7 078	-

15 Finance income and costs

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

	Group		Parent	
	2019	2018	2019	2018
Interest income	-	-	5 256	3 143
Remeasurement of earnouts	84 099	259 200	92 783	-
Remeasurement of derivatives attributable to convertible bonds	-	8 150	-	25 195
Interest on loan to StarVR Corp.	-	28 467	-	-
Other	167	-	-	-
Total financial income	84 266	295 817	98 039	28 338
Interest expenses	-10 905	-6 583	-56	-330
Interest expenses, convertible bonds	-17 974	-21 445	-17 974	-21 445
Interest expenses lease	-1 987	-	-	-
Remeasurement of derivatives attributable to convertible bonds	-	-	-	-
Impairment of joint venture	-	-	-	-41 302
Provision for guarantee commitment for loan in subsidiary*	-	-	-31 230	-
Other financial expenses	-	-	-5 000	-
Total financial expenses	-30 866	-28 028	-54 260	-63 077

*Enterspace International Ab in liquidation's loan from Nordea.

16 Appropriations

	Parent	
	2019	2018
Difference between recognized and planned depreciation and amortization	-	16
Group contribution	187 393	4 991
Total	187 393	5 007

17 Income tax and deferred tax

The applicable tax rate is the income tax rate for the Group. The average weighted tax rate is 29.1%. The tax rate for the parent company and other Swedish Group companies decreased from 22.0% to 21.4% in 2019, according to applicable tax rates. Temporary differences exist when the respective taxable values of assets or liabilities differ.

Temporary differences in Starbreeze have arisen mainly through tax loss carryforwards. Deferred tax assets are recognized for tax loss carryforwards to the extent that they can be utilized through future taxable profits and to the extent that they can be offset against deferred tax liabilities on temporary differences.

No deferred tax asset, relating to loss carryforwards, had been recognized as of December 31, 2019. As of the closing date, the unrecognized loss carryforward for the parent company and the Swedish subsidiaries amounts to SEK 434.0 million. Loss carryforwards cannot be utilized between companies in different countries, and the remaining Swedish tax loss carryforward has a Group contribution restriction with regard to Enterspace AB and the other Swedish Group companies, which is applicable to losses generated up to December 31, 2016 and cannot be utilized until 2023 at the earliest. In addition, for deficits generated up to 2019, there is a Group contribution restriction in relation to the two new companies in the Group, New Starbreeze Studios AB and New Starbreeze Publishing AB. These deficits can be utilized in 2026 at the earliest.

	Group		Parent	
	2019	2018	2019	2018
Recognized profit (-loss) before tax	-452 424	-1 347 249	-14 695	-1 039 964
Tax at applicable tax rate	131 850	290 555	3 145	228 792
Tax effect of other non-deductible costs	-163 497	-75 867	-29 970	-224 548
Tax effect of other non-taxable income	17 885	6 899	20	6 934
Foreign withholding tax	-793	-1 483	-	-
Tax effect of loss carryforwards recognized in the balance sheet	-	-106 210	-	-23 126
Change of unrecognized tax assets related to loss carryforwards	65 891	-110 040	26 409	-11 179
Adjustment of tax for previous year	-11	7 043	396	-306
Tax on profit for the year according to income statement	51 325	10 897	-	-23 433

Distribution of income tax, Group	2019	2018
Current tax	-64	-5 792
Deferred tax	51 389	16 689
Tax on profit for the year according to income statement	51 325	10 897

Group	2019-12-31	2018-12-31
Balance at 1 January, deferred tax assets	326	108 153
Change of value of loss carryforwards through profit or loss	-326	-107 827
Balance at 31 December, deferred tax assets	-	326
Balance at 1 January, deferred tax liabilities	56 269	169 346
Change of temporary differences in capitalized development costs through profit or loss	-14 583	-56 729
Changes in temporary differences in surplus values in the Group	-32 527	-57 181
Change relating to reversal of deferred tax through profit or loss	326	-
Lease IFRS16	-473	-
Deferred tax on untaxed reserves	-3	-3
Exchange differences	-1 156	836
Balance at December 31, deferred tax liabilities	7 853	56 269

Specification of deferred tax liabilities	2019-12-31	2018-12-31
Lease IFRS16	-473	-
Temporary differences in surplus values in the Group	1 386	33 913
Untaxed reserves	-	833
Change of temporary differences in capitalized de	6 940	21 523
Total deferred tax liabilities	7 853	56 269

18 Earnings per share

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

To calculate diluted earnings per share, the weighted average number of common shares outstanding is adjusted by the dilutive effect of all potential ordinary shares. In respect of stock options, a calculation is made of the number of shares that could have been bought at fair value for an amount corresponding to the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared to the number of shares that would have been issued under the assumption that the options were exercised.

Group	2019	2018
Earnings per share		
Basic, SEK	-1,22	-4,20
Diluted, SEK	-1,22	-4,20

Number of shares at the end of the period

Basic	329 367 849	325 295 554
Diluted*	329 367 849	345 895 038

Average number of shares

Basic	328 349 775	317 956 811
Diluted*	328 349 775	317 956 811

* Since Starbreeze's share price at the closing date is significantly lower than the conversion rate for the Smilegate loan, no conversion is assumed before the loan expires in February 2020. No dilute effect has therefore affected the calculations of the number of shares. The company has issued 625,275 warrants that are not expected to be exercised due to the set strike price substantially exceeding the share price. They have therefore not given rise to a dilutive effect.

19 Inventories

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Finished goods	-	44	-	-
Total	-	44	-	-

20 Dividend per share

No dividend will be proposed.

21 Non-current intangible assets

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

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

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

As of December 31, 2019, impairment tests were performed for goodwill and shares in subsidiaries. The game development projects for which costs have been capitalized has been tested separately. The table presents which asset classes have been impaired and within which segment.

