



## **Press release February 16th 2017**

### **Starbreeze AB (publ) year-end report 2016**

The full year-end report in Swedish is available at [www.starbreeze.com/investor-relations/](http://www.starbreeze.com/investor-relations/). The English version of the report will be available within a week. Financial statements in English are available at the end of this document.

#### **CHANGED FISCAL YEAR**

Note that in accordance with the decision taken on the Annual General Meeting in November 2015, this is the fourth quarterly report after changing the company's fiscal year to calendar year. The comparative period Q4 2015 corresponds to October-December 2015, previously Q2 2015/2016.

#### **FOURTH QUARTER (OCTOBER - DECEMBER 2016)**

- Net revenue amounted to SEK 99.4 million (SEK 48.9 million), representing a growth of 103 %. Sum of revenues and capitalized development amounted to SEK 165.5 million (SEK 73.6 million).
- During the quarter, PAYDAY 2 represented SEK 37.2 million (SEK 47.7 million) of net revenue.
- During the quarter, Dead by Daylight represented SEK 54.6 million (SEK 0.0 million) of net revenue.
- Operating income before depreciation and amortization, EBITDA, amounted to SEK 38.8 million (SEK 15.2 million), implying a margin of 23.4 percent.
- Income before tax amounted to SEK 32.3 million (SEK 14.0 million).
- Net income for the period amounted to SEK 30.2 million (15.4 million).
- Earnings per share before dilution were SEK 0.11 (SEK 0.07) and earnings per share after dilution were SEK 0.11 (SEK 0.07).
- Cash flow from operating activities amounted to SEK 12.9 million (SEK -3.0 million).
- As of December 31, cash and cash equivalents totaled SEK 669.4 million (SEK 85.4 million).

## **FISCAL YEAR (JANUARY – DECEMBER 2016)**

- Net revenue amounted to SEK 345.5 million (SEK 218.4 million), representing growth of 58 %. Sum of revenues and capitalized development amounted to SEK 523.0 million (SEK 299.6 million).
- Operating income before depreciation and amortization, EBITDA, amounted to SEK 81.2 million (SEK 49.5 million) equivalent to an EBITDA margin of 15.5 %.
- Income before tax amounted to SEK 55.9 million (SEK 43.1 million).
- Net income for the period amounted to SEK 57.1 million (SEK 39.4 million).
- Earnings per share before dilution were SEK 0.22 (SEK 0.20) and earnings per share after dilution were SEK 0.22 (SEK 0.20).

## **KEY EVENTS DURING THE FOURTH QUARTER (OCTOBER – DECEMBER 2016)**

- In October, Starbreeze carried out a direct share issue to institutional investors, where Första AP-fonden, a major Swedish pension fund, subscribed for a majority of the shares issued. A total of 16,452,991 shares were issued at a price of SEK 23.40, equivalent to a total amount issued of SEK 385 million.

In connection with the new issue, Första AP-fonden also acquired 1,850,000 shares from Indian Nation AB, the company of Starbreeze Chairman Michael Hjorth.

- In October, Starbreeze acquired Nozon, a Belgian Visual Effects (VFX) studio and the developer of the PresenZ technology. The PresenZ technology, which was released in 2015, makes it possible to convert 3D films to VR films, and thereby overcome the technical differences between film and game environments. This occurs through interactive parallax in virtual reality and delivers high quality blockbuster computer graphics with true immersive feeling. Since 1998, Nozon has steadily grown to become a well-known, and award winning VFX studio thanks to the company's creative/artistic approach and technology development.

The consideration amounted to EUR 7.1 million, of which EUR 4.6 million was in cash and EUR 2.5 million in newly issued Starbreeze B shares. In addition, the parties also agreed on a 10-year earnout period, based on revenue from the PrezenZ technology. After the acquisition, Starbreeze's has deepened its analysis of the PresenZ technology, which has resulted in the decision to include all the potential earnout in the calculation of goodwill from the acquisition. The goodwill is estimated at SEK 257.5 million as of December 31, 2016.

- In December, Starbreeze agreed to acquire 90.5 percent of the shares in the Indian production company Dhruva Interactive. The total consideration amounted to USD 8.5 million, of which USD 7.0 million was in cash and USD 1.5 million in newly issued Starbreeze B shares. The deal is planned to be completed in 2017 and had no impact on earnings during 2016.

Dhruva Interactive is a highly reputed and best-of-breed art production house, with whom Starbreeze has a long-standing relationship. Founded in 1997, Dhruva is India's leading game developer with over 320 employees, providing art production services to the global games industry. Dhruva has three studios in India.

