

## Fourth quarter 2018

- Net sales amounted to SEK 82.5 million (103.8). Of the total, OVERKILL's The Walking Dead (OTWD) generated SEK 34.1 million (0.0) and PAYDAY generated SEK 20.4 million (20.4).
- EBITDA\* was SEK -73.7 million (6.3).
- Depreciation, amortization and impairments totaled SEK 1,428.6 million (49.4).
- The loss before tax amounted to SEK -1,264.7 million (-67.9).
- Basic and diluted earnings per share were SEK -3.96 (-0.22).
- The company has impaired assets in the amount of SEK 1,401.9 million.
- As four of seven board members resigned from the board in the fourth quarter, the board does not hold quorum. As a consequence, this year-end report is published by the Acting CEO.
- Mikael Nermark has been appointed Acting CEO and Claes Wentzel has been appointed Acting CFO.
- The Stockholm District Court has approved reconstruction of Starbreeze AB (publ) and its subsidiaries Starbreeze Publishing, Starbreeze Production, Starbreeze Studios, Enterspace and Enterspace International.
- The company has decided to divide the operations in core and non-core. The decision entails that operational and financial resources will be focused to the core business.

## Full year 2018

- Net sales amounted to SEK 350.0 million (361.4). Of the total, OTWD generated SEK 34.1 million (0.0) and PAYDAY generated SEK 97.7 million (120.3).
- EBITDA\* was SEK -10.3 million (-53.6).
- The loss before tax was SEK -1,347.2 million (-176.2).
- Basic and diluted earnings per share were SEK -4.20 (-0.55).
- Cash and cash equivalents at the end of the period amounted to SEK 72.4 million (233.8).
- As the board does not hold quorum, proposal regarding dividend will be announced later.

## After the end of the period

- Shareholders in Starbreeze AB (publ) were notified that an extraordinary general meeting will be held March 7, 2019.
- A distribution agreement was made with Universal Games and Digital Platforms for the Starbreeze mobile title PAYDAY: Crime War.
- Starbreeze is selling back the publishing rights to System Shock 3 to OtherSide Entertainment.

KEY FIGURES	2018	2017	2018	2017
	Q4	Q4	JAN-DEC	JAN - DEC
Net sales	82,459	103,753	349,955	361,447
EBITDA*	-73,716	6,342	-10,342	-53,559
Profit (-loss) before tax	-1,264,730	-67,852	-1,347,249	-176,185
Earnings per share, SEK	-3.96	-0.22	-4.20	-0.55
Cash flow from operations	-19,669	-44,341	52,968	-21,086
Net sales per employee	133	302	552	1,300

\* See pages 22 and 23 and Note 6 concerning derivation of the key figure.

# Q4

2018

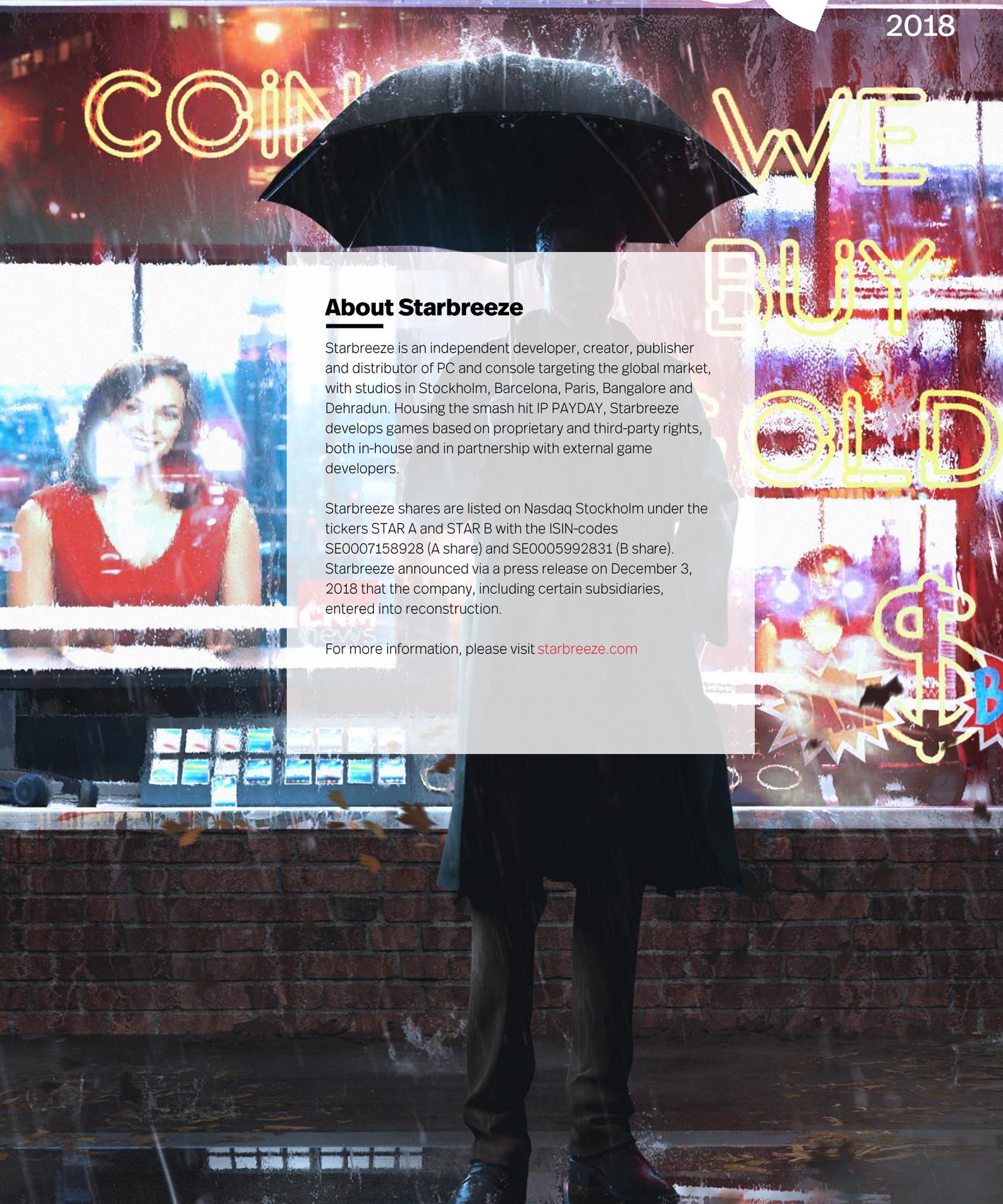


## **About Starbreeze**

Starbreeze is an independent developer, creator, publisher and distributor of PC and console targeting the global market, with studios in Stockholm, Barcelona, Paris, Bangalore and Dehradun. Housing the smash hit IP PAYDAY, Starbreeze develops games based on proprietary and third-party rights, both in-house and in partnership with external game developers.

Starbreeze shares are listed on Nasdaq Stockholm under the tickers STAR A and STAR B with the ISIN-codes SE0007158928 (A share) and SE0005992831 (B share). Starbreeze announced via a press release on December 3, 2018 that the company, including certain subsidiaries, entered into reconstruction.

For more information, please visit [starbreeze.com](http://starbreeze.com)



## The CEO remarks on the report

# FOCUS ON THE CORE BUSINESS

The fourth quarter was a turbulent period for Starbreeze, with the parent company Starbreeze AB and a number of subsidiaries going into reconstruction. After having served as CEO for just over two months, I remain optimistic that we will come through this period in a good way and emerge stronger from the transformation. I feel confident about the strategic route we have taken. Going forward, we will focus on the core business: game development and publishing.

### Quarterly results

Net sales in the fourth quarter were SEK 82.5 million (103.8). The decrease is due mainly to sales related to the publishing title *Dead by Daylight* in the fourth quarter of 2017. Those publishing rights were sold in March 2018. Net sales from *PAYDAY 2* were SEK 20.4 million (20.4). Sales related to *OVERKILL's The Walking Dead (OTWD)*, released in November 2018, did not meet our financial expectations and amounted to SEK 34.1 million.

EBITDA amounted to SEK -73.7 million (6.3). The cost increase is attributable mainly to marketing in connection with the release of *OTWD*. Cash used during the quarter amounted to SEK -75.5 million (-197.7).

The value of the group's assets was tested in connection with closing the annual accounts. This resulted in a non-cash impairment loss, taken for accounting purposes, of SEK 1,401.9 million. Most of the recent years' investments have not been successful and have caused the current financial situation.

### The future of the business

We have decided to streamline operations and are now focused entirely on the group's core business: game development and publishing. The company has also commenced the process to find financial partners to finance all or parts of its future operations.

We signed an agreement in February with Universal Games and Digital Platforms on the distribution of the mobile game *PAYDAY: Crime War*. *PAYDAY* is Starbreeze most successful brand and we are now continuing to refine our core business.