Impairments by asset class	Starbreeze Games	Publishing	Technology	Other	Total
Other non-current assets	-	3 869	101 651	-	105 520
Capitalized expenditure for own games and technology development	111 327	-	55 394	-	166 721
Investments in publishing projects	-	21 600	-	-	21 600
Total	111 327	25 469	157 045	-	293 841

Impairments in profit and loss and other comprehensive income for the period

	Starbreeze Games	Publishing	Technology	Other	Total
Direct costs	111 327	25 469	157 045	-	293 841
Total	111 327	25 469	157 045	-	293 841

Most of the impairments are attributable to VR investments, which are charged to the VR Tech and Operations segment. One of the reasons why the Group makes the impairments is that it has been found that commercial opportunities for VR technology are lacking. Impairments in the Starbreeze Games segment are attributable to the game Crossfire, which has been fully impaired as of December 31, 2019 after an agreement was entered into with Smilegate to terminate the cooperation regarding the product and all rights have accrued to Smilegate.

The remaining assets are primarily attributable to the core business in game development and publishing, i.e. the Starbreeze Games and Publishing segments.

The remaining goodwill, SEK 43.6 million, is in the Starbreeze Games segment. The recoverable amount consists mainly of cash flows related to PAYDAY.

For assets in the Starbreeze Games and Publishing segments, impairment judgments have been made within the Group based on discounted future cash flows.

Within each segment, the assets have been divided into different cash-generating units (CGUs). The division into CGUs is based on its commercialization and not which platform it belongs to. As an example, PAYDAY is its own CGU. The Payday CGU comprises PAYDAY, PAYDAY 2, PAYDAY 3, PAYDAY Switch and PAYDAY: Crime War. In other words, it is not the platform that decides, it is the IP itself that generates the cash flow. When the assets are impairment tested, this is viewed from a CGU perspective.

Impairment per CGU

Impairments in profit and loss and other comprehensive income for the period

	Starbreeze Games	Publishing	Technology	Other	Total	
Crossfire	Games IP	-	-	111 327	-	111 327
Deliver Us The Moon	Games IP	-	-	-	451	451
Hype	Games IP	-	-	-	929	929
Cinemaware	Games IP	-	3 869	-	-	3 869
Hotel 666	Games IP	-	-	-	20 220	20 220
PresenZ	Geoup VR technology	-	42 674	55 394	-	98 068
VR Tech	Geoup VR technology	-	58 977	-	-	58 977
Total		-	105 520	166 721	21 600	293 841

Remaining CGUs after impairment testing

CGU	Description of CGU	Goodwill	Other intangible assets	Capitalized expenditure for own games and technology development	Investments I publishing projects	Total
Payday	Games IP	43 601	239 754	81 518	-	364 873
Geminose	Games IP	-	467	-	-	467
Deliver Us the Moon	Games IP	-	-	-	82	82
Hype	Games IP	-	-	-	3 974	3 974
Total		43 601	240 221	81 518	4 056	369 396

Goodwill

Cash flows for the next four years were used to calculate value in use with growth of 0 percent (0) after the forecast period. A tax rate of 21.4 percent (21.4) was used, which was assumed to correspond to the average in the Group. A pre-tax discount rate of 15 percent (15) was also applied. A sensitivity analysis shows that a margin also remains with an increased discount rate of 25 percentage points (25). The impairment test did not give rise to any impairment (SEK 448.9 million). The average EBITDA margin was 43 percent (20 percent) for the forecast period.

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

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

Segment	2019-12-31	2018-12-31
Starbreeze Games	43 601	42 137
Other	-	15 032
Total	43 601	57 169

Game and technology development projects

Impairment testing of game development projects was based on each game's estimated future cash flows and profit or loss based on management's forecasts and budgets for the next four years. No additional cash flows are included in the calculations. PAYDAY 2 has been

assumed to have lower sales than the current one and for PAYDAY 3 the expected cash flows are based on the history of previous PAYDAY games. PAYDAY 3 is expected to be launched in 2022-2023 and to peak in terms of sales in the first few months after release. Assumptions have been made about bringing in publishing partners for Payday 3 and PAYDAY: Crime War, which can contribute both capital and experience, and the value of the assets depends on such cooperation. See further under section D Capital risk in Note 3 Financial risk management. The margin varies between 45 percent and 68 percent in the forecasts depending on sales volume. The plausibility of the forecasts has been assessed by industry colleagues. Cash flows for PAYDAY: Crime War has been developed together with third parties with extensive experience in mobile games. Expenditure is based on plans drawn up with publishers and on experience of previous productions and includes the costs necessary for production. The discount rate used in impairment testing is 15 percent (15-25 percent). It has been assessed that the discount rate for remaining assets is the same for all assets. This assumption is based in part on an external valuation of the assets. A sensitivity analysis shows that a margin remains even with an increased discount rate of 25 percent for proprietary games. Publishing games are impaired to discounted present values of expected cash flows. The Group has impaired projects totalling SEK 293.8 million (622.7), of which Crossfire accounts for SEK 111.3 million.

Group	Other intangible assets				Capitalized game and technology development costs	Investments in publishing projects	Other	Total
	Goodwill	IP	Technology	Total				
Cost at 1 January 2019	507 396	376 034	271 389	647 423	840 680	355 012	6 705	2 357 216
Divested subsidiary	-59 753	4 236	-593	3 643	417	-1 153	-	-56 846
Sale of publishing rights	-	-	-	-	-	-166 642	-	-166 642
Development in progress								
Own development	-	-	-	-	90 055	-	-	90 055
Own technology development	-	-	684	684	-	-	-	684
Exchange differences	11 745	7 486	-	7 486	407	109	-	19 747
Asset held for sale	-	-	-	-	-	-	-	-
Cost at 31 December 2019	459 389	387 756	271 480	659 236	931 559	187 326	6 705	2 244 214
Depreciation, amortization and impairments at 1 January 2019	-450 227	-210 730	-80 621	-291 351	-669 763	-167 041	-6 705	-1 585 087
Depreciation and amortization for the year	-	-19 953	-75	-20 028	-9 523	-3 467	-	-33 018
impairments for the year	-	-96 120	-9 399	-105 519	-166 722	-21 600	-	-293 841
Divested subsidiary	41 361	2 288	-	2 288	-	8 840	-	52 489
Exchange differences	-6 922	-4 405	-	-4 405	-4 033	-1	-	-15 361
Depreciation, amortization and impairments at 31 December 2019	-415 788	-328 920	-90 095	-419 015	-850 041	-183 270	-6 705	-1 874 818
Total carrying amount at 31 December 2019	43 601	58 835	181 386	240 221	81 518	4 056	-	369 396