- During the quarter, Carnegie Investment Bank was appointed as advisor for the company's relisting to Nasdaq Stockholm's main market. Starbreeze intends to complete the relisting during 2017.
- In November, a new brand was announced in the Publishing division. The new label Starbreeze IndieLabs aims to help projects that are smaller in scope to reach the market.

Together with the Croatian studio Lion Game Lion, Starbreeze has agreed that the company will invest USD 300,000 to bring the game AntiSphere to PC and other platforms. Per the agreement Starbreeze will receive 30 percent of revenues, after the initial investment has been fully recouped by Starbreeze. Lion Game Lion and Soap Interactive in turn will retain 100 percent of the IP rights.

AntiSphere is a top-down competitive arena battle game in which players use their skills in order to catch each other, and win the match.

- In November, Starbreeze entered its second IndieLabs project with the Dutch studio KeokeN Interactive to publish the title "Deliver Us The Moon". Starbreeze will invest USD 500,000 to bring the game to PC and other platforms. Starbreeze will be able to recoup 120 % of its investment, and will subsequently retain 50 percent of the revenues after distribution fees. KeokeN will retain 100 % of the IP rights.

Deliver Us The Moon is set in the near future where the earth's resources are nearly depleted. A brave astronaut will take the great step and travel to the moon in a do-or-die secret mission to save humanity.

#### **AFTER THE QUARTER**

- In early January, Starbreeze announced that the first pilot center for IMAX VR Experience had opened in Los Angeles, in close proximity to the popular shopping area - The Grove and Farmers Market.

In the center, visitors will be able to test high quality VR experiences in StarVR, which is produced in collaboration with Acer. Experiences available for StarVR include John Wick Chronicles: Arcade Edition and the range will be gradually extended as new VR experiences in both film and games become available.

StarVR was positively received by visitors and along with John Wick Arcade Edition, is currently one of the most popular VR experiences in the center.

- After the opening of the first IMAX VR Experience center in Los Angeles, Starbreeze announced that the company is negotiating with IMAX regarding the continuation of the agreement on premium experiences in IMAX VR Centers, which was announced in May 2016. In light of the decision of IMAX to broaden its offering to include widely available VR experiences during the launch of the center, Starbreeze anticipates that the form of collaboration will be adapted accordingly.

- The VR game John Wick: Chronicles was released on Steam for HTC Vive on February 9, in connection with the premiere of the movie John Wick: Chapter 2. The game was available for pre-order for USD 19.99 via the platform from October 6, 2016.
- In January, Starbreeze signed an agreement with Behaviour Digital regarding a digital version of Dead by Daylight for PlayStation 4 and Xbox One. To date, more than 1.8 million copies of the game's PC version have been sold on Steam.

The development costs for the modifications required for the console version will be shared equally between the parties. The revenue sharing model follows the existing agreement.

In February, Starbreeze signed a distribution agreement with Digital Bros' subsidiary 505 Games regarding physical distribution of Dead by Daylight for PlayStation 4 and Xbox One. Furthermore, this means that 505 Games will pay an advance royalty of USD 2.5 million, which will be shared between Starbreeze and Behaviour. The agreement does not cover the Asian and Nordic markets.

The console version of the game is expected to be released during the second quarter of 2017.

- In February, Starbreeze signed an agreement with Double Fine Productions to publish the game Psychonauts 2. Starbreeze will invest USD 8 million to bring the game to PC and console platforms together with Double Fine Productions. The release is expected to occur sometime during 2018. The development of the game was previously funded by Double Fine Productions and through equity crowdfunding via the Fig service.

Starbreeze will be able to recoup 100 % of its full investment including marketing costs and will receive an initial revenue share of 85 % after distribution fees and Fig crowdfunding revenue share. Starbreeze share of revenues will become 60 % after the investment is recouped, after distribution fees and Fig crowdfunding revenue share.

Psychonauts 2 is a third-person action/adventure game where players control Razputin Aquato – a newly graduated Psychonaut with powerful psychic abilities.

## **STARBREEZE KEEPS DELIVERING**

### **CEO BO ANDERSSON KLINT GIVES HIS COMMENT**

We're proud to yet again show a triple digit growth for this quarter and the highest EBITDA since the launch of PAYDAY 2. It is a solid performance that shows our ability to deliver profitability while we are scaling our business to secure future growth.

### **PAYDAY**

The PAYDAY franchise generated SEK 37.2 million (SEK 47.7 million) in total whereof SEK 0.0 million (SEK 14.4 million) in production support. As the sole owner of the PAYDAY IP, we no longer receive any production support revenues. We're additionally still awaiting 505 to recoup USD 5 million on console, while we get 100% of the healthy PC sales. Moreover, we expect 505 to have reached their

USD 5 million recoup in Q1 2017 as we see impressive PAYDAY performance through digital distribution on consoles following the latest update.