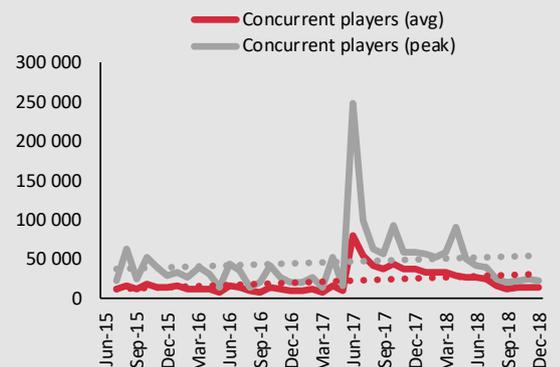
We are seeking external collaborative partners to ensure that operations that do not constitute core business develop in a positive manner.

As the company is under reconstruction, it is naturally difficult to predict the future, but the plan we are devising is aimed at creating stable development of the core business and thus long-term shareholder value. I can guarantee that everyone at the company is doing their utmost to promote the favourable development of Starbreeze.

### Mikael Nermark

Acting CEO Starbreeze

## PAYDAY 2



Source: steamcharts.com

At peak

# 24,849

played **PAYDAY 2** concurrently in Q4

# SIGNIFICANT EVENTS DURING THE QUARTER

A summary of significant events during the quarter follows. Please visit [Starbreeze.com](http://Starbreeze.com) for detailed information about events during the quarter.

## **Change in senior management**

Mikael Nermark has been appointed Acting CEO of Starbreeze AB. Claes Wentzel has been appointed Acting CFO.

## **Board changes**

Bo Andersson, Kristofer Arwin, Ulrika Hagdahl and Åsa Wirén have stepped down from the board, which resulted in the Board no longer holding quorum.

## **Starbreeze AB and five subsidiaries under reconstruction**

The Stockholm District Court has approved reconstruction of Starbreeze AB (publ) and its Swedish subsidiaries Starbreeze Publishing, Starbreeze Production, Starbreeze Studios, Enterspace and Enterspace International. The company filed for reconstruction due to a liquidity shortfall and because it was judged necessary to give the Company the time necessary to negotiate a long-term financial solution and implement operational and organizational changes.

The District Court has also appointed a creditor's committee in Starbreeze AB (publ), comprising Martin Wigfors representing Nordea Bank AB, and Magdalena Berg of Baker & McKenzie Advokatbyrå representing Smilegate.

The main elements of reconstruction are ensuring that suspension of payments is effective, and payments are duly managed, maintaining the necessary liquidity for the business in order to prevent the destruction of value, and determining how the business can be reorganized and debts to creditors can be repaid. Attorney Lars Söderqvist has been appointed administrator for the process.

## **Financial targets**

The company informed the market that the financial targets for the fourth quarter of 2018 and the full years of 2019 and 2020 no longer apply.

## **Focus on core business**

Starbreeze AB has decided to focus on the group's core business of game development and publishing. In accordance with that decision, operational and financial resources are being concentrated to those areas. The company has commenced seeking external collaborative partners to ensure that operations that do not constitute core business develop in a positive manner.

The basis of the group's future operations will be focused on a portfolio comprising a mix of internally developed games and publishing titles.

The company has initiated the process to find financial partners to finance all or parts of its future operations. Starbreeze estimates that the operational changes will be implemented by mid-year 2019. It should be noted that the aforementioned division is preliminary and dependent upon ongoing negotiations.

## **Release of OVERKILL's The Walking Dead**

OVERKILL's The Walking Dead was released for PC on the Steam platform on the 6th of November.

# SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

## **Notice of extraordinary general meeting**

An extraordinary general meeting of shareholders in Starbreeze AB will be held in Stockholm, Sweden, on 7 March 2019 at 14:00 CET.

Shareholders who wish to attend the extraordinary general meeting must notify the company of their intention to attend and must be entered under their own names in the shareholder register kept by Euroclear Sweden AB by Friday, 1 March 2019. Further information is available on the company's website.

## **Nomination committee's proposal to the extraordinary general meeting**

The nomination committee is proposing to the extraordinary general meeting in March the first-time election of Jan Benjaminson, Torgny Hellström and Kerstin Sundberg as regular directors and election of Torgny Hellström as the new chairman of the board. The present chairman of the board, Michael Hjorth, has notified the nomination committee that he will step down from the board effective at the close of the extraordinary general meeting in March.

If Torgny Hellström is elected chairman of the board by the extraordinary general meeting in March he will, in accordance with the company's instruction to the nomination committee, be appointed a member of the nomination committee. The work of the nomination committee ahead of the general meeting remains in progress. The nomination committee's full proposal will be published on the company's website.

## **Publishing agreement with Universal Games and Digital Platforms**

Starbreeze Production AB, a subsidiary of Starbreeze, has signed a binding term-sheet on the terms of a five-year distribution agreement with Universal Games and Digital Platforms for the mobile title PAYDAY: Crime War.

## **Starbreeze selling back publishing rights to System Shock 3**

Starbreeze and OtherSide Entertainment have agreed to sell the publishing rights to the System Shock 3 game back to OtherSide Entertainment. Starbreeze expects to be fully compensated for the costs the company has incurred in connection with development of the game.

# SALES AND PROFIT

# Q4

2018

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

## Sales and direct costs

### Fourth quarter 2018

As of the third quarter of 2018, *Dead by Daylight* is not included in the Starbreeze portfolio, which affects both revenue and costs. *Dead by Daylight* contributed revenue of SEK 67.6 million in the fourth quarter of 2017 and direct costs reduced profit by SEK 40.4 million.

Net sales for the fourth quarter of 2018 amounted to SEK 82.5 million (103.8), of which PAYDAY accounted for SEK 20.4 million (20.4). Starbreeze had no revenues for *Dead by Daylight* during the quarter. Starbreeze Indian studio Dhruva contributed external income of SEK 11.3 million (1.7). The increase is due to that revenues for the comparison period cover only 22–31 December, but the amount refers to an entire quarter this year. *OVERKILL's The Walking Dead (OTWD)* was released during the quarter and generated sales of SEK 34.1 million (0.0).

Direct costs amounted to SEK 1,503.9 million (110.8) and consist of costs related to game production and development. Starbreeze had no costs for *Dead by Daylight* during the quarter. Direct costs include depreciation, amortization and impairments of SEK 1,427.4 million (48.1). Of total impairments during the period, SEK 1,279.5 million refers to intangible assets, SEK 29.6 million to financial assets and SEK 79.6 million to tangible assets. See Note 8.

Balance sheets for liquidation purposes will be prepared for certain subsidiaries whose equity was partially or entirely exhausted as a consequence of the impairments.

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

### The full year (January–December 2018)

Net sales decreased by 3.2 percent to SEK 350.0 million (361.4). Of the total, PAYDAY generated SEK 97.7 million (120.3) and *Dead by Daylight* accounted for SEK 134.1 million (201.5). External income of SEK 34.8 million (1.7) from Dhruva was also included. *OTWD* generated SEK 34.1 million.

Direct costs amounted to SEK 1,733.9 million (332.8), including amortization, depreciation and impairments of SEK 1,560.1 million (97.9). Impairments during the period total SEK 1,292.6 million on intangible assets, SEK 29.6 million on financial assets and SEK 79.6 million on tangible assets. See Note 8.

## Costs and profit or loss

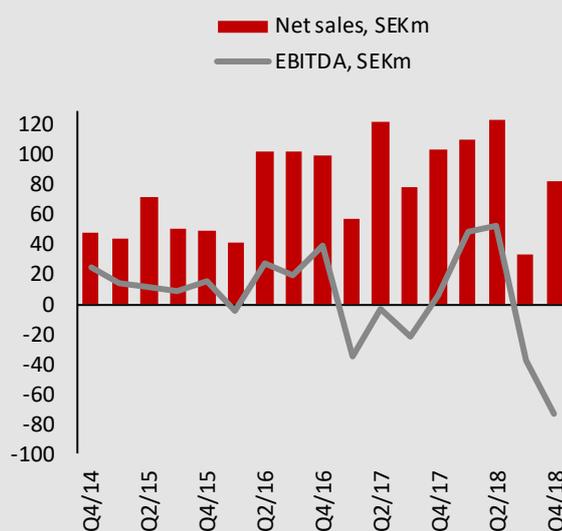
### Fourth quarter 2018

Sales and marketing costs amounted to SEK 35.5 million (14.9) and include, for example, trade show costs and employee benefits expense. The increase was driven mainly by increased marketing related to the release of *OVERKILL's The Walking Dead*.

## Sales and profit

SEKk	2018	2017
	Q4	Q4
Net sales	82,459	103,753
EBITDA *	-73,716	6,342
Profit (-loss) before tax	-1,264,730	-67,852
Net profit (-loss) for the period	-1,288,580	-63,040
Earnings per share, SEK	-3.96	-0.22
Net sales growth, %	-20.5	4.4
EBITDA margin, %	-89.4	6.1

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



Administrative expenses amounted to SEK 42.1 million (30.1) and refer to items including office costs and payroll for employees who do not work in game production or marketing. The item includes amortization of SEK 1.2 million (1.3). The increase in administrative costs is primarily due to an increase in consultancy and legal expenses related to the company's reconstruction.

Other operating revenue/operating expenses, consisting mainly of currency effects, amounted to SEK -3.3 million (9.1), due to appreciation of the dollar and euro rates against the Swedish krona.

EBITDA amounted to SEK -73.7 million (6.3). The decrease in earnings was driven mainly by the ending of revenues from Dead by Daylight on 30 June when the sale of the publishing rights closed.