Other intangible assets

Group	Other intangible assets				Capitalized game and technology development costs		Other	Total
	Goodwill	IP	Technology	Total				
Cost at 1 January 2018	544 971	361 635	270 787	632 422	506 416	228 972	6 705	1 919 487
Acquisition of technology	-	-	602	602	-	-	-	602
Development in progress								
Own development	-	-	-	-	333 946	-	-	333 946
Game development in publishing business	-	-	-	-	-	125 998	-	125 998
Exchange differences	19 208	18 635	-	18 635	737	40	-	38 620
Asset held for sale	-56 783	-4 236	-	-4 236	-417	-	-	-61 436
Cost at 31 December 2018	507 396	376 034	271 389	647 423	840 682	355 010	6 705	2 357 216
Depreciation, amortization and impairments at 1 January 2018	-	-22 786	-18 874	-41 660	-51 177	-41 444	-	-134 281
Depreciation and amortization for the year	-	-31 245	-3 624	-34 869	-54 769	-56 028	-186	-145 853
Impairments for the year	-448 909	-153 163	-57 317	-210 480	-557 139	-69 568	-6 519	-1 292 615
Exchange differences	-1 318	-3 536	-806	-4 342	-6 678	-	-	-12 338
Depreciation, amortization and impairments at 31 December 2018	-450 227	-210 730	-80 621	-291 352	-669 763	-167 040	-6 705	-1 585 087
Total carrying amount at 31 December 2018	57 169	165 303	190 768	356 071	170 919	187 970	-	772 129

22 Property, plant and equipment

Computers and other equipment	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Cost at 1 January	206 713	116 985	3 671	3 620
Purchases	1 070	92 125	50	57
Divestment subsidiary	-9 658	-	-	-
Retirements and disposals	-10 654	-56	-	-6
Exchange differences	1 652	2 567	-	-
Asset held for sale	-441	-4 908	-	-
Accumulated cost at 31 December	188 681	206 713	3 721	3 671
Depreciation at 1 January	-146 214	-18 084	-3 084	-2 511
Retirements and disposals	10 777	18	-	6
Planned depreciation for the year	-13 435	-49 347	-217	-579
Impairments	-26 280	-79 647	-	-
Exchange differences	-913	-1 111	-	-
Asset held for sale	234	1 957	-	-
Closing balance accumulated depreciation	-175 831	-146 214	-3 301	-3 084
Planned residual value at 31 December	12 850	60 499	421	587

During the year, the Group's property, plant and equipment was impaired by SEK 26.3 million (79.6), all impairments are linked to assets in the VR Experience Center in Dubai and at Sveavägen 14 in Stockholm.

23 Non-current financial assets

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Deposits, rent guarantees	6 578	10 348	585	585
Total	6 578	10 348	585	585

During the year, the now sold subsidiary Nozon left its premises, which contributed to the reduced deposits. Deposits relating to terminated rental apartments have also been repaid.

24 Investments in Group companies

	Country of registration and operation	Business	Share of equity	Share of votes	Number of shares	Carrying amount in parent company	Equity excluding net result	Net result	Total Equity
Starbreeze Studios AB	Sweden	Game development	100%	100%	10 000	17 008	10 855	19 595	30 450
Starbreeze Publishing AB	Sweden	Game development	100%	100%	1 000	276 400	-166 096	438 841	272 745
Starbreeze Production AB	Sweden	Game development	100%	100%	1 000	2 347	125 729	-6 703	119 026
Starbreeze USA Inc.	USA	Game development	100%	100%	100	-	-91 973	-3 380	-95 353
Starbreeze IP LUX	Luxemburg	Technology development	100%	100%	12 500	-	-33 150	-409	-33 559
Starbreeze LA Inc	USA	Game development	0%	100%	100	-	51 195	-7 118	44 077
Starbreeze VR AB	Sweden	Technology development	100%	100%	50 000	-	49	-5	44
Starbreeze Ventures AB	Sweden	Investments	100%	100%	50 000	-	-15 584	-6	-15 590
Starbreeze Paris SAS	France	Technology development	100%	100%	58 281	-	12 090	-3 216	8 874
Starbreeze Barcelona SL	Spain	Game development	100%	100%	3 000	-	-1 889	-1	-1 890
New Starbreeze Publishing AB	Sweden	Game development	0%	100%	2 360 777	-	237 078	-127 308	109 770
New Starbreeze Studios AB	Sweden	Game development	100%	100%	500	50	50	-20 698	-20 648
Parallaxter	Belgium	Technology development	100%	100%	10 000	-	12 591	3	12 594
Enterspace AB	Sweden	Technology development	100%	100%	50 000	-	93 143	-91 650	1 493
Enterspace International AB	Sweden	Technology development	0%	100%	1 733	-	27 660	-27 635	25
Starbreeze IP LUX II Sarl	Luxemburg	Investments	100%	100%	230 000	-	-38 473	-55 069	-93 542
						295 806	223 275	115 241	338 516

	2019-12-31	2018-12-31
Cost at 1 January	514 595	1 281 195
Acquisition of subsidiaries	249	236
Shareholder contribution	58 076	274 900
Adjustment of earnouts	8 958	-259 200
Impairment	-205 499	-782 536
Sale of Subsidiaries	-80 572	-
Accumulated cost at 31	295 806	514 595

25 Financial instruments by category

Group, 31 December 2019

Assets on the balance sheet	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income		Derivative	Total
			income			
Financial assets	6 258	-	-	-	-	6 258
Trade and other receivables	10 391	-	-	-	-	10 391
Cash and cash equivalents	82 787	-	-	-	-	82 787
Total assets	99 436	-	-	-	-	99 436
Liabilities in the balance sheet	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income		Derivative	Total
			income			
Longterm liability, earnout	-	62	-	-	-	62
Other non-current liabilities	121 009	-	-	-	-	121 009
Convertible bond	213 928	-	-	-	-	-
Trade and other payables	128 540	-	-	-	-	128 540
Total liabilities	463 477	62	-	-	-	463 539

Group, 31 December 2018

Assets on the balance sheet	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income	Derivative	Total
Non-listed shares	-	-	11 502	-	11 502
Financial assets	-1 154	-	-	-	-1 154
Trade and other receivables	39 536	-	-	-	39 536
Cash and cash equivalents	69 289	-	-	-	69 289
Total asstes	107 671	-	11 502	-	119 173