### **DEAD BY DAYLIGHT**

We're over the moon with Dead by Daylight, a complete success both strategically and financially. The game has now sold over 1.8 million units on PC and contributes with SEK 54.6 million to Starbreeze net revenues in Q4, making it the best quarter through the game's lifetime. An impressive trend that we, together with Behavior, will nurse carefully as we expand the product to consoles in Q2 2017. To date, the game has generated over 267 MSEK in gross sales on Steam.

### **STARBREEZE FINANCES**

We're also delighted to see that both our acquisitions, ePawn and Nozon, for the first time are contributing to top-line. Both businesses are now fully integrated and run at full speed within Starbreeze.

As we continue our steady growth we need to invest in our key assets PAYDAY, OVERKILL's The Walking Dead, Valhalla engine, StarVR and in our very important publishing business. Consequently, our operating expenses, excluding royalties to publishing partners, have increased with SEK 46.7 million or 78 % compared to Q4 2015. The incremental spend is in all material aspects still derived from employee related expenses as we continue to ramp up the teams for delivering on our plans. Despite the increase in costs we show a remarkable profitability with an EBITDA margin reaching 23.4% underpinned by a strong development of our top line but also boosted by a stronger US dollar.

Boosted by successful financing activities during the third quarter, we're ending the year with a cash position of SEK 669.4 million (SEK 85.4 million). To be clear, these funds will not be put in the bank to rest, they will continue to build our momentum. Hence we expect it to be reduced over time. Worth noting is also that we now have positive cash flow from our operating activities amounting to SEK 12.9 million (SEK -3.0 million).

When closing the fourth quarter we also close the financial year 2016 where net revenues reached SEK 345.5 MSEK (SEK 218.4 million) which is 62 % better than the financial year when we launched PAYDAY 2. EBITDA reached SEK 81.2 million (SEK 49.5 million) and net profit SEK 57.1 million (SEK 39.4 million). Our core business is doing very well.

### **VR-CENTER IN LOS ANGELES**

As the first phase of building and operating a pilot VR center, mimicking our VR arcade concept StarCade, with IMAX is underway, we have entered into negotiations with IMAX about the future sale of content and StarVR-headsets into this business. At the VR center, we operate under our original agreement and have two pods equipped with the latest iteration of our StarVR HMD showcasing John Wick Chronicles Arcade Edition in collaboration with Lionsgate. Since January, we have thoroughly enjoyed having customers and potential partners visit the center to experience both the hardware as well as our content, something that has strengthened our view that location-based VR at this time is the best way for consumers to experience high-quality VR.

Our goal is to sell StarVR systems to as many different location-based businesses, theme parks and B2B projects as possible. Our aim is to sell a broader range of headsets and systems through our joint venture with Acer under the brand StarVR.

### **STARVR EVOLUTION**

While we, just as planned, have not yet started shipping larger volumes of StarVR, the current interest from multiple markets and from prominent brands and business sets us up well for the mass production phase beginning later in 2017. We focus on distributing and prioritizing the current development version of the headset to key partners, ensuring that we are compatible with leading industry systems and standards to fully enable us to lead the charge once we deliver the first full production unit. We estimate approximately two more development iterations during the year, where we trust that the third iteration will include Tobii's proprietary eye tracking. Durability, field of view, hygiene, resolution, refresh rates and weight are all key aspects that we improve constantly and according to plan. The roadmap of StarVR is clear, we're still targeting B2B partners as our primary business, and we keep delivering as planned at our decided phase.

We aim to make the development of StarVR and sales of VR content a significant business for us down the line. We secure this through making early investments and strategic collaborations. This will educate us internally how to master the experience design and optimize our production. Once the market is mature, we'll be in a pole position. For the fourth quarter StarVR with related activities account for less than 10% of Starbreeze operating expenses.

### **NOZON'S PRESENZ**

While we're integrating all of our recent acquisitions with Starbreeze vision to build future ecosystems, Nozon's Presenz technology is generating quite the buzz in Hollywood. Nozon is now working hard together with our business development team to produce its first showcase VR short movie that we believe will build the foundation for a major cogwheel in our VR offering. Using Presenz, movie studios can use their CG assets from feature films repurposing them easily for VR movies without losing visual fidelity. We strongly believe that together with the high-resolution of StarVR, this can be a groundbreaking technology for movie and entertainment production everywhere.

### **PAYDAY MOBILE, BCN STUDIO**

As a separate note to this report, we also just announced that we've opened a new office in Barcelona, Spain. The Barcelona Studio consists of a handful of very talented individuals that have been with us in Stockholm for quite some time. Together with old friends and now new colleagues joining us from a prominent mobile developer, they form our task force to steer our mobile projects with a 100% focus. The bulk of the development will mainly be outsourced but we require a dedicated team from Starbreeze to make sure we are on point and deliver with the same focus as our other products.