Net financial income amounted to SEK 237.6 million (-24.8). See the specification in the table at the right. Remeasurement of earnouts amounted to SEK 217.1 million (-15.9). The change is due to the full impairment of the majority of earnouts. The only remaining earnouts are those for ePawn, Nozon/Parallaxter and Dhruva. The share of profit and loss in the joint venture StarVR Corporation amounted to SEK -22.6 million (-0.7). The decline is due to additional costs incurred by the joint venture and to that the product has not been launched. The majority of net financial income for the quarter had no effect on cash flow.

The loss before tax amounted to SEK -1,264.7 million (-67.9). The loss for the period amounted to SEK -1,288.6 million (-63.0). The decline is primarily attributable to impairment losses. See Note 8.

Basic and diluted earnings per share were SEK -3.96 (-0.22).

### The full year (January-December 2018)

Sales and marketing costs amounted to SEK 91.4 million (59.5). The increase was driven mainly by increased marketing related to the release of OVERKILL's The Walking Dead.

Administrative expenses amounted to SEK 115.7 million (119.5), including amortization and depreciation of SEK 5.7 million (9.9).

Other operating revenue/operating expenses, consisting mainly of currency effects, amounted to SEK 13.3 million (-1.2), due to appreciation of the dollar and euro rates against the Swedish krona.

EBITDA was SEK -10.3 million (-53.6). The earnings improvement was driven mainly by the sale of the publishing rights to Dead by Daylight.

Net financial income amounted to SEK 230.6 million (-24.7). See the specification in the table at the right. Remeasurement of earnouts amounted to SEK 259.2 million (10.1). The change is due to impairment of the majority of earnouts. The only remaining earnouts are those for ePawn, Nozon/Parallaxter and Dhruva. The share of profit and loss in the joint venture StarVR Corporation amounted to SEK -37.2 million (-4.2). The change is due to increased activity within the joint venture. The majority of net financial income for the quarter had no effect on cash flow.

The loss before tax amounted to SEK -1,347.2 million (-176.2). The loss for the period amounted to SEK -1,336.4 million (-155.3). The poorer performance is primarily attributable to impairment losses. See Note 8.

Basic and diluted earnings per share were SEK -4.20 (-0.55).

### Segment reporting

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

### Specification of net financial income/expense

	2018	2017	2018	2017
SEkk	Q4	Q4	JAN-DEC	JAN-DEC
Remeasurement of earnouts	217,081	-15,947	259,200	10,105
Interest on convertible bonds	-4,483	-5,577	-21,445	-21,678
Remeasurement of derivatives attributable to convertible bonds	16,427	-3,143	8,150	-8,380
Interest on loan to StarVR Corp.	32,773	-	28,467	-
Net profit (-loss) from StarVR Corp.	-22,614	-749	-37,233	-4,200
Interest on short-term investments	-669	1,854	47	862
Interest on bank overdraft facility	-1,597	-1,255	-6,182	-1,255
Other items	697	-15	-448	-180
<b>Total</b>	<b>237,615</b>	<b>-24,832</b>	<b>230,556</b>	<b>-24,726</b>

### Distribution of net sales for the quarter

■ OTWD ■ Payday 2 ■ Other



■ PC ■ Services ■ Console ■ VR centers



# STARBREEZE GAMES

# Q4

2018

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

## Fourth quarter 2018

Net sales amounted to SEK 66.3 million (22.2) and were generated mainly by games developed by Starbreeze, divided between PAYDAY at SEK 20.4 million (20.4) and OVERKILL's The Walking Dead at SEK 34.1 million (0.0). PAYDAY 2 Switch contributed SEK 0.7 million (0.0) to digital sales for the quarter. Net sales include external income of SEK 11.3 million (1.7) from Starbreeze Indian studio, Dhruva.

Direct costs amounted to SEK 662.3 million (8.0). The increase was driven mainly by higher depreciation, amortization and impairments during the period, which amounted to SEK 604.4 million (3.7). Impairments totaled SEK 569.3 million (0.0). See Note 8. Operating costs amounted to SEK 61.1 million (19.6). The operating loss was SEK -657.1 million (-5.4). The increase was driven mainly by increased marketing costs related to the release of OVERKILL's The Walking Dead.

## The full year (January-December 2018)

Net sales amounted to SEK 168.6 million (122.1), of which the PAYDAY game, developed by Starbreeze, accounted for SEK 97.7 million (120.3) and OVERKILL's The Walking Dead, released during the quarter, generated SEK 34.1 million (0.0). External income of SEK 34.8 million (1.7) from Dhruva was also included.

Direct costs amounted to SEK 733.6 million (66.0), including amortization, depreciation and impairments of SEK 624.8 million (0.0). The increase was driven by depreciation, amortization and impairments of SEK 569.3 million (0.0)

Operating costs amounted to SEK 111.8 million (56.7). The operating loss was SEK -676.8 million (-0.6). The poorer performance is primarily attributable to impairment losses. See Note 8.

## After the end of the period

Revenues from sales of PAYDAY 2 via the Steam platform in January 2019 amounted to SEK 3.3 million (4.7).

	2018	2017	2018	2017
SEkk	Q4	Q4	JAN-DEC	JAN-DEC
<b>Starbreeze Games</b>				
Net sales	66,294	22,166	168,554	122,074
Direct costs	-662,282	-7,995	-733,612	-65,971
<b>Gross profit</b>	<b>-595,988</b>	<b>14,171</b>	<b>-565,058</b>	<b>56,103</b>
Operating costs	-61,112	-19,561	-111,769	-56,653
<b>Operating profit (-loss)</b>	<b>-657,100</b>	<b>-5,390</b>	<b>-676,827</b>	<b>-550</b>

# PUBLISHING

# Q4

2018

The Publishing business area consists of Starbreeze publishing operations with games developed by third parties. The ongoing game projects Psychonauts 2, System Shock 3, 10 Crowns and the portfolio of published VR titles are included in the business area.

*The Dead by Daylight deal was closed in the second quarter and the publishing rights were transferred to Behaviour. As of the third quarter of 2018, Dead by Daylight is not included in the Starbreeze portfolio, which affects both revenue and costs. Dead by Daylight contributed revenue of SEK 67.6 million in the fourth quarter of 2017 and direct costs reduced profit by SEK 40.4 million.*

## Fourth quarter 2018

Net sales amounted to SEK 2.4 million (74.6). Compared to the preceding year, Starbreeze has no revenues from Dead by Daylight.

Direct costs amounted to SEK 81.4 million (86.4). The item includes amortization and impairments of SEK 78.3 million (39.6), including SEK 65.5 million (20.2) in impairments taken on a number of publishing projects. An impairment loss on the released game RAID: World War II (RAID product) accounts for the remainder. Compared to the preceding year, Starbreeze has no costs for Dead by Daylight, which amounted to SEK 40.4 million in the fourth quarter of 2017.

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

The operating loss was SEK -80.6 million (-25.2). The poorer performance is primarily attributable to impairment losses. See Note 8.

## The full year (January-December 2018)

Net sales amounted to SEK 135.1 million (219.9). Dead by Daylight accounted for SEK 133.7 million (201.5) of net sales, including SEK 42.8 million paid by Behaviour in the sale of the rights to Dead by Daylight.

Direct costs amounted to SEK 177.7 million (199.7). The item includes depreciation, amortization and impairments of SEK 158.0 million (64.9), including impairments taken on publishing projects of SEK 78.6 million (20.2). See Note 8. As an effect of the sale of the publishing rights to Behaviour, Starbreeze had costs for Dead by Daylight of only SEK 7.9 million (132.8).

Operating costs have gone down from SEK 62.7 million to SEK 19.8 million, due to factors including lower marketing costs for Raid and Dead by Daylight of SEK 17.6 million and to that exchange rate losses that reduced annual profits in the preceding year.

Operating loss was SEK -62.3 million (-42.5).

	2018	2017	2018	2017
SEKk	Q4	Q4	JAN-DEC	JAN-DEC
<b>Publishing</b>				
Net sales	2,399	74,649	135,145	219,925
Direct costs	-81,438	-86,421	-177,702	-199,691
<b>Gross profit</b>	<b>-79,039</b>	<b>-11,772</b>	<b>-42,557</b>	<b>20,234</b>
Operating costs	-1,549	-13,457	-19,768	-62,699
<b>Operating profit (-loss)</b>	<b>-80,588</b>	<b>-25,229</b>	<b>-62,325</b>	<b>-42,465</b>

# VR TECH & OPERATIONS

# Q4

2018

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

## Fourth quarter 2018

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

Net sales for the period of SEK 9.5 million (3.9) refer primarily to development services of SEK 6.6 million (0.0) provided to StarVR Corporation and income of SEK 1.6 million (3.9) from StarVR Corporation in compensation for marketing the StarVR headset, which is part of the previously communicated financial support of USD 8.0 million in total received for the build-up of the VR park in Dubai. The remaining revenues were generated by ticket sales at the VR parks in Dubai and Stockholm.

Direct costs amounted to SEK 570.5 million (0.0), including depreciation, amortization and impairments of SEK 562.1 million (0.0), mainly on investments in the VR parks. The total amount includes SEK 466.0 million (0.0) in impairments of intangible assets attributable to the VR venture. See Note 8.