	Accrued acquisition value	Fair value through profit and loss	Fair value through comprehensive income	Derivative	Total
Liability, earnout, ePawn	-	88 661	-	-	88 661
Other non-current liabilities	14 459	-	-	-	14 459
Total non-current liabilities	271 927	-	-	42	271 969
Trade and other payables	247 494	-	-	-	247 494
Total liabilities	533 880	88 661	-	42	622 583

Parent company at 31 December 2019

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

Liabilities on the balance sheet	Other financial liabilities	Financial liabilities at fair value through profit or loss	Assets available for sale	Total
Other financial liabilities	306 063	-	-	306 063
Non-current liabilities, earnouts	-	62	-	62
Convertible bonds	213 928	-	-	213 928
Trade payables and other current liabilities	251 166	-	-	251 166
Total	771 157	62	-	465 156

Parent company at 31 December 2018

Assets on the balance sheet	Loan and trade receivables	Assets measured at fair value through profit or loss	Assets available for sale	Total
Trade receivables and other receivables	37	-	-	37
Other receivables	393 907	-	-	393 907
Cash and cash equivalents	8 002	-	-	8 002
Total	401 946	-	-	401 946

Liabilities on the balance sheet	Other financial liabilities	Financial liabilities at fair value through profit or loss	Assets available for sale	Total
Non-current liabilities, earnouts	-	88 586	-	88 586
Other non-current liabilities	-	-	42	42
Convertible bonds	271 927	-	-	271 927
Trade payables and other current liabilities	16 145	-	-	16 145
Total	288 072	88 586	-	376 700

26 Credit quality of financial assets

	2019-12-31	2018-12-31
Group 1	2 001	35 679
Group 2	7 167	410
Total	9 168	36 089

At 31 December 2019, past due and unpaid trade receivables amount to SEK 7 167 thousand (35 291).

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

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

Bank deposits and short-term deposits, Group	2019-12-31	2018-12-31
Moody's rating Aa1	-	2 243
Moody's rating Aa2	1 760	64 322
Moody's rating Aa3	75 261	518
Moody's rating A+		2 205
Moody's rating Baa1	5 766	1
Total	82 787	69 289

27 Trade and other receivables

	Group		Moderbolaget	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Trade receivables	9 168	36 089	-	37
Receivables from group companies	-	-	1 080 277	387 141
Other receivables	1 223	3 447	-	5 816
Total	10 391	39 536	1 080 277	392 994

Aging report	2019-12-31	2018-12-31
Not due	2 000	2 115
3-6 months	-	29 706
> 6 months	7 168	4 268
Total	9 168	36 089

Trade and other receivables per currency

	2019-12-31	2018-12-31
SEK	10 137	16 360
EUR	6 590	23 802
USD	26 969	45 841
AED	-	134
GBP	121	-
Total	43 816	86 135

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

28 Prepaid expenses and accrued income

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Other accrued receivables	9 328	18 367	837	950
Accrued royalty income	24 097	28 232	-	-
Total	33 425	46 599	837	950

29 Cash and cash equivalents

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Cash and bank deposits	82 765	69 260	11 988	7 981
Short-term deposits	21	29	21	21
Total	82 787	69 289	12 009	8 002

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

30 Change in number of shares

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

The Annual General Meeting held in June 2019 resolved to authorize the Board of Directors to make a decision on a new issue of shares with or without preferential rights up to a maximum of 10 percent of share capital.

In April 2018, a rights issue was carried out.

Number of shares	Class B shares	Class A shares
Number of shares 31 Dec 2017	227 891 325	55 146 615
New subscription through exercise of stock options	1 327 836	-
Non-cash issue	-	-
New issue	37 318 428	3 611 350
Conversion	5 267 238	-5 267 238
Number of shares 31 Dec 2018	271 804 827	53 490 727
New subscription through exercise of convertible bond	4 072 295	-
Non-cash issue	-	-
New issue	-	-
Conversion	488 735	-488 735
Number of shares 31 Dec 2019	276 365 857	53 001 992

31 Share-based remuneration

Long-term incentive programs are decided by the Annual General Meeting. As of December 31, 2019, there is only one current option program, warrants 2018/2021. Other employee and warrant programs expired during the year. A summary of the warrant program is presented below.

Warrants program 2018/2021

The Annual General Meeting held in May 2018 resolved in favor of an additional special share-based incentive program for senior management personnel and certain other key individuals aimed at managing new recruitments and promotions. In total, it is to be possible for up to 3,000,000 warrants, giving entitlement to subscribe for 3,000,000 class B shares, to be issued under the special incentive program with a term of three years, with a strike price equal to 200 percent of the share price then prevailing. As of December 31, 2019, 625,275 of these warrants had been issued, all with a maturity of June 2021. The warrants were issued on market terms.

In respect of the warrants program 2018/2021, the weighted average fair value of warrants granted during the financial year was SEK 22.73 per warrant and was determined using the Black-Scholes pricing model. Key inputs in the model were the share price at grant date, volatility of 48.6 percent, expected dividend of 0 percent, expected maturity of the warrants of 3 years and annual risk-free interest rate of -0.39 percent.

Employee stock option program 2014/2018

	2019-12-31		2018-12-31	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	-	-	5,00	1 427 519
Expired employee stock options	-	-	5,12	-235 348
Exercised employee stock options	-	-	5,88	-1 192 171
At 31 December	-	-	-	-

Warrants program 2015/2018 (3 years)

	2019-12-31		2018-12-31	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	-	-	29,10	1 720 000
Expired warrants	-	-	29,10	-1 720 000
At 31 December	-	-	-	-

Warrants program 2015/2019 (4 years)

	2019-12-31		2018-12-31	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	34,92	30 373	34,92	30 000
Recalculation of option due to dilution	-	-	34,92	373
Expired warrants	34,92	-30 373	-	-
At 31 December	-	-	-	30 373

Warrants program 2015/2018 (3 years)

	2019-12-31		2018-12-31	
	Average redemption price per share	Carrying rights to number of shares	Average redemption price per share	Carrying rights to number of shares
At 1 January	22,73	625 275	-	-
Granted warrants	-	-	22,73	625 275
At 31 December	-	625 275	-	625 275

32 Provisions

	Parent	
	2019-12-31	2018-12-31
Difference between recognized and planned depreciation and amortization	31 230	-
Total	31 230	-