Starbreeze Barcelona will closely monitor the wrap up of Geminose and also focus its efforts on PAYDAY: Crime War. After a due diligence of the progress on the mobile version of our beloved PAYDAY franchise, we found a lack of focus on our product. As we want to see this game realized as badly as many of our fans, we've moved production to another studio, BadFly Interactive. As part of

a work-for-hire partnership, BadFly have hit the ground running and we look forward to sharing more from the game in the months to come. The project has already accelerated considerably and is now fully playable in multiplayer with the games backend in place. The following months will be dedicated to building more content and polishing the gameplay format to maximize the fun of the final product.

In 2017 we also continue our full productions of RAID, OVERKILLS The Walking Dead, CROSSFIRE Co-Op and Geminose. Our lineup is strong and our teams dedicate their full energy in making the games as high-quality as recent products such as the PAYDAY and Dead by Daylight DLC releases.

Our success is of course shared by and thanks to our partners. Lately we had the pleasure to work with Universal on our PAYDAY Scarface DLCs in December. Additionally, we've continued our extremely successful partnership with Lionsgate on two DLCs for PAYDAY and the release of the stand-alone VR game John Wick Chronicles on Steam and in the IMAX VR center. These collaborations are tremendously important to us as we establish Starbreeze as a trusted partner for top-tier brands as well as it gives us an ever-growing community of fans from near and far enjoying and talking about Starbreeze products.

Our publishing portfolio has grown to secure a steady flow of products, big and small, for the upcoming year. We are proud to have signed up Double Fine with Tim Shafer leading the development of their new AAA game Psychonauts 2. We are constantly looking to attract leading teams to our publishing business and 2017 will see a number of these projects initiated by Starbreeze.

It is with great satisfaction that we also can announce that PAYDAY 3 production is officially initiated and at a full design stage. I'd like to especially clarify, that this project will enjoy as much time as we deem needed. It will be done when it's done. This is our single most important brand today and the cornerstone of our business and we will treat it accordingly. Updates in the near future might be scares and far between. You simply don't rush PAYDAY 3.

With a team of over 550 talented developers, post the acquisition of Dhruva, we are well staffed for the full productions going forward. With this strategic acquisition our capacity is very satisfying, meanwhile we keep recruiting more game developers to secure quality and talent for the future. Our AAA game productions and our innovative VR pipeline is providing our developers with real challenges and exciting careers. At Starbreeze, we look forward to keep delivering on our games, services and strategy for 2017 and beyond.

Let's do this!

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*This information is information that Starbreeze AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act.*

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### **About Starbreeze**

Starbreeze is an independent creator, publisher and distributor of high quality entertainment products. With studios in Stockholm, Paris, Los Angeles, Barcelona and Brussels, the company creates games and other virtual reality entertainment products, based on proprietary design and licensed content. Starbreeze's most recent games include PAYDAY 2®, John Wick VR shooter and upcoming survival co-op FPS OVERKILL's The Walking Dead. Under its publishing initiative, Starbreeze has together with Canadian studio Behaviour Digital successfully launched horror thriller Dead by Daylight.

Starbreeze has set out to develop truly immersive virtual reality experiences, by integrating software and hardware in its StarVR® head mounted display, which is produced together with Acer, displaying a unique field of view and a mission to bring top-end VR to large audiences. Together with IMAX, Starbreeze aspires to dominate the location based VR market with the IMAX VR centers. The first IMAX VR center opened in Los Angeles in January 2017.

Headquartered in Stockholm, Sweden, Starbreeze's shares are listed on Nasdaq Stockholm First North Premier under the tickers STAR A and STAR B with the ISIN-codes SE0007158928 (A share) and SE0005992831 (B share). Remium Nordic is the company's Certified Adviser. For more information, please visit <http://www.starbreeze.com>, <http://www.starvr.com>, <http://www.overkillsoftware.com>



## KEY RATIOS, GROUP

Note that the comparative figures in all tables and statements refer to the calendar year 2015 and not the figures from the annual financial statements for the shortened fiscal year 2015.