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

The operating loss was SEK -575.6 million (1.6). The poorer performance is primarily attributable to impairment losses. See Note 8.

## The full year (January-December 2018)

Net sales for the period of SEK 33.7 million (3.9) refer primarily to income from StarVR Corporation of SEK 17.1 million in compensation for marketing the StarVR headset, and development services of SEK 8.6 million (0.0) provided to StarVR Corporation. The remaining revenues were generated by ticket sales at the VR parks in Dubai and Stockholm.

Direct costs amounted to SEK 600.0 million (0.0). Total costs include depreciation, amortization and impairments of SEK 581.4 million (0.0). Impairment losses total SEK 466.0 million. Operating costs amounted to SEK 45.5 million (4.3).

The operating loss was SEK -611.9 million (-0.4). The poorer performance is primarily attributable to impairment losses. See Note 8.

	2018	2017	2018	2017
SEKk	Q4	Q4	JAN-DEC	JAN-DEC
<b>VR Tech &amp; Operations</b>				
Net sales	9,579	3,883	33,654	3,883
Direct costs	-570,479	-	-599,982	-
<b>Gross profit</b>	<b>-560,900</b>	<b>3,883</b>	<b>-566,328</b>	<b>3,883</b>
Operating costs	-14,727	-2,302	-45,540	-4,294
<b>Operating profit (-loss)</b>	<b>-575,627</b>	<b>1,581</b>	<b>-611,868</b>	<b>-411</b>

# OTHER

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

## Fourth quarter 2018

Net sales amounted to SEK 4.2 million (3.1) and consist primarily of the Group's Belgian VFX business, Nozon.

Direct costs amounted to SEK 189.7 million (16.4). The cost increase is due to impairments on intangible assets of SEK 178.7 million (0.0) taken during the quarter.

Operating costs amounted to SEK 3.5 million (0.6). The increase is related mainly to higher legal and consultancy expenses related to the reconstruction.

The operating loss was SEK -189.0 million (-14.0).

## The full year (January-December 2018)

Net sales amounted to SEK 12.6 million (15.6) and consist primarily of the Group's Belgian VFX business, Nozon.

Direct costs increased to SEK 222.6 million (67.1). The increase is due to impairments of intangible assets amounting to SEK 178.7 million (0.0). See Note 8.

Operating costs amounted to SEK 16.8 million (56.5). The decrease is due mainly to sales and marketing costs of SEK 0.4 million, compared to SEK 23.9 million in the preceding year, when earnings were reduced by trade show costs. Trade show costs during the period were reported in the Starbreeze Games segment and referred to OVERKILL's The Walking Dead.

The operating loss was SEK -226.8 million (-108.0). The poorer performance is primarily attributable to impairment losses. See Note 8.

# Q4

2018

	2018	2017	2018	2017
SEKk	Q4	Q4	JAN-DEC	JAN-DEC
<b>Other</b>				
Net sales	4,187	3,055	12,602	15,565
Direct costs	-189,710	-16,425	-222,607	-67,145
<b>Gross profit</b>	<b>-185,523</b>	<b>-13,370</b>	<b>-210,005</b>	<b>-51,580</b>
Operating costs	-3,506	-612	-16,779	-56,453
<b>Operating profit (-loss)</b>	<b>-189,029</b>	<b>-13,982</b>	<b>-226,784</b>	<b>-108,033</b>

# OTHER FINANCIAL INFORMATION

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

## Financial position

### Non-current assets

Goodwill at the end of the period amounted to SEK 57.2 million (545.0). Goodwill is recognized using the exchange rate on the reporting date. Other intangible assets, which consist primarily of acquired IP and the buy-back of PAYDAY, amounted to SEK 356.1 million (597.5). No impairment need has been recognized for rights related to PAYDAY.

Capitalized game and technology development costs amounted to SEK 170.9 million (455.2) and refer to own game development projects and technology development within the VR Tech & Operations business area.

Investments in publishing projects amounted to SEK 188.0 million (187.5).

Depreciation and impairment of intangible assets amounted to SEK 1,438.5 million (82.3) during the period, including an impairment of SEK 1,279.5 on intangible assets. See Note 8.

Deferred tax assets related to remaining loss carryforwards in the parent company Starbreeze AB and its Swedish and foreign subsidiaries have been impaired to SEK 0.0 million (108.2).

### Current assets

Trade and other receivables amounted to SEK 36.9 million (27.8). Pre-paid expenses and accrued income at the end of the period amounted to SEK 48.8 million (125.3). The decrease is related mainly to the VR park in Dubai. SEK 17.6 million (10.0) refers to the receivable for digital sales, mainly via Steam, PlayStation Store, Xbox Live and Switch.

### Equity

Consolidated equity on the reporting date amounted to SEK 339.0 million (1,282.4) and the equity to assets ratio was 31.5 percent (52.1).

### Non-current liabilities

Non-current liabilities for earnouts decreased by SEK 42.2 million to SEK 88.7 million (347.9). The balance sheet item relates to earnouts for business acquisitions, primarily of Nozon and Parallaxter. The balance sheet item is measured at fair value and the change is recognized in net financial income and expense on the income statement (see page 7). The decrease is related to a revised estimate of future revenue inflows and thus the company estimates that most of the earnouts will not be triggered.

Other non-current liabilities decreased to SEK 394.4 million (466.6). The majority of the balance sheet item consists of a bank overdraft facility of SEK 75.8 million (141.0) and the convertible bond loans from Acer of SEK 71.5 million (71.7) and from Smilegate of SEK 200.6 million (213.2). The decrease in the convertible debt to Smilegate is attributable to an embedded derivative that has declined due to a falling share price. The Group also has a loan from Nordea of SEK 30.0 million that was categorized as an overdraft facility of SEK 36.7 million as of 31 December 2017 but was converted to a loan during the year.

# Q4

2018

## The equity to assets ratio

was

# 32

percent as of 31 December 2018

### Current liabilities

Trade and other payables at the end of the period amounted to SEK 130.7 million (122.4), of which SEK 65.1 million relates to development advances for OVERKILL's The Walking Dead. Development advances of this type are recognized as a liability when the advance is received and recognized in revenue when the game is released. Accrued expenses and deferred income at the end of the period amounted to SEK 67.8 million (70.6).

### Cash flow

#### Fourth quarter 2018

Cash and cash equivalents at the beginning of the quarter amounted to SEK 147.5 million (431.5).

Cash flow from (-used in) operating activities amounted to SEK -19.7 million (-44.3). The improvement is related to the change in working capital, primarily the increase in current liabilities due to that the company is in reconstruction. Cash flow from (-used in) investing activities was SEK -5.1 million (-219.1). See also "Investments" below. Cash flow from (-used in) financing activities was SEK -50.7 million (65.8) and refers primarily to changes in the bank overdraft facility.

Total cash flow for (-used in) the quarter was SEK -75.5 million (-197.7). The improvement is related mainly to an improvement in working capital and reduced investments. Cash and cash equivalents at the end of the period amounted to SEK 72.4 million (233.8)

### Investments

Consolidated investments in property, plant and equipment during the quarter amounted to SEK 1.0 million (42.9). The decrease is related to investments in VR parks made in the preceding year. In addition, investments in own game and technology development totaled SEK 43.2 million (67.0), where the decrease is related mainly to completion of the OVERKILL's The Walking Dead game project and the development of the StarVR headset during the current quarter. Investments in publishing projects amounted to SEK 34.3 million (49.3). The decrease is due primarily to a reduction in investments because the company is under reconstruction. Investments in short-term placements amounted to SEK +75.0 million (0.0) and refer to cash and cash equivalents deposited into an account for which withdrawals are limited in time by more than three months and the company therefore has judged that the funds must be classified as a short-term placement and not as cash and cash equivalents. These funds have now been used to settle the bank overdraft. This has positive impact on investing activities, but negative impact on financing activities.

#### Full year 2018

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

Cash flow from (-used in) operating activities amounted to SEK 53.0 million (-21.1). The increase is due to an improvement in working capital efficiency during the period and improved EBITDA. Cash flow from (-used in) investing activities was SEK -559.2 million (-620.1). See also the "Investments" section below. Cash flow from financing activities was SEK 344.3 million (208.9). The change is due mainly to the new issues executed during the period of SEK 390.1 million (0.0).

Total cash flow for (-used in) the period was SEK -161.9 million (-432.3). Cash and cash equivalents at the end of the period amounted to SEK 72.4 million (233.8)

### Investments

Consolidated investments in property, plant and equipment during the period amounted to SEK 92.1 million (87.3), of which SEK 68.4 million refers to the build-up of the VR park in Dubai. Investments in own game

## Cash and cash equivalents at

31 December 2018

# 72

## SEKm

### Distribution of investments during the quarter

- Own games and technology
- Publishing
- Other



and technology development totaled SEK 333.9 million (231.9). The increase is an effect of the completion of the OVERKILL's The Walking Dead game project. Investments in publishing projects amounted to SEK 126.6 million (180.2).

## Parent company

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

The parent company's net sales during the quarter were SEK 12.7 million (16.2). Sales refer primarily to allocation of management fees.

The company impaired the value of its shares in subsidiaries by SEK 978.5 million during the quarter.