33 Liability, earnouts

Non-current liabilities, earnouts	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Liability, earnout, ePawn	62	-	62	-
Liability, earnout, Nozon	-	8 410	-	8 410
Liability, earnout, Parallaxter	-	75 690	-	75 690
Liability, earnout, Dhruva	-	4 486	-	4 486
Total	62	88 586	62	88 586

34 Trade payables and other liabilities

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Trade payables	47 010	73 086	8 060	7 849
Liabilities to group companies	-	-	239 012	4 860
Tax liabilities	15 000	9 685	-	-
Other liabilities	44 619	54 039	2 099	2 386
Social insurance and comparable fees	6 911	4 794	1 996	973
Current part of earn out, ePawn	-	76	-	76
Current part of convertible bond, Acer	-	71 529	-	71 529
Current part of convertible bond, Smilegate	213 928	200 440	213 928	200 440
Reviving credit facility	-	75 772	-	-
Current part of bankloan	15 000	30 000	-	-
Accrued expenses and deferred income	-	-	-	-
Total	342 468	519 421	465 094	288 114

35 Accrued expenses and deferred income

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Accrued salaries	14 157	23 395	2 804	2 542
Accrued annual leave pay	8 968	15 416	3 351	6 550
Accrued social insurance fees, annual leave pay	2 845	4 830	1 053	2 058
Accrued social insurance fees, employee stock options	1 009	961	836	769
Deferred income	-	11 063	-	-
Other accrued expenses	11 526	8 223	2 986	4 233
Total	38 506	63 888	11 029	16 152

36 Pledged assets

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Pledged shares in subsidiaries for loan credit with Nordea	-	157 665	278 748	286 014
Deposits, rent guarantees	6 594	8 291	-	-
Total	6 594	165 956	278 748	286 014

37 Contingent liabilities

The Group has no contingent liabilities.

38 Divestment of subsidiaries

Net assets at the time of disposal of the companies

During 2019, the shares in Dhruva Infotech Private Ltd and Nozon sprl were divested. The transactions have resulted in a capital loss in the Group totalling SEK 30.6 million. The net assets held by the subsidiaries at the time of disposal, the consolidated profit or loss of the divestitures and the cash flow effect of the transactions are set out in the tables below.

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

	2019	2018
	Jan-June	Jan-Dec
Net sales	18 795	47 433
Direct costs	-28 992	-110 161
Gross profit (-loss)	-10 197	-62 728
Administrative expenses	-520	-
Other revenue	375	485
Other expenses	-50	-1 883
Operating profit (-loss)	-10 392	-64 126
Financial income	-	19 801
Financial expenses	-131	-654
Profit (-loss) before tax	-10 523	-44 979
Income tax	651	-1 948
Net profit (-loss) for the period	-9 872	-46 927
Profit (-loss) including sales expenses	-30 599	-
Profit (-loss) for the period	-40 471	-46 927
Attributable to:		
Owners of the parent	-40 322	-46 262
Non-controlling interests	-149	-665

39 Related-party transactions

The parent company Starbreeze AB, which is the ultimate parent company in the Group, billed Group companies SEK 59.0 million (55.3) for costs related to game development and for a portion of Group costs. The table below shows billing by other Group companies to Group companies:

The parent company Starbreeze AB purchased services from Group companies amounting to SEK 3.8 million (12.9). Other purchases by Group companies from Group companies are shown in the table below. Remuneration to senior management personnel is specified in Note 13.

Receivables and liabilities	2019-12-31	2018-12-31
Receivables		
Parent company Starbreeze AB	1 043 435	583 113
Liabilities		
Parent company Starbreeze AB	331 778	4 860
Group company billing		
	2019	2018
Starbreeze AB	58 990	55 304
Starbreeze Production AB	2 308	9 029
Starbreeze Publishing AB	1 975	13 899
Starbreeze Studios AB	9 943	213 590
Starbreeze Paris SAS	15 793	41 019
Starbreeze IP LUX	-	1 237
Starbreeze IP LUX II	257	1 407
Nozon SPRL	823	11 366
Starbreeze Barcelona	13 446	9 762
Starbreeze LA	7 425	72 175
New Starbreeze Publishing AB	26 159	-
New Starbreeze Studios AB	126 919	-
Enterspace AB	-	4 793
Dhruva Infotech Ltd	6 788	24 971
Total	270 826	458 552

Purchases from group companies	2019	2018
Starbreeze AB	3 804	12 916
Starbreeze Production AB	6 458	61 250
Starbreeze Publishing AB	56 995	180 992
Starbreeze Studios AB	5 970	20 698
Starbreeze Paris SAS	2 069	4 602
Starbreeze IP LUX	4	29
Starbreeze IP LUX II	32 831	123 511
Nozon SPRL	-1 103	2 699
Parallaxter SPRL	1 774	6 189
Starbreeze Barcelona	1 827	1 425
Starbreeze LA	898	5 589
Starbreeze USA	-	3 196
New Starbreeze Publishing AB	134 305	-
New Starbreeze Studios AB	21 959	-
Enterspace International AB	-	22 454
Enterspace AB	2 970	13 001
Starbreeze Middle East	64	-
Total	270 826	458 552

40 Cash flow from operations

	Group		Parent	
	2019	2018	2019	2018
Amortization of intangible assets	33 019	116 262	-	-
Depreciation of property, plant and equipment	30 135	49 347	217	579
Impairment of intangible assets	293 841	1 292 615	-	-
Impairment of tangible assets	30 910	79 647	-	-
Cost of sold assets	170 175	-	-	-
Capital loss, divested subsidiaries	30 599	-	-	-
Other unrealized exchange losses	-1 782	3 237	985	-57 998
Cash flow from (- used in) operations	586 897	1 541 108	1 202	-57 419

	Group	Moder- bolaget
	2019	2019
Paid interest		
Credit cost including interest for fully amortized loan	-5 000	-
Interest on convertible bond	-4 301	-4 301
Interest on bank overdraft facility	-4 132	-
Total interest paid	-13 433	-4 301

	Group	Moder- bolaget
	2019	2019
New loan		
Interest on bank overdraft facility which has increased the loan overdraft amount.	4 132	-
Loan from group company	-	19 000
Frozen liabilities to group companies	-	286 865
Other longterm liabilities	-	198
Total new loan	4 132	306 063

41 Events after the balance sheet date

Steam, Starbreeze's main digital distribution platform, normally applies a 70/30 revenue split after tax and returns to its partners. The platform owner Valve announced in the fall of 2018 that it had begun to apply a stepped approach by which games that meet certain sales criteria can qualify for an additional 5% or 10% revenue share in addition to the normal 70%. PAYDAY 2 with its DLCs met the first sales criterion on January 3, resulting in the game's future revenue split giving Starbreeze 75% from Steam after tax and returns.