	2016	2015	2016	2015
	Q4	Q4	JAN - DEC	JAN - DEC
Net revenue, KSEK	99 365	48 948	345 463	218 432
EBITDA, KSEK	38 793	15 190	81 220	49 460
EBIT, KSEK	31 806	13 848	56 454	42 878
Income before tax, KSEK	32 341	14 017	55 900	43 135
Income after tax, KSEK	30 206	15 409	57 091	39 405
EBITDA margin, %	23,4	20,6	15,5	16,5
EBIT margin, %	19,2	18,8	10,8	14,3
Profit margin, %	19,5	19,0	10,7	14,4
Equity/asset ratio, %	63,8	70,1	63,8	70,1
Cash flow per share, SEK *	0,06	-0,01	0,06	0,21
Equity per share before dilution, SEK *	5,37	2,06	5,37	2,06
Equity per share after dilution, SEK *	5,33	2,02	5,33	2,02
Closing price of A share for the period, SEK	19,20	15,60	19,20	15,60
Closing price of B share for the period, SEK	19,30	15,70	19,30	15,70
Earnings per share before dilution, SEK *	0,11	0,07	0,22	0,20
Earnings per share after dilution, SEK *	0,11	0,07	0,22	0,20
Number of shares at end of period before dilution	276 879 720	230 361 091	276 879 720	230 361 091
Number of shares at end of period after dilution, ***	304 352 451	234 449 769	304 352 451	234 449 769
Outstanding options (excl. hedge), **	4 079 646	7 754 247	4 079 646	7 754 247
Average number of shares before dilution	276 008 183	230 361 091	255 276 469	193 534 509
Average number of shares after dilution	278 100 440	234 449 769	257 234 798	197 623 187
The average number of employees	201	112	151	82
The number of employees at the end of the period	212	109	212	109

\* Key ratios and the closing price of the share were computed based on the number of shares after the bonus issue completed in June 2015.

\*\* For 2,329,646 options two options give the right to subscribe for three shares.

\*\*\* Starting in Q3 2016 the convertible loans are included in the calculation of share dilution. The, according to special conversion scenarios, possible dilution of additional 12,146,871 B shares, which arose as a result of the warrant issued by the realignment of the Smilegate convertible, is not considered in the calculation.

## KEY RATIOS, GROUP

### EBITDA

Earnings before interest, taxes, depreciation and amortization.

### EBIT

Earnings before interest and taxes.

### EBITDA margin (from Q1 2016 calculated as a percentage of total revenue)

Earnings before interest, taxes, depreciation and amortization as percentage of total revenue.

### EBIT margin (from Q1 2016 calculated as a percentage of total revenue)

Earnings before interest and taxes as percentage of total revenue.

### Profit margin (from Q1 2016 calculated as a percentage of total revenue)

Profit as percentage of total revenue.

### Equity/assets ratio

Equity as a percentage of total capital.

### Cash flow per share

Cash flow from operating activities divided by the average number of shares during the period.

### Equity per share

Equity divided by the average number of shares for the year.

### Earnings per share

Income after tax divided by the average number of shares during the period.

### Equity

Reported equity including 78 percent of untaxed reserves.

### Capital employed

Total assets less non-interest-bearing liabilities.

## DEFINITIONS

### Location-based entertainment (LBE)

Location-based entertainment (LBE), is various forms of entertainment linked to specific places. LBE is often used as a broad expression for entertainment such as theme parks, movie theaters, bowling alleys, arcades or where visitors go to play computer games and so on. IMAX VR center is a typical example of LBE.

## CONSOLIDATED INCOME STATEMENT

KSEK	2016	2015	2016	2015
	Q4	Q4	JAN - DEC	JAN - DEC
Net revenue	99 365	48 948	345 463	218 432
Capitalized development work	52 661	25 511	154 450	78 383
Other operating revenue	13 462	-836	23 132	2 757
<b>Total revenue</b>	<b>165 488</b>	<b>73 623</b>	<b>523 045</b>	<b>299 572</b>
Other external expenses	-91 096	-28 687	-292 106	-155 155
Employee expenses	-36 042	-29 207	-148 517	-93 627
Amortization of intangible assets	-6 456	-335	-20 600	-3 957
Depreciation of property, plant and equipment	-531	-1 007	-4 166	-2 625
Other operating expenses	443	-539	-1 202	-1 330
<b>Operating income</b>	<b>31 806</b>	<b>13 848</b>	<b>56 454</b>	<b>42 878</b>
Financial income	5 633	253	17 511	550
Financial expenses	-5 260	-84	-18 196	-293
Participation in income after tax from associated companies	162	-	131	-
<b>Income before tax</b>	<b>32 341</b>	<b>14 017</b>	<b>55 900</b>	<b>43 135</b>
Income tax	-2 135	1 392	1 191	-3 730
<b>Net income for the period</b>	<b>30 206</b>	<b>15 409</b>	<b>57 091</b>	<b>39 405</b>
Other comprehensive income that may be reclassified to net income				
Exchange differences	-10 335	-3 807	-4 375	3 400
<b>Total comprehensive income for the period</b>	<b>19 871</b>	<b>11 602</b>	<b>52 716</b>	<b>42 805</b>

As there are no non-controlling interests in the Group, the entire net income and comprehensive income for the period represents the parent company's income.