The loss before tax was SEK -1,000.0 million (-5.6) and the loss after tax was SEK -1,032.9 million (-2.6).

The parent company's net sales for the period of January–December 2018 amounted to SEK 55.3 million (63.2). Sales refer primarily to allocation of management fees. The loss before tax was SEK -1,040.0 million (-74.6) and the loss after tax was SEK -1,063.4 million (-56.7).

Cash and cash equivalents at the end of the period amounted to SEK 8.0 million (75.3) and parent company equity was SEK 529.5 million (1,212.5).

Non-current liabilities consisting of convertible loans and earnouts decreased to SEK 360.6 million (632.8).

## Employees

The number of employees at the end of the period was 604 (650), of whom 533 men and 71 women. The average number of full-time employees for the quarter was 622 (343). The average age was 32 (34).

## The share

The Starbreeze share has been listed in the Mid Cap segment of Nasdaq Stockholm since 2 October 2017. The shares are traded under the tickers STAR A, ISIN code SE 007158928, and STAR B, SE0005992831. The closing price on 31 December 2018 was SEK 1.23 for the Class A share, compared to SEK 8.15 on 31 December 2017, and SEK 0.82 for the Class B share, compared to SEK 8.40. At the end of the quarter, total market capitalization was approximately SEK 289 million, compared to approximately SEK 2,364 million in the preceding year.

## Share capital

Comparative figures refer to 31 December 2017. Share capital at the end of the period amounted to SEK 6,506 thousand (5,661) distributed among 325,295,554 shares (283,037,940), of which 53,397,677 Class A shares (55,146,615) and 271,897,877 Class B shares (227,891,325). The number of Class B shares increased by 44,006,552 and the number of Class A shares decreased by 1,748,938 during the year.

## Shareholders

Starbreeze had 28,907 shareholders (27,107 at 31 December 2017) at the end of the period. A list of the company's ten largest shareholders is updated monthly on the company's website at [starbreeze.com](http://starbreeze.com) under "Investors."

## Dividends

As the board does not hold quorum, proposal for dividend will be announced later.

## Employee key data

	2018	2017
	Q4	Q4
Employees	604	650
Men	533	570
Women	71	80
Net profit (-loss) per employee	-2133 TSEK	-97 TSEK

# 604

## Employees at Starbreeze

## Nomination committee

The nomination committee leading up to the 2019 AGM was announced on 8 October. The committee members are Peter Sponbergs, appointed by Varvtre AB, Åsa Nisell, appointed by Swedbank Robur Fonder, Ossian Ekdahl, appointed by Första AP-fonden and Michael Hjorth, who is also Chairman of the Board, appointed by Indian Nation. Åsa Nisell was appointed chair of the nomination committee.

## Extraordinary general meeting

Shareholders in Starbreeze AB (publ) have been notified of an extraordinary general meeting to be held on Thursday, 7 March 2019 at 14:00 CET at the conference center at Drottninggatan 89, Stockholm, Sweden.

Shareholders who wish to attend the general meeting must be entered under their own names in the shareholder register kept by Euroclear Sweden AB by Friday, 1 March 2019 and must also notify the company of their intention to attend by Friday 1 March 2019, preferably before 16:00 CET. Notice may be given by letter to Starbreeze AB, Attn: General Meeting, Box 7731, 103 95 Stockholm, Sweden or by email to [bolagsstamma@starbreeze.com](mailto:bolagsstamma@starbreeze.com).

The notice must specify the shareholder's name, civic or company registration number, address, telephone number and shareholding. If the shareholder wishes to be represented by proxy, authorization documents, such as a proxy form and certificate of company registration, must be available at the general meeting. However, such authorization documents should also be enclosed with/attached to the notice of attendance provided to the company. The company provides proxy forms for shareholders who wish to be represented by proxy. The forms are available on the company's website, [www.starbreeze.com](http://www.starbreeze.com).

To be eligible to attend the annual meeting, shareholders whose shares are nominee-registered must temporarily reregister their shares in their own names. Shareholders wishing such reregistration must inform their nominees thereto well in advance of Friday 1 March 2019 for such reregistration to be effected.

## Nomination committee's proposal to the extraordinary general meeting

The nomination committee is proposing to the extraordinary general meeting in March the election of Jan Benjaminson, Torgny Hellström and Kerstin Sundberg new ordinary board members and election of Torgny Hellström as the new chairman of the board. The present chairman of the board, Michael Hjorth, has notified the nomination committee that he will step down from the board as of the close of the extraordinary general meeting in March. The nomination committee's full proposal to the extraordinary general meeting and a reasoned statement will be posted on the company's website before the meeting. If Torgny Hellström is elected chairman of the board by the extraordinary general meeting in March he will, in accordance with the company's instruction to the nomination committee, be appointed a member of the nomination committee. The work of the nomination committee ahead of the general meeting remains in progress.

## Annual General Meeting

The 2019 AGM will be held in Stockholm, Sweden, on Tuesday, 7 May 2019 at 16:00 CET.

## Accounting and measurement policies

This interim report has been prepared in accordance IAS 34, Interim Financial Reporting. The accounting policies and calculation methods are the same as those applied in the Annual Report 2017, other than that the Group began applying IFRS 15 and IFRS 9 as of 1 January 2018. The

transition has had no effect on the financial statements with respect to either opening balances or going forward. As of the first quarter of 2018, Starbreeze applies an income statement classified by function.

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

### Impact of forthcoming standards

#### IFRS 16 Leases

The IASB published a new accounting standard for leases in January 2016 that will replace IAS 17 Leases and the associated interpretations IFRIC 4, SIC 15 and SIC 27. The standard requires all assets and liabilities attributable to leases, with a few exceptions, to be reported on the balance sheet. This accounting is based on the view that the lessee has a right to control the use an asset during a period of time and a simultaneous obligation to pay for this right. Lessor accounting remains largely unchanged. The standard is applicable to annual reporting periods starting on or after 1 January 2019. Early application is permitted. The group has assessed the impact of the transition to the new accounting standard IFRS 16 Leases, which is effective for annual reporting periods starting on or after 1 January 2019. The initial estimate is that IFRS 16 will have a minor positive impact on operating profit and loss and a minor negative effect on profit or loss after net financial income/expense. The estimated impact on the balance sheet is shown on the table below and comprises leases for offices and buildings.

The group has chosen to report the transition using the modified retrospective approach. The optional transition relief, where entities are not required to restate comparative figures for 2018, has been applied.

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

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

	<b>TSEK</b>
Committed operational lease contract as at December 31, 2018	185,175
Discounting using the Group's weighted average cost of capital	-8,301
Deduction for short-term leases, expenced through out the lease period	-28,190
<b>Lease debt reported as at January 1, 2019</b>	<b>148,684</b>

### Risks and uncertainties

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

The short-term effect on profit and loss from fluctuations in exchange rates can be positive or negative, depending on the current currency exposure from trade receivables, bank balances and other assets and liabilities in foreign currency. However, a falling dollar rate in the

longer term always has a negative impact on profit margins. Due to acquisitions of several foreign subsidiaries, the group also has translation exposure.

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

Starbreeze, including certain subsidiaries, has been under reconstruction since 3 December 2018 and currently does not have sufficient funds to continue operating for the next 12 months after the reporting date and there is no guarantee that funds can be raised for continued operation. In a situation where the going concern principle cannot be adhered to, there is risk that the group's assets and the parent company's value of shares in subsidiaries and internal receivables must be remeasured. Aimed at ensuring continued operation, the company has commenced the process to find financial partners to finance all or parts of the company's business. Based on the company's judgement that the conditions exist for arranging external financing and/or divestment of assets, management considers the going concern principle to have been fulfilled.

### Related party transactions

In conjunction with the company's listing switch to Nasdaq Stockholm, a greater need arose for work related to systems, processes and policies for internal control and corporate governance. In this connection, the company engaged Eva Redhe, who was then a director and chair of the audit committee, to assist with this work, for which Eva Redhe, through her company, billed the company SEK 200,000 in consultancy fees during 2018. The group also received a marketing contribution of SEK 8.3 million during the period from the joint venture StarVR Corporation. This amount has been recognized as a liability on the balance sheet. There were no non-customary related party transactions during the period other than the transactions disclosed in the report above.

### Investor relations

Up-to-date information about Starbreeze is available on the company's website at [starbreeze.com](http://starbreeze.com). You may contact the company via email: [ir@starbreeze.com](mailto:ir@starbreeze.com), phone: +46 8-209 208 or mail: Box 7731, 103 95 Stockholm, Sweden.

### For further information

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The reports are published on the company's website, [starbreeze.com](http://starbreeze.com).