An Extraordinary General Meeting was held on January 13, 2020. The Extraordinary General Meeting resolved in accordance with the Board's proposal to amend the terms of the company's outstanding convertible loan, by which the maturity date of the convertible bond is extended to December 2024 and the conversion price is set at SEK 2.25 per share.

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

Starbreeze sold its wholly owned subsidiary Parallaxter in February 2020.

Starbreeze has continuously evaluated the impact on operations of the current COVID-19 pandemic. Since the majority of day-to-day operations and game development can take place remotely, the focus has been on preparing the infrastructure for remote working. All employees can currently work from home. The company's assessment is that the short-term impact on ongoing projects is small, however the long-term effects on future business and the impact on the efficiency of the project organizations may result in delayed deliveries. Ongoing revenue-generating business is not directly affected as the majority of revenue comes from a digital distribution model via Steam, where the availability of the product and contact between players remain unbroken apart from overarching societal measures aimed at reducing physical social contact.

42 Interest-bearing liabilities

A convertible loan was received from Smilegate in February 2016. The carrying amount of the convertible, valued at amortized cost, as of December 31, 2019 amounted to SEK 213.9 million (200.4). Of this, the full amount has been reclassified as current as the maturity date of the loan was in February 2020. The annual interest rate on the interest-bearing liability to Smilegate of a nominal SEK 215 million amounts to 2 per cent and the loan has been discounted at an interest rate of 9%. The fixed conversion price is between SEK 9.35 and 13.49, and the convertible has not been converted before the due date. In January 2020, an Extraordinary General Meeting established changes to the terms of the convertible. The new terms mean that the convertible's due date has been moved to December 2024. The interest rate remains unchanged. The conversion price is set at SEK 2.25 per share. Starbreeze's fee for these changes amounts to SEK 165 million at zero (0) percent interest. Both the convertible and the liability for the fee are subordinated to the other creditors in the composition arrangement proposed for the Company on December 6, 2019. The new terms and the additional fee are not reflected in the financial statements, as the terms and conditions were established at the Annual General Meeting in January 2020.

On August 24, 2017 Starbreeze Publishing AB entered into a loan agreement with Nordea Bank AB (publ), which also includes Starbreeze AB and Starbreeze Production AB as guarantors. Under the agreement, Starbreeze Publishing AB had access to SEK 150 million as a general credit facility. The facility was halved in 2019 and repayment was made in an equivalent amount. As of December 31, 2019, the utilized overdraft facility, which is measured at fair value, amounted to SEK 78.1 million. In February 2020, the overdraft was converted into a loan with the same interest term as previously, meaning STIBOR + 3.5 per cent. The loan matures in December 2024 and is paid in accordance with an approved reconstruction plan.

In 2017, the subsidiary Enterspace International AB raised an overdraft of SEK 40 million, which in 2018 was converted into a loan with a two-year repayment plan. As of December 31, 2019, the loan amounted to SEK 31.2 million and is measured at fair value. The interest rate for the loan is STIBOR plus 4 percent. The loan matures in December 2024 and is paid in accordance with an approved reconstruction plan.

The convertible loan from Acer was converted in April 2019 to 4,072,295 Class B shares.

Liabilities are broken down into non-current and current according to the reconstruction plan and the expected cash flows in coming years. This means that the overdraft from Nordea is expected to be repaid at SEK 15 million within 12 months. Trade payables that are not expected to be able to be paid within 12 months have been entered as non-current liabilities. Under the reconstruction plan, these are interest-bearing.

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

Group	2019-12-31			2018-12-31		
	Long term part	Short term part accounted for in short term liabilities	Sum	Long term part	Short term part accounted for in short term liabilities	Sum
Convertible bond, Smilegate	-	213 928	213 928	-	200 440	200 440
Convertible bond, Acer	-	-	-	-	71 529	71 529
Bank overdraft facility, Nordea	63 096	15 000	78 096	-	75 770	75 770
Non-current loan, Nordea	31 230	-	31 230	-	30 000	30 000
Liabilities for development funding	12 921	-	12 921	12 945	-	12 945
Longterm trade payables according to the reorganization plan	12 285	-	12 285	-	-	-
Other non-current liabilities	1 478	-	1 478	1 514	-	1 514
Total	121 009	228 928	349 938	14 459	377 739	392 198

Parent	2019-12-31			2018-12-31		
	Long term part	Short term part accounted for in short term liabilities	Sum	Long term part	Short term part accounted for in short term liabilities	Sum
Convertible bond, Smilegate	-	213 928	213 928	-	200 440	200 440
Convertible bond, Acer	-	-	-	-	71 529	71 529
Total	198	213 928	214 126	-	271 969	271 969

43 Interests in joint ventures

Koncernen

	Country of operation	Business	Share of equity	Share of votes	Number of shares	Carrying amount
StarVR Corporation	Taiwan	Technology development	33%	33%	16 000 000	3 195

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

Investments in joint venture

	2019-12-31	2018-12-31
Reconciliation against carrying amounts:		
Net assets at 1 January	14 110	126 938
Profit (-loss) for the period	-4 808	-121 168
Exchange differences	379	8 340
Net assets at 31 December	9 681	14 110
Group share	33%	33%
Group share, SEKK	3 195	4 656
Carrying amount	3 195	4 656

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

	2019-12-31	2018-12-31
Condensed balance sheet		
Current assets	14 532	24 691
Non-current assets	2 105	19 218
Current liabilities	6 956	28 463
Non-current liabilities	-	1 336
Net assets	9 681	14 110
Condensed statement of comprehensive income		
Revenue	2 459	4 423
Profit (-loss) for the period	-4 808	-120 750
Other comprehensive income	-	-418
Total comprehensive income	-4 808	-121 168