Earnings per share attributable to the parent company's shareholders during the period (expressed in SEK):

- before dilution	0,11	0,07	0,22	0,20
- after dilution	0,11	0,07	0,22	0,20

## CONSOLIDATED BALANCE SHEET

KSEK	NOTE	2016-12-31	2015-12-31
NOTE			
<b>ASSETS</b>			
<i>Intangible assets</i>			
Goodwill		404 530	74 314
Other intangible fixed assets		594 728	200 202
Capitalized expenditure for games and technology development		303 763	114 913
<i>Financial assets</i>			
Financial assets		40 609	15 623
Deferred tax assets		30 712	5 252
<i>Tangible assets</i>			
Computers and other equipment		23 458	16 773
<b>Total non-current assets</b>		<b>1 397 800</b>	<b>427 077</b>
<i>Current assets</i>			
Inventories		2	2
Trade receivables and other receivables		25 576	33 000
Prepaid expenses and accrued income		56 183	22 697
Cash and cash equivalents		669 380	85 354
<b>Total current assets</b>		<b>751 141</b>	<b>141 053</b>
<b>TOTAL ASSETS</b>		<b>2 148 941</b>	<b>568 130</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity attributable to parent company shareholders</i>			
Share capital		5 538	4 607
Other contributed capital		1 175 563	257 352
Reserves		3 671	8 046
Retained earnings including net income for the period		185 451	128 360
<b>Total equity</b>		<b>1 370 223</b>	<b>398 365</b>
<i>Non-current liabilities</i>			
Non-current liabilities, additional	3	309 547	8 227
Other non-current liabilities		382 222	42 356
<b>Total non-current liabilities</b>		<b>691 768</b>	<b>50 583</b>
<i>Current liabilities</i>			
Trade payables and other liabilities		41 990	53 923
Accrued expenses and deferred income		44 960	65 259
<b>Total current liabilities</b>		<b>86 950</b>	<b>119 182</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2 148 941</b>	<b>568 130</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KSEK	Share capital	Other contributed capital	Reserves	Retained earnings	Sum of equity
Balance at 1 January 2016	4 607	257 352	8 046	128 360	398 365
Net income for the period	-	-	-	57 091	57 091
Exchange differences	-	-	-4 375	-	-4 375
<b>Total comprehensive income</b>	<b>4 607</b>	<b>257 352</b>	<b>3 671</b>	<b>185 451</b>	<b>451 081</b>
New issue through exercise of stock options	132	53 544	-	-	53 676
Non-registered share capital	-	-	-	-	-
Non-issued shares	-	-	-	-	-
Shareholders' contributions received	-	2 087	-	-	2 087
Vested employee stock options	-	1 302	-	-	1 302
Issue of convertible*	-	38 093	-	-	38 093
New issue**	521	512 091	-	-	512 612
Non-cash issue***	278	311 094	-	-	311 372
<b>Total contribution from and value transfers to shareholders, recognized directly in equity</b>	<b>931</b>	<b>918 211</b>	<b>-</b>	<b>-</b>	<b>919 142</b>
<b>Closing balance at December 31, 2016</b>	<b>5 538</b>	<b>1 175 563</b>	<b>3 671</b>	<b>185 451</b>	<b>1 370 223</b>

\* Refers to Smilegate and Acer convertibles

\*\* Refers to new issue of shares for Smilegate and Första AP-fonden

\*\*\* Refers to acquisitions of PAYDAY rights and ePawn

Opening balance at January 1, 2015	4 350	135 561	7 125	106 555	253 591
Net income for the period	-	-	-	21 805	21 805
Exchange differences	-	-	921	-	921
<b>Total comprehensive income</b>	<b>4 350</b>	<b>135 561</b>	<b>8 046</b>	<b>128 360</b>	<b>276 317</b>
New issue through exercise of stock options	85	10 494	-	-	10 579
Vested employee stock options	-	1 184	-	-	1 184
Non-cash issue	172	110 113	-	-	110 285
<b>Total contribution from and value transfers to shareholders, recognized directly in equity</b>	<b>257</b>	<b>121 791</b>	<b>-</b>	<b>-</b>	<b>122 048</b>
<b>Closing balance at December 31, 2015</b>	<b>4 607</b>	<b>257 352</b>	<b>8 046</b>	<b>128 360</b>	<b>398 365</b>