Stockholm, 20 February 2019

#### Mikael Nermark

Acting CEO

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

## Financial calendar

Annual Report 2018 .....	<b>5 April 2019</b>
AGM 2019 .....	<b>7 May 2019</b>
Interim report Q1 2019 .....	<b>7 May 2019</b>
Interim report Q2 2019 .....	<b>20 August 2019</b>
Interim report Q3 2019 .....	<b>5 November 2019</b>
Year-end report 2019 .....	<b>4 February 2020</b>

## Consolidated statement of comprehensive income

	NOTE	2018	2017	2018	2017
SEKk		Q4	Q4	JAN-DEC	JAN - DEC
Net sales	5	82,459	103,753	349,955	361,447
Direct costs	8	-1,503,909	-110,841	-1,733,903	-332,807
<b>Gross profit</b>		<b>-1,421,450</b>	<b>-7,088</b>	<b>-1,383,948</b>	<b>28,640</b>
Selling and marketing costs		-35,487	-14,940	-91,397	-59,480
Administrative expenses		-42,098	-30,112	-115,722	-119,469
Other revenue		-3,310	-	13,262	-
Other expenses		-	9,120	-	-1,150
		-	-	-	-
<b>Operating profit (-loss)</b>	6, 8	<b>-1,502,345</b>	<b>-43,020</b>	<b>-1,577,805</b>	<b>-151,459</b>
Financial income		252,982	-15,824	295,817	10,105
Financial expenses	8	7,247	-8,259	-28,028	-30,631
Share in profit or loss of holdings accounted for using the equity method		-22,614	-749	-37,233	-4,200
<b>Profit (-loss) before tax</b>		<b>-1,264,730</b>	<b>-67,852</b>	<b>-1,347,249</b>	<b>-176,185</b>
Income tax		-23,850	4,812	10,897	20,855
<b>Net profit (-loss) for the period</b>		<b>-1,288,580</b>	<b>-63,040</b>	<b>-1,336,352</b>	<b>-155,330</b>
Other comprehensive income that may subsequently be reclassified to profit and loss					
Impairment of unlisted shares	8	-11,501	-	-11,501	-
Exchange differences		-38,230	14,526	23,526	1,402
<b>Total comprehensive income for the period</b>		<b>-1,338,311</b>	<b>-48,514</b>	<b>-1,324,327</b>	<b>-153,928</b>
Total comprehensive income for the period attributable to:					
Owners of the parent		-1,338,680	-48,514	-1,324,992	-154,022
Non-controlling interests		369	-	665	94
Earnings per share attributable to owners of the parent during the period (SEK):					
- Basic		-3.96	-0.22	-4.20	-0.55
- Diluted		-3.96	-0.22	-4.20	-0.55

## Consolidated balance sheet

SEKK	NOTE	2018/12/31	2017/12/31
<b>ASSETS</b>			
<i>Intangible assets</i>			
Goodwill	8	57,169	544,971
Other non-current assets	8	356,071	597,467
Capitalized expenditure for own games and technology development	8	170,919	455,239
Investments in publishing projects	8	187,970	187,528
<i>Financial assets</i>			
Financial assets	8	16,721	38,156
Investments in joint ventures	7	4,656	41,890
Deferred tax assets		326	108,153
<i>Property, plant and equipment</i>			
VR facilities, IT equipment and other equipment	8	63,450	98,901
<b>Total non-current assets</b>		<b>857,282</b>	<b>2,072,305</b>
<i>Current assets</i>			
Inventories		44	22
Trades and other receivables		36,917	27,821
Prepaid expenses and accrued income		48,778	125,259
Cash and cash equivalents		72,352	233,757
<b>Total current assets</b>		<b>158,091</b>	<b>386,859</b>
Assets held for sale	9	61,436	-
<b>Total assets held for sale</b>		<b>61,436</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>1,076,809</b>	<b>2,459,164</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity attributable to owners of the parent</i>			
Share capital		6,506	5,661
Other contributed capital		1,639,516	1,243,573
Reserves		17,098	5,073
Retained earnings including net profit or loss for the period		-1,326,061	27,748
Non-controlling interests		1,947	344
<b>Total equity</b>		<b>339,006</b>	<b>1,282,399</b>
<i>Non-current liabilities</i>			
Non-current liabilities, earnouts		88,662	347,862
Deferred tax liability		56,269	169,346
Other non-current liabilities		394,386	466,557
<b>Total non-current liabilities</b>		<b>539,317</b>	<b>983,765</b>
<i>Current liabilities</i>			
Trade and other payables		130,698	122,396
Accrued expenses and deferred income		67,788	70,604
<b>Total current liabilities</b>		<b>198,486</b>	<b>193,000</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,076,809</b>	<b>2,459,164</b>

## Consolidated statement of changes in equity

SEKk	Share capital	Other contributed capital	Reserves	Retained earnings	Total	Non controlling interest	Total equity
Balance at 1 January 2018	5,661	1,243,573	5,073	27,748	1,282,055	344	1,282,399
Net profit (-loss) for the period	-	-	-	-1,337,017	-1,337,017	665	-1,336,352
<b>Other comprehensive income for the period</b>							
Impairment of unlisted shares	-	-	-11,501	-	-11,501	-	-11,501
Exchange differences	-	-	23,526	-	23,526	-36	23,490
<b>Total comprehensive income</b>	<b>5,661</b>	<b>1,243,573</b>	<b>17,098</b>	<b>-1,309,269</b>	<b>-42,937</b>	<b>973</b>	<b>-41,964</b>
<b>Transactions with shareholders:</b>							
New issue through exercise of stock options	26	7,529	-	-	7,555	-	7,555
Minority share of shareholder contributions to subsidiaries	-	-974	-	-	-974	974	-
Vested employee stock options	-	40	-	-	40	-	40
Sales of equity instruments	-	282	-	-	282	-	282
Tax effect on sale of equity instruments	-	-62	-	-	-62	-	-62
New issue	819	389,128	-	-	389,947	-	389,947
Issue cost recognized in equity	-	-	-	-21,546	-21,546	-	-21,546
Deferred tax effect of issue cost recognized in equity	-	-	-	4,754	4,754	-	4,754
<b>Total contribution from and value transfers to shareholders, recognized directly in equity</b>	<b>845</b>	<b>395,943</b>		<b>-16,792</b>	<b>379,996</b>	<b>974</b>	<b>380,970</b>
<b>Balance at 30 December 2018</b>	<b>6,506</b>	<b>1,639,516</b>	<b>17,098</b>	<b>-1,326,061</b>	<b>337,059</b>	<b>1,947</b>	<b>339,006</b>
Balance at 1 January 2017	5,538	1,175,563	3,671	185,451	1,370,223	-	1,370,223
Net profit (-loss) for the period	-	-	-	-155,330	-155,330	-	-155,330
<b>Other comprehensive income for the period</b>							
Exchange differences	-	-	1,402	-	1,402	-	1,402
<b>Total comprehensive income</b>	<b>5,538</b>	<b>1,175,563</b>	<b>5,073</b>	<b>30,121</b>	<b>1,216,295</b>	<b>-</b>	<b>1,216,295</b>
<b>Transactions with shareholders:</b>							
New issue through exercise of stock options	81	21,853	-	-	21,934	-	21,934
Vested employee stock options	-	586	-	-	586	-	586
Sales of equity instruments	-	21,288	-	-	21,288	-	21,288
Tax effect on sale of equity instruments	-	-4,683	-	-	-4,683	-	-4,683
Non-cash issue in progress	42	28,966	-	-	29,008	-	29,008
Issue costs recognized in equity	-	-	-	-3,041	-3,041	-	-3,041
Deferred tax effect of issue costs recognized in equity	-	-	-	668	668	-	668
<b>Total contribution from and value transfers to shareholders, recognized directly in equity</b>	<b>123</b>	<b>68,010</b>	<b>-</b>	<b>-2,373</b>	<b>65,760</b>	<b>344</b>	<b>66,104</b>
<b>Balance at 30 December 2018</b>	<b>5,661</b>	<b>1,243,573</b>	<b>5,073</b>	<b>27,748</b>	<b>1,282,055</b>	<b>344</b>	<b>1,282,399</b>
					<b>2018</b>		<b>2017</b>
<b>CHANGE IN NUMBER OF OUTSTANDING SHARES</b>					<b>JAN-DEC</b>		<b>JAN - DEC</b>
Number of shares at the beginning of the period					283,037,940		276,879,720
Non-cash issue					-		2,078,781
Subscription of shares through exercise of options					1,327,836		
New issue					40,929,778		4,079,439
<b>Total shares outstanding at the end of the period</b>					<b>325,295,554</b>		<b>283,037,940</b>

## Consolidated statement of cash flows

SEKk	NOTE	2018	2017	2018	2017
		Q4	Q4	JAN-DEC	JAN - DEC
<b>Operating activities</b>					
Cash flow from operations	3	-20,465	-45,685	67,882	-11,167
Interest paid		-7,097	-2,318	-14,441	-5,325
Interest received		-763			9
Income taxes paid		8,656	3,662	-473	-4,603
<b>Cash flow from (-used in) operating activities</b>		<b>-19,669</b>	<b>-44,341</b>	<b>52,968</b>	<b>-21,086</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment		-985	-42,889	-92,071	-87,338
Investments in subsidiaries, less acquired cash and cash equivalents		-	-59,421	-	-59,076
Purchase of intangible assets		-	-	-	-
Investments in other financial assets		-1,639	-525	-6,607	-61,590
Investments in own games and technology		-43,162	-67,002	-333,947	-231,934
Investments in publishing projects		-34,269	-49,278	-126,599	-180,169
Increase (-) / decrease (+) in short-term investments		75,000	-		
<b>Cash flow from (-used in) investing activities</b>		<b>-5,055</b>	<b>-219,115</b>	<b>-559,224</b>	<b>-620,107</b>
<b>Financing activities</b>					
New issue		-		390,114	
Payments for stock options		-		7,304	43,073
Increase in non-current liabilities		27,971	68,662	159,476	169,209
Repayment of loans		-78,632	-2,910	-195,681	-3,369
<b>Cash flow from financing activities</b>		<b>-50,728</b>	<b>65,752</b>	<b>344,334</b>	<b>208,913</b>
<b>Cash flow for (-used in) the period</b>		<b>-75,452</b>	<b>-197,704</b>	<b>-161,922</b>	<b>-432,280</b>
Cash and cash equivalents at the beginning of the period		147,488	431,452	233,757	669,380
Exchange difference in cash and cash equivalents		315	9	516	-3,343
<b>Cash and cash equivalents at the end of the period</b>		<b>72,351</b>	<b>233,757</b>	<b>72,351</b>	<b>233,757</b>