44 Net debt

	Other assets		Liabilities related to financing activities				Total
	Cash	Convertible bonds	Derivatives	Other non-current liabilities	Other Current liabilities		
Balance at 1 January 2019	69 289	-271 926	-42	-14 046	-105 770	-391 784	-322 495
Cash flow	13 269	4 301	-	-10 877	-	-6 576	6 693
Exchange differences	229	-	-	-	-	-	229
Reclassification	-	-	-	-103 055	103 055	-	-
Other non-cash items	-	53 697	42	-48 303	-19 181	-13 745	-13 745
Balance at 31 December 2019	82 787	-213 928	-	-176 281	-21 896	-412 105	-329 318

	Other assets		Liabilities related to financing activities				Total
	Cash	Convertible bonds	Derivatives	Other non-current liabilities	Other Current liabilities		
Balance at 1 January 2018	233 757	-259 733	-25 237	-181 587	-	-466 557	-232 800
Cash flow	-164 984	9 252	-	26 953	-	36 205	-128 779
Exchange differences	516	-	-	-	-	-	516
Reclassification	-	-	-	105 770	-105 770	-	-
Other non-cash items	-	-21 445	25 195	34 818	-	38 568	38 568
Balance at 31 December 2018	69 289	-271 926	-42	-14 046	-105 770	-391 784	-322 495

Net liability	2019-12-31	2018-12-31
Cash and cash equivalents	82 787	69 289
Current liabilities	-15 000	-75 770
Non-current liabilities	-390 209	-286 014
Net Liability	-322 422	-292 495

45 Available-for-sale assets and liabilities

The parent company sold the subsidiary Parallaxter, VR Tech & Operations segment, in February 2020. Assets and liabilities of the subsidiary have therefore been reclassified to assets and liabilities held for sale. The assets are entered at the lower of book value and net realisable value. The comparative figures included the net assets of the subsidiary Dhruva sold in May 2019 and the IP rights to the Cinemaware library. No sale of Cinemaware has been made, and there are no plans to proceed with the sale of the asset.

	2019-12-31	2018-12-31
Goodwill	-	56 783
Other intangible assets	-	4 236
Capitalized expenditure for own games and technology development	-	417
Financial assets	336	6 373
Property, plant and equipment	207	2 951
Trade and other receivables	361	7 066
Prepaid expenses and accrued income	11	2 179
Cash and cash equivalents	169	3 063
Total assets	1 084	83 068
Non-current liabilities	-	-2 188
Trade and other payables	-1 463	1 223
Accrued expenses and deferred income	-	-3 899
Total liabilities	-1 463	-4 864
Net	-379	78 204

The consolidated financial statements for the Group will be presented to the Annual General Meeting on May 13, 2020 for adoption. The Board of Directors and the CEO hereby certify that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair presentation of the Group's financial position and earnings. The annual report was prepared in accordance with generally accepted accounting practices in Sweden and provides a fair presentation of the parent company's financial position and earnings.

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

Stockholm, April 14, 2020, Starbreeze AB (publ)

Torgny Hellström
Chairman

Directors

Jan Benjaminson

Hyung Nam Kim (Harold Kim)

Tobias Sjögren

Kerstin Sundberg

Stefano Salbe

Mikael Nermark
CEO

Our audit report was submitted on April 14, 2020
Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg
Authorized Public Accountant

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

Report on the annual accounts and consolidated financial statements

Opinions

We have carried out an audit of the annual report and consolidated financial statements of Starbreeze AB (publ) for 2019 with the exception of the corporate governance report on pages 28-39. The Company's annual report and consolidated financial statements are included on pages 28-88 of this document.

In our opinion, the annual report has been prepared in accordance with the Annual Accounts Act and gives a true and fair view of the parent company's financial position as at 31 December 2019 and of its financial results and cash flow for the year in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Group's financial position as at 31 December 2019 and of its financial results and cash flow for the year in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our statements do not include the corporate governance report on pages 28-39. The annual report is consistent with the other parts of the annual report and consolidated financial statements.

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

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

Basis for opinion

We have carried out the audit in accordance with International Standards on Auditing (ISA) and good auditing practice in Sweden. Our responsibilities according to these standards are described in more detail in the Auditor's responsibility section. We are independent in relation to the parent company and the Group in accordance with good accounting practice in

Sweden and have otherwise fulfilled our professional ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and beliefs, no prohibited services referred to in Article 5(1) of the Auditor's Regulation (537/2014) have been provided to the audited company or, where appropriate, its parent or its controlled company in the EU.

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

Significant uncertainty factor regarding the assumption of going concern

Without prejudice to our statements above, I would like to draw attention to the management story and the "Financing Needs and Capital" section and note 3 "Financial risk management" in the annual report and consolidated financial statements, which state that Starbreeze AB (publ) does not currently have sufficient secured funds to ensure continued operation for the next 12 months unless additional funds are provided. As stated in Note 3 D, as a result, the company has chosen to focus on its core business based on the Payday brand and to find partnerships to create financial stability. These circumstances indicate that there is a material uncertainty factor which could lead to significant doubts about the company's ability to continue operating.

In a situation where the company's continued operation can no longer be assumed, there is a significant risk of impairment of the Group's assets and the parent company's book values of receivables on group companies and shares in group companies.

Our approach to the audit

Starbreeze is an independent developer, creator, publisher and distributor of PC and console games with a global market focus. Operations are conducted through subsidiaries in Sweden, USA, Luxembourg, France, Spain and Belgium. As of December 3, 2018, corporate restructuring was granted for Starbreeze AB (publ) and five of its Swedish subsidiaries. The resolution ended on 6 December 2019 by a composition proposal was decided by the Stockholm District Court.

We designed our audit by determining the level of materiality and assessing the risk of material misstatement in the financial statements. In particular, we took into account the areas where the CEO and the Board of Directors made subjective assessments, such as important accounting estimates that have

been made on the basis of assumptions and forecasts of future events, which are inherently uncertain. As with all audits, we have also taken into account the risk of the Board of Directors and the CEO breaching internal control, including considering whether there is evidence of systematic discrepancies that have given rise to the risk of material misstatement as a result of irregularities.