	2016	2015
CHANGE IN NUMBER OF OUTSTANDING SHARES	JAN - DEC	JAN - DEC
<b>Number of shares at the start of the period</b>	<b>230 361 091</b>	<b>144 985 325</b>
Non-cash issue	1 138 385	8 595 000
Subscription of shares through exercise of options	6 560 898	4 288 104
Bonus issue	-	72 492 662
New issue	38 819 346	-
<b>Number of shares at the end of the period</b>	<b>276 879 720</b>	<b>230 361 091</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

KSEK	2016	2015	2016	2015
	Q4	Q4	JAN - DEC	JAN - DEC
Operating activities				
Cash flow from operations	11 167	-743	8 868	43 881
Interest paid	-52	-127	-2 682	-131
Interest received	5 396	27	5 410	125
Income taxes paid	-3 573	-2 191	3 695	-4 435
<b>Cash flow from operating activities</b>	<b>12 938</b>	<b>-3 034</b>	<b>15 291</b>	<b>39 440</b>
Investing activities				
Purchase of property, plant and equipment	-3 368	-4 383	-9 449	-17 375
Investments in subsidiaries	-44 855	-	-60 412	-21 547
Purchase of intangible assets	-	-	-15 354	-525
Investment in other financial assets	-739	-	-9 668	-13 506
Investment in capitalized expenditure for games development	-66 857	-31 529	-194 871	-95 451
<b>Cash flow from investing activities</b>	<b>-115 819</b>	<b>-35 912</b>	<b>-289 754</b>	<b>-148 404</b>
Financing activities				
New issue	383 582	-	554 906	10 579
Payments for stock options	6 800,00	-	14 128,00	-
Increase in non-current liabilities	-	-	284 945,00	-
Repayment of loans	-516,00	-	-516,00	-
<b>Cash flow from financing activities</b>	<b>389 866</b>	-	<b>853 463</b>	<b>10 579</b>
<b>Cash flow for the period</b>	<b>286 985</b>	<b>-38 946</b>	<b>579 000</b>	<b>-98 385</b>
Cash and cash equivalents at the beginning of the period	375 967	123 650	85 354	184 414
Exchange difference in cash and cash equivalents	6 428	650	5 026	-675
<b>Cash and cash equivalents at the end of the period</b>	<b>669 380</b>	<b>85 354</b>	<b>669 380</b>	<b>85 354</b>

## PARENT COMPANY INCOME STATEMENT

KSEK	2016	2015	2016	2015
	Q4	Q4	JAN - DEC	JAN - DEC
Net revenue	36 730	25 797	101 935	100 686
Other operating revenue	7 265	-	13 905	
<b>Total revenue</b>	<b>43 995</b>	<b>25 797</b>	<b>115 840</b>	<b>100 686</b>
Other external expenses	-12 005	-22 130	-97 970	-86 811
Employee benefit expenses	-5 259	-5 501	-35 498	-19 921
Depreciation of property, plant and equipment	-181	-136	-703	-432
Other operating expenses	-	-935	-	-2 342
<b>Operating income</b>	<b>26 550</b>	<b>-2 905</b>	<b>-18 331</b>	<b>-8 820</b>
Profit from holdings in group companies		46 882		
Other financial income	-1 008	974	13 870	2 041
Financial expenses	-5 221	-432	-17 794	-432
<b>Income after financial items</b>	<b>20 321</b>	<b>44 519</b>	<b>-22 255</b>	<b>-7 211</b>
Appropriations	-5 283	73	30 247	51 887
<b>Income before tax</b>	<b>15 038</b>	<b>44 592</b>	<b>7 992</b>	<b>44 676</b>
Income tax	-1 336	5 252	-1	5 258
<b>Net income for the period</b>	<b>13 702</b>	<b>49 844</b>	<b>7 991</b>	<b>49 934</b>

For the parent company, net income for the period corresponds to total comprehensive income.