## Key data, Group

	2018	2017	2018	2017
	Q4	Q4	JAN-DEC	JAN - DEC
Net sales, SEKk	82,459	103,753	349,955	361,447
EBITDA, SEKk	-73,716	6,342	-10,342	-53,559
EBIT, SEKk	-1,502,345	-43,020	-1,577,805	-151,459
Profit (-loss) before tax, SEKk	-1,264,730	-67,852	-1,347,249	-176,185
Profit (-loss) after tax, SEKk	-1,288,580	-63,040	-1,336,352	-155,330
EBITDA margin, %	-89.4	6.1	-3.0	-14.8
EBIT margin, %	-1,821.9	-41.5	-450.9	-41.9
Profit margin, %	-1,533.8	-65.4	-385.0	-48.7
Equity to assets ratio, %	31.5	52.1	31.5	52.1
Closing price of A share for the period, SEK	1.23	8.15	1.23	8.15
Closing price of B share for the period, SEK	0.82	8.40	0.82	8.40
Basic earnings per share, SEK	-3.96	-0.22	-4.20	-0.55
Diluted earnings per share, SEK	-3.96	-0.22	-4.20	-0.55
Number of shares at end of period before dilution	325,295,554	283,037,940	325,295,554	283,037,940
Number of shares at end of period after dilution	345,864,665	306,443,723	345,864,665	306,443,723
Average number of shares before dilution	325,295,554	283,365,463	317,956,811	280,309,967
Average number of shares after dilution	325,295,554	283,365,463	317,956,811	280,309,967
Average number of employees	622	343	634	278
Number of employees at the end of the period	604	650	604	650

## Key data, Group

### EBITDA

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

### EBIT

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

### EBITDA margin

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

### EBIT margin

Operating profit or loss as a percentage of net sales.

### Profit margin

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

### Equity to assets ratio

Equity as a percentage of total assets.

### Earnings per share

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

### Equity

Recognized equity including 78 percent of untaxed reserves.

## Reconciliation of Alternative Performance Measures

	2018	2017	2018	2017
	Q4	Q4	JAN-DEC	JAN - DEC
<i>EBITDA</i>				
Operating profit (-loss), SEKk	-1,502,345	-43,020	-1,577,805	-151,459
Less: Amortization of intangible assets, SEKk	1,330,376	44,581	1,438,469	82,294
Less: Depreciation of property, plant and equipment, SEKk	98,253	4,781	128,994	15,606
EBITDA	-73,716	6,342	-10,342	-53,559
<i>EBITDA margin, %</i>				
EBITDA, SEKk	-73,716	6,342	-10,342	-53,559
Net sales, SEKk	82,459	103,753	349,955	361,447
EBITDA margin, %	-89.4	6.1	-3.0	-14.8
<i>EBIT margin, %</i>				
Operating profit (-loss), SEKk	-1,502,345	-43,020	-1,577,805	-151,459
Net sales, SEKk	82,459	103,753	349,955	361,447
EBIT margin, %	-1,821.9	-41.5	-450.9	-41.9
<i>Profit margin, %</i>				
Profit (-loss) before tax, SEKk	-1,264,730	-67,852	-1,347,249	-176,185
Net sales, SEKk	82,459	103,753	349,955	361,447
Profit margin, %	-1,533.8	-65.4	-385.0	-48.7
<i>Equity to assets ratio, %</i>				
Total equity	339,006	1,282,399	339,006	1,282,399
Total equity and liabilities, SEKk	1,076,809	2,459,164	1,076,809	2,459,164
Equity to assets ratio, %	31.5	52.1	31.5	52.1

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

## Parent company income statement

SEKk	2018	2017	2018	2017
	Q4	Q4	JAN-DEC	JAN - DEC
Net sales	12,731	16,153	55,304	63,217
Other operating revenue	396	1,752	9,277	1,752
<b>Total sales</b>	<b>13,127</b>	<b>17,905</b>	<b>64,581</b>	<b>64,969</b>
Other external expenses	-13,357	-11,650	-41,891	-68,230
Employee benefit expense	-14,505	-9,581	-53,835	-45,534
Depreciation of property, plant and equipment	-100	-206	-579	-757
Other operating expenses	-	3,997	-	-
<b>Operating profit (-loss)</b>	<b>-14,835</b>	<b>465</b>	<b>-31,724</b>	<b>-49,552</b>
Profit from holdings in group companies	-978,508	-	-978,508	-
Other financial income	25,886	1,710	28,338	4,130
Financial expenses	-37,535	-7,829	-63,077	-29,202
<b>Profit (-loss) after net financial income/expense</b>	<b>-1,004,992</b>	<b>-5,654</b>	<b>-1,044,971</b>	<b>-74,624</b>
Appropriations	5,007	-	5,007	-
<b>Profit (-loss) before tax</b>	<b>-999,985</b>	<b>-5,654</b>	<b>-1,039,964</b>	<b>-74,624</b>
Income tax	-32,869	3,005	-23,433	17,875
<b>Net profit (-loss) for the period</b>	<b>-1,032,854</b>	<b>-2,649</b>	<b>-1,063,397</b>	<b>-56,749</b>

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

## Parent company balance sheet

SEKk	2018/12/31	2017/12/31
<b>ASSETS</b>		
<i>Non-current assets</i>		
<i>Tangible assets</i>		
Computers and other equipment	587	1,109
<i>Financial assets</i>		
Investments in group companies	514,595	1,281,195
Deferred tax assets	-	23,126
Investments in associates	4,656	45,958
Other financial assets	585	562
<b>Total non-current assets</b>	<b>520,423</b>	<b>1,351,950</b>
<i>Current assets</i>		
Trade and other receivables	5,853	23
Receivables from group companies	387,141	724,234
Other receivables	-	1,771
Prepaid expenses and accrued income	950	7,087
Cash and cash equivalents	8,002	75,353
<b>Total current assets</b>	<b>401,946</b>	<b>808,468</b>
<b>TOTAL ASSETS</b>	<b>922,369</b>	<b>2,160,418</b>
<b>EQUITY AND LIABILITIES</b>		
<i>Equity</i>		
Share capital	6,506	5,661
Fair value reserve	-	328
Share premium reserve	1,577,401	1,180,697
Retained earnings	9,007	82,562
Net profit (-loss) for the period	-1,063,397	-56,749
<b>Total equity</b>	<b>529,517</b>	<b>1,212,499</b>
<i>Untaxed reserves</i>		
Accumulated excess depreciation	-	16
<b>Total untaxed reserves</b>		<b>16</b>
<i>Non-current liabilities</i>		
Other non-current liabilities	360,631	632,832
<b>Total non-current liabilities</b>	<b>360,631</b>	<b>632,832</b>
<i>Current liabilities</i>		
Trade payables	7,849	6,829
Liabilities to group companies	4,860	294,581
Other liabilities	3,360	4,439
Accrued expenses and deferred income	16,152	9,222
<b>Total current liabilities</b>	<b>32,221</b>	<b>315,071</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>922,369</b>	<b>2,160,418</b>

# NOTES

## Note 1: Pledged assets

### Consolidated pledged assets and contingent liabilities

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

SEKk	12/31/2018	12/31/2017
Pledged assets	165,956	507,879
Contingent liabilities	-	-

## Note 2: Financial instruments

### Financial instruments measured at fair value

SEKk	12/31/2018	12/31/2017	Level
<i>Assets at fair value through comprehensive income</i>			
Financial assets, shares in Cmune	0	11,502	2
<i>Financial assets at fair value through profit or loss</i>			
Investments in convertible loans	0	15,641	2
<i>Financial liabilities at fair value through profit or loss</i>			
Earnouts	88,662	347,862	3
Convertible loans	42	25,537	2

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

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

## Note 3: Cash flow from operations

SEKk	Q4 2018	Q4 2017	JAN-DEC 2018	JAN-DEC 2017
Operating profit (-loss)	-1,502,345	-43,020	-1,577,805	-151,459
<i>Adjustments for non-cash items</i>				
-Amortization of intangible assets	1,330,247	44,581	1,438,469	82,294
-Depreciation of property, plant and equipment	98,253	4,791	128,994	15,642
-Net financial income (-expense)	0	0	0	0
-Other unrealized exchange losses	6,942	-188	3,237	-2,508
<i>Adjustments for:</i>				
Increase (-) / decrease (+) of current receivables	5,183	-26,185	66,173	-45,458
Increase (+) / decrease (-) of current liabilities	41,255	-25,664	8,814	90,322
Cash flow from operations	-20,465	-45,685	67,882	-11,167