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

Materiality

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

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

Key audit matters

Key audit matters are the areas that, in our professional assessment, were the most important for the audit of the annual accounts and consolidated accounts for the period in question. These areas were addressed in the context of the audit of, and in our position on, the annual accounts and consolidated accounts as a whole, but we do not make separate statements on these areas. In addition to the relationship described in the *Material uncertainty factor section regarding the assumption of continued operation*, we have determined that the conditions we describe below are the particularly important areas that we will communicate in the audit report.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of goodwill and other intangible assets</p> <p>Goodwill and other intangible fixed assets including retained expenses for gaming and technology development were written down by SEK 293 M during the year and amount to SEK 369M as of December 31, 2019. The write-downs are made because there are no commercial opportunities for certain technology and individual gaming projects. The company has tested the need for impairment during the year and in connection with the financial statements. Significant assumptions in the impairment tests are set out in Note 21 of the Annual Report and include, among other things, estimates of future cash flows. Due to the degree of estimates, we have assessed that the valuation of goodwill and other intangible assets is a particularly important area of the audit.</p>	<p>We have taken note of management's assessment of whether there is any need for impairment of goodwill and other intangible assets and shares in subsidiaries. We evaluated the company's process for establishing forecast cash flows and the mathematical accuracy of the models used. We have also assessed material assumptions in the impairment test, mainly future income, growth and interest rate, by assessing the reasonableness of the company's forecasts. We have focused in particular on the sensitivity of the calculations. Finally, we have assessed whether the disclosures provided in the notes on the annual accounts are in accordance with IFRS. We found that the company's methodology and assumptions were applied consistently.</p>
<p>Capitalized expenditure on game and technology development</p> <p>As stated in the Annual Report and Note 21, Starbreeze invests substantial amounts in game and technology development. Note 21 shows that MSEK 90 has been capitalized in 2019 and in total capitalized expenses for game and technology development amount to MSEK 1,119 and book value to MSEK 86. Due to the amount of the amount and the fact that the activation of retained expenditure on game and technology development includes assessments by management as to whether the expenditure meets the criteria for activation, such as the ability to reliably measure expenditure attributable to the asset and that it can be demonstrated that the asset will generate future economic benefits, this is a particularly important area of the audit.</p>	<p>We have taken note of the company's specification of ongoing development projects that have been activated as intangible assets during the financial year. We have taken samples of the projects and examined the accuracy of activating expenditure on the basis of the criteria of IAS 38, including by assessing the procedures to ensure that costs are accounted for on the right project and randomly examined underlying expenditure on a basis. We have also examined the calculation of future economic benefits.</p>
<p>Calculation of earnouts</p> <p>As shown in Note 3 of the Annual Report, liabilities relating to deferred consideration amount to SEK 62 thousand. The amount of payments depends on, among other things, future sales and the present value calculation is affected by a number of assessments, including when the conditions for payment are met. Due to the degree of assessment, we have considered that the calculation of additional consideration is a particularly important area of the audit.</p>	<p>We have taken note of the company's calculation of the additional purchase price. We have reconciled the calculations with agreements on deferred considerations and assessed material assumptions, such as future income and growth, when calculating future payments. We evaluated the company's process for establishing forecast cash flows and the mathematical accuracy of the models used. We found that the company's methodology and assumptions were applied consistently.</p>

Information other than the annual accounts and consolidated accounts

This document also contains information other than the annual report and consolidated financial statements and can be found on pages 1-27. The Board of Directors and the CEO are responsible for this other information.

Our statement regarding the annual accounts and consolidated financial statements does not include this information and we make no statement at testing for this other information.

In connection with our audit of the annual accounts and consolidated financial statements, it is our responsibility to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated financial statements. In this review, we also take into account the knowledge we have otherwise acquired during the audit and assess whether the information otherwise appears to contain material misstatement.

If, based on the work done on this information, we conclude that the other information contains a material error, we are required to report this. We have nothing to report in that regard.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation of the annual accounts and consolidated accounts and providing a true and fair view in accordance with the Annual Accounts Act and, in the case of consolidated financial statements, in accordance with IFRS, as adopted by the EU, and the Annual Accounts Act. The Board of Directors and the CEO are also responsible for the internal control that they deem necessary for the preparation of an annual report and consolidated financial statements that do not contain any material misstatement, whether due to irregularities or mistakes.

In preparing the annual report and consolidated financial statements, the Board of Directors and the CEO are responsible for assessing the company's and the Group's ability to continue operations. They disclose, where applicable, conditions that may affect the ability to continue operations and to use the assumption of continued operation. However, the assumption of continued operation does not apply if the Board of Directors and the CEO intend to liquidate the company, cease operations or have no realistic alternative to doing any of these.

Without prejudice to the board's responsibilities and other tasks, the Audit

Committee of the Board of Directors shall, among other things, monitor the company's financial reporting.

Auditor's responsibilities

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

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

Report on other statutory and regulatory requirements

Opinions

In addition to our audit of the annual report and consolidated financial statements, we have also carried out an audit of the Board of Directors' and CEO's management for Starbreeze AB (publ) for 2019 and of the proposed dispositions regarding the company's profit or loss.

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

Basis for opinion

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

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

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposed dispositions regarding the company's profit or loss. In the case of a dividend proposal, this includes, among other things, an assessment of whether the dividend is justifiable in view of the requirements that the company's and the Group's operating activities, scope and risks impose on the size of the parent company's and the Group's equity, consolidation needs, liquidity and position in general.

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

Auditor's responsibilities

Our objective regarding the audit of the administration, and thus our discharge statement, is to obtain audit evidence in order

to be able to assess with a reasonable degree of certainty whether any board member or the CEO in any material respect:

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

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

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

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

Auditor's examination of the corporate governance statement

The Board of Directors is responsible for the corporate governance report on pages 28-39 and for its preparation in accordance with the Annual Accounts Act.

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

A corporate governance report has been prepared. Information in accordance with Chapter 6. 6 § second paragraph paragraphs 2 to 6 annual report act and Chapter 7. Paragraph 31(2) of the same law is consistent with the other parts of the annual accounts and consolidated accounts and is in accordance with the Annual Accounts Act.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed starbreeze AB (publ)'s auditor by the Annual General Meeting on June 4, 2019 and has been the company's auditor since September 25, 2000.

Stockholm, April 14, 2020

Öhrlings PricewaterhouseCoopers AB
Nicklas Kullberg
Authorized Public Accountant