## PARENT COMPANY BALANCE SHEET

KSEK	2016-12-31	2015-12-31
<b>ASSETS</b>		
<i>Fixes assets</i>		
<i>Tangible assets</i>		
Computers and other equipment	1 265	1 479
Participations in group companies	690 126	151 588
Deferred tax assets	5 252	5 252
Participations in associated companies	8 507	-
<b>Total non-current assets</b>	<b>705 150</b>	<b>158 319</b>
<i>Current assets</i>		
Trade receivables		5 429
Receivables from Group companies	761 308	211 376
Other receivables	549	2 248
Prepaid expenses and accrued income	1 295	659
Cash and cash equivalents	540 118	20 281
Total current assets	1 303 270	239 993
<b>TOTAL ASSETS</b>	<b>2 008 420</b>	<b>398 312</b>
<b>EQUITY AND LIABILITIES</b>		
<i>Equity</i>		
Share capital	5 538	4 607
Fair value reserve	2 054	-637
Share premium reserve	1 129 465	211 255
Retained earnings	76 945	26 950
Net income for the period	7 991	49 995
<b>Total equity</b>	<b>1 221 993</b>	<b>292 170</b>
<i>Untaxed reserves</i>		
Accumulated excess depreciation	16	16
<b>Total untaxed reserves</b>	<b>16</b>	<b>16</b>
<i>Non-current liabilities</i>		
Other non-current liabilities	565 179	7 049
<b>Total non-current liabilities</b>	<b>565 179</b>	<b>7 049</b>
<i>Current liabilities</i>		
Trade payables	3 391	2 519
Liabilities to Group companies	195 499	38 865
Other liabilities	6 664	6 995
Accrued expenses and deferred income	15 678	50 698
<b>Total current liabilities</b>	<b>221 232</b>	<b>99 077</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 008 420</b>	<b>398 312</b>



# NOTES

## NOTE 1: FINANCIAL INSTRUMENTS PER CATEGORY

GROUP, 31 DECEMBER 2016

KSEK

<b>Assets in the balance sheet</b>	<b>Other loan receivables and accounts receivable</b>	<b>Assets at fair value in the income statement</b>	<b>Assets available for sale</b>	<b>Sum</b>
Available-for-sale financial assets	-	-	40 609	40 609
Trade receivables	16 673	-	-	16 673
Other receivables	11 633	-	-	11 633
Investments in securities	-	202 576	-	202 576
Cash and cash equivalents	466 804	-	-	466 804
<b>Total</b>	<b>495 110</b>	<b>202 576</b>	<b>40 609</b>	<b>738 295</b>

<b>Liabilities in the balance sheet</b>	<b>Other financial liabilities</b>	<b>Liabilities at fair value in the income statement</b>	<b>Sum</b>
Trade payables and other liabilities excluding non-financial liabilities	41 945	-	41 945
Earnout provision Geminose Inc	-	7 842	7 842
Earnout provision ePawn	-	32 705	32 705
Earnout provision Nozon & Parallaxter	-	266 553	266 553
Convertible loan	243 113	16 857	259 970
Other non-current liabilities	122 251	2 447	124 698
<b>Total</b>	<b>407 309</b>	<b>326 404</b>	<b>733 713</b>

## NOTE 2: PLEDGED ASSETS AND LIABILITIES

### CONSOLIDATED PLEDGED ASSETS AND LIABILITIES

During 2014/2015, the company entered into an agreement with a distribution partner where the distributor has the opportunity to obtain a bonus if certain sales targets are achieved. The company made the assessment last year that it was unlikely that these targets would be met, and therefore the commitment of SEK 33.4 million had been entered as a contingent liability and not as a liability in the balance sheet. The agreement has now been renegotiated, which means that the contingent liability no longer remains.

KSEK	2016-12-31	2015-12-31
Pledged assets	5 387	4 121
Contingent liabilities	-	33 410

### NOTE 3: NOZON & PARALLAXTER

#### NOZON & PARALLAXTER ACQUISITION

On October 24, 2016, 100 percent of the shares in the Belgian companies Nozon and Parallaxter were acquired for a preliminary SEK 343.8 million through a non-cash issue of 1,048,842 newly issued B shares in Starbreeze AB with a value of SEK 24.2 million and cash consideration of SEK 44.9 million. In addition to this, there is an earnout, linked to future revenue, which is measured at EUR 27.9 million and may fall due over the next 10 years. EUR 27.9 million is the present value of the maximum earnout of EUR 50.0 million, which is calculated using a discount rate of 12 percent. The goodwill arising through the acquisition mainly consists of the company's staff and the know-how secured by the company through the acquisition and technology for converting 3D films into VR films.

The effect on consolidated cash flow from the acquisition in the second quarter will be SEK 44.9 million in total, consisting of the cash consideration of SEK 44.9 million.

Expenses for the acquisition of Nozon and Parallaxter amounted preliminarily to SEK 1.2 million and affected the Group's results in the fourth quarter of 2016 by SEK 0.8 million. The acquisition analysis is preliminary. Information about the preliminary value of the acquired net assets and goodwill in Nozon and Parallaxter on the acquisition date, SEK '000:

Total consideration:	
Cash consideration	44 855
Shares in Starbreeze AB (publ)	24 228
Earnout	274 758
Fair value of assets acquired as follows	-29 726
Excess value of existing assets	108 096
Goodwill	265 471
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Assets and liabilities included in the acquisition	
Patents	1 844
Other assets	7 399
Cash and cash equivalents	3 505
Deffered tax	-37 582
Liabilities	-4 892
Identifiable net assets acquired	-29 726