## Note 4: Segment reporting, Group

	2018	2017	2018	2017
SEKK	Q4	Q4	JAN-DEC	JAN-DEC
<b>Starbreeze Games</b>				
Net sales	66,294	22,166	168,554	122,074
Direct costs	-662,282	-7,995	-733,612	-65,971
<b>Gross profit</b>	<b>-595,988</b>	<b>14,171</b>	<b>-565,058</b>	<b>56,103</b>
Operating costs	-61,112	-19,561	-111,769	-56,653
<b>Operating profit (-loss)</b>	<b>-657,100</b>	<b>-5,390</b>	<b>-676,827</b>	<b>-550</b>
<b>Publishing</b>				
Net sales	2,399	74,649	135,145	219,925
Direct costs	-81,438	-86,421	-177,702	-199,691
<b>Gross profit</b>	<b>-79,039</b>	<b>-11,772</b>	<b>-42,557</b>	<b>20,234</b>
Operating costs	-1,549	-13,457	-19,768	-62,699
<b>Operating profit (-loss)</b>	<b>-80,588</b>	<b>-25,229</b>	<b>-62,325</b>	<b>-42,465</b>
<b>VR Tech &amp; Operations</b>				
Net sales	9,579	3,883	33,654	3,883
Direct costs	-570,479	-	-599,982	-
<b>Gross profit</b>	<b>-560,900</b>	<b>3,883</b>	<b>-566,328</b>	<b>3,883</b>
Operating costs	-14,727	-2,302	-45,540	-4,294
<b>Operating profit (-loss)</b>	<b>-575,627</b>	<b>1,581</b>	<b>-611,868</b>	<b>-411</b>
<b>Other</b>				
Net sales	4,187	3,055	12,602	15,565
Direct costs	-189,710	-16,425	-222,607	-67,145
<b>Gross profit</b>	<b>-185,523</b>	<b>-13,370</b>	<b>-210,005</b>	<b>-51,580</b>
Operating costs	-3,506	-612	-16,779	-56,453
<b>Operating profit (-loss)</b>	<b>-189,029</b>	<b>-13,982</b>	<b>-226,784</b>	<b>-108,033</b>
<b>Total</b>				
Net sales	82,459	103,753	349,955	361,447
Direct costs	-1,503,909	-110,841	-1,733,903	-332,807
<b>Gross profit</b>	<b>-1,421,450</b>	<b>-7,088</b>	<b>-1,383,948</b>	<b>28,640</b>
Operating costs	-80,894	-35,932	-193,856	-180,099
<b>Operating profit (-loss)</b>	<b>-1,502,344</b>	<b>-43,020</b>	<b>-1,577,804</b>	<b>-151,459</b>

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

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

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

Starbreeze Games	-657,100	-5,390	-676,827	-550
Publishing	-80,588	-25,229	-62,325	-42,465
VR Tech & Operations	-575,627	1,581	-611,868	-411
Other	-189,029	-13,982	-226,784	-108,033
<b>Total</b>	<b>-1,502,344</b>	<b>-43,020</b>	<b>-1,577,804</b>	<b>-151,459</b>
Net financial income (-expense)	237,615	-24,832	230,556	-24,726
<b>Profit (-loss) before tax</b>	<b>-1,264,729</b>	<b>-67,852</b>	<b>-1,347,248</b>	<b>-176,185</b>

## Note 5: Net sales by category

SEKk Q4	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	45,756	455	-	-	46,211
Console, Digital	5,027	75	-	-	5,102
Console, Retail	213	371	-	-	584
VR centers	827	1,498	1,424	-	3,749
Services	11,300	-	8,155	4,187	23,642
License deals	3,166	-	-	-	3,166
Other	5	-	-	-	5
<b>Total net sales</b>	<b>66,294</b>	<b>2,399</b>	<b>9,579</b>	<b>4,187</b>	<b>82,459</b>

SEKk JAN-DEC 2018	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
PC	93,750	49,310	-	-	143,060
Console, Digital	32,128	43,174	-	-	75,302
Console, Retail	2,140	371	-	-	2,511
VR centers	1,712	3,054	7,227	-	11,993
Services	34,831	-	26,427	12,602	73,860
License deals	3,958	39,236	-	-	43,194
Other	35	-	-	-	35
<b>Total net sales</b>	<b>168,554</b>	<b>135,145</b>	<b>33,654</b>	<b>12,602</b>	<b>349,955</b>

## Note 6: Consolidated depreciation and amortization by function

SEKk	2018 Q4	2017 Q4	2018 JAN-DEC	2017 JAN-DEC
<i>Depreciation and impairment of property, plant and equipment</i>				
Direct costs	96,984	3,495	121,644	5,622
Selling and marketing costs	68	-	1,700	-
Administrative expenses	1,201	1,286	5,650	9,984
<b>Total depreciation and impairment of property, plant and equipment</b>	<b>98,253</b>	<b>4,781</b>	<b>128,994</b>	<b>15,606</b>
<i>Amortization and impairment of intangible assets</i>				
Direct costs	1,330,376	44,581	1,438,469	82,294
Selling and marketing costs	-	-	-	-
Administrative expenses	-	-	-	-
<b>Total amortization and impairment of intangible assets</b>	<b>1,330,376</b>	<b>44,581</b>	<b>1,438,469</b>	<b>82,294</b>
<b>Total depreciation and amortization and impairment</b>	<b>1,428,629</b>	<b>49,362</b>	<b>1,567,463</b>	<b>97,900</b>

## Note 7: Joint venture

### StarVR Corporation

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

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

<b>SEKk</b>	<b>12/31/2018</b>
<i>Reconciliation of net carrying amount:</i>	
Balance of net assets at 1 January	126,938
Net profit (-loss) for the period	-121,168
Exchange differences	8,340
Capital injection	-
<b>Closing balance net assets</b>	<b>14,110</b>
Group's share	33%
Group's share in SEKk	4,656
<b>Net carrying amount</b>	<b>4,656</b>

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

<b>SEKk</b>	<b>12/31/2018</b>
<i>Balance sheet in summary:</i>	
Current assets	24,691
Non-current assets	19,218
Current liabilities	28,463
<b>Net assets</b>	<b>14,110</b>
<i>Income statement in summary:</i>	
Sales	4,423
Net profit (-loss) for the period	-120,750
<b>Total comprehensive income for the period</b>	<b>-121,168</b>

## Note 8: 31 December 2018

In connection with the company's impairment testing as of 31 December 2018 as required under IAS 36, it was determined that assets were impaired by a total of SEK 1,401.9 million. Most of the impairment losses are attributable to VR ventures, which are charged to all segments. Impairments within the Starbreeze Games segment are attributable mainly to two games: OVERKILL's The Walking Dead (OTWD) and Geminose.

The group has carried out the impairments as a result of the lack of commercial potential related to VR technology, which affect products in all segments and thus give rise to impairments. In addition, the group's earlier "Toys to Life" venture does no longer have any commercial value and hence impairment of the Geminose project. The impairment of OTWD is a consequence of lower forecast sales revenues.

The remaining assets are attributable mainly to the core business: game development and publishing, referring to the Starbreeze Games and Publishing segments.

There is SEK 42.1 million in goodwill remaining in the Starbreeze Games segment. The recoverable amount mainly comprises of PAYDAY related assets.

The group has performed impairment testing for assets in the Starbreeze Games and Publishing segments based on discounted future cash flows. The discount rate applied is 10-15 percent. The present measurement of assets remains intact upon a change in the discount rate up to 25 percent before there will be a need for further impairment in the Starbreeze Games segment.

The group also applied a discount rate of 10-15 percent in the Publishing segment. The present measurement of assets remains intact upon a change in the discount rate up to 25 percent before there will be a need for further impairment of the group's publishing titles.

The group engaged an external party to determine the net realizable value for the measurement of assets that are outside the group's core business. These assets belong to the VR Tech & Operations segment and the Other segment.

Within the Other segment, the group has impaired financial assets including the holding in Cmune and convertible bond in an American start-up.

Impairments by asset class	Starbreeze Games	Publishing	VR Tech & Operations	Other	Total
Goodwill	32,244	-	324,584	92,080	448,908
Other non-current assets	103,414	-	37,169	80,379	220,962
Capitalized expenditure for own games and technology development	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
<b>Total</b>	<b>569,296</b>	<b>78,633</b>	<b>545,622</b>	<b>208,303</b>	<b>1,401,854</b>
<b>Impairments in profit and loss and other comprehensive income for the period</b>	<b>Starbreeze Games</b>	<b>Publishing</b>	<b>VR Tech &amp; Operations</b>	<b>Other</b>	<b>Total</b>
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
<b>Total net sales</b>	<b>569,296</b>	<b>78,633</b>	<b>545,622</b>	<b>208,303</b>	<b>1,401,854</b>

## Note 9: Available-for-sale assets

The group has identified certain non-core assets that are reclassified as assets available for sale. The assets are recognized at the lower of the carrying amount and net realizable value.

