

ANNUAL REPORT 2019

EXTRACT OF THE OFFICIAL FINANCIAL
STATEMENTS IN SWEDISH



Realfiction Holding AB
559110-4616



REALFICTION™

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UPPLEA NATURENS
HEMLIGHETER
PÅ FLASKA

SUMMARY OF THE YEAR

Total revenue amounted to 21.4 MSEK (2018: 23.8 MSEK)

Net profit/(loss) after financial income and expenses amounted to -14.8 MSEK (2018: -12.7 MSEK)

Gross profit totaled 11.4 MSEK (2018: 11.4 MSEK)

Gross profit margin was 53.2 % (2018: 47.8 %)

Earnings per share was -1.04 SEK (2018: -1.01 SEK)

The solvency ratio was 74.7 % at the end of the year (2018: 22.5 %)

Cash flow from operating activities amounted to -11.0 MSEK (2018: -14.3 MSEK)





CEO COMMENTS

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In 2019, we took crucial steps forward in the development of our groundbreaking and patent pending ECHO technology, that makes it possible to develop a new generation of 3D experiences – free-floating holograms that do not require glasses or any other type of lenses between the eye and the effect.

Breakthrough year for the development of our revolutionising ECHO technology

In 2019, we took crucial steps forward in the development of our ground breaking and patent pending ECHO technology, that makes it possible to develop a new generation of 3D experiences – free-floating holograms that do not require glasses or any other type of lenses between the eye and the effect. This is the first time Realfiction has the possibility to take the Mixed Reality segment to a new level beyond the VR helmets and AR glasses that we have always seen as a temporary phase, and it feels fantastic to develop a technology with such radical potential.

A crucial factor behind our progress is that we have been able to strengthen our development team to world-class levels in all important sub-areas, from optics to technical implementation and integration in existing and new display technologies. By recruiting Steen Iversen to the position Director of Advanced Display Technology, and signing collaboration agreements with external entities such as Ibsen Photonics A/S and University of Southern Denmark (NanoSYD), we were able to accelerate the development of a functional proof of concept in 2019. This important interim goal was achieved in September, when we were able to show for the first time that our directional pixels can be manufactured and scaled to large high-resolution displays. In October we presented a new exciting

quality of ECHO, as the technology has been shown to reduce the energy consumption with up to 80 percent when integrated in LCD or OLED displays, including TV sets. In Q1 2020, another important interim goal was achieved when we finalised the first beta version of a LCD display with built-in ECHO technology for one user. This will be followed by a multi-user version that we are now developing according to plan.

MaaS for Retail: Important lessons on the path towards international markets

We also continued to further develop and fine-tune our MaaS offering to entities in the retail segment in 2019, and we were able to draw two main conclusions from our collaboration with the department store chain Bilka in Denmark: 1) The concept is working well and is appreciated by brand owners who notice substantial increases in both attention and sales. 2) To fully capitalise on the concept, it has to be scaled up to larger customers and markets, in combination with a more effective handling of the logistics/installation/service through external partners. Since then we have implemented these lessons, and our collaboration with EDEKA, Germany's largest department store company with over 11,000 stores, is perhaps the leading example on the future of MaaS for Retail. The collaboration was initiated with a test period in 25 stores in the first quarter of 2020, and we were quickly able to sell all marketing slots all the way through the summer.

MaaS for Exhibitions: In-house sales provides increased control

It is obvious that many companies see the benefits of using our complete Mixed Reality solutions to create attention and explain advanced technologies and products in a visual way at exhibitions, fairs and other events. This is especially true for large international industrial companies with local marketing organisations that spend a substantial part of their budgets on industry fairs. Even though we have created a very attractive offer, we were however not able to reach the stability in the order intake that we were aiming for in 2019, and we therefore decided to strengthen our internal sales capacity to increase our control over the sales process and thereby the order intake over time. This made it possible for us to build a strong order pipeline in the end of 2019 and the beginning of 2020.

Experience (Hardware): Solid sales despite our increased focus on MaaS

Even though we refocused Realfiction in 2019 to primarily offer complete solutions (MaaS) rather than selling hardware, our global partner network continued to deliver also in the hardware sales segment. Our increased focus on larger MaaS-customers also contributed to our hardware sales during the year as many recurring customers see a value in owning their own hardware.

Strong outlook and financial endurance

Realfiction had a very strong 2019 when it comes to the overall development of the company, and I want to take this opportunity to once again thank the investors who made this possible by participating in our financing rounds in the summer and in November of 2019. By securing a total of 36.7 MSEK (after expenses) during the year, we have together taken the company to the next level with potential to create a new standard for accessible and social 3D experiences in a broad range of application areas.

We have also secured the financial strength necessary to mitigate the impact of the current Covid-19 situation. As announced earlier, the Covid-19 pandemic has affected us in the form of a temporary lower demand in especially the event-related parts of our business activities, and we have also paused our promising MaaS-collaboration with the German company EDEKA. To handle this situation, we have implemented measures to reduce our operational costs, and we have also utilised support programs for short-term furlough of part of our personnel.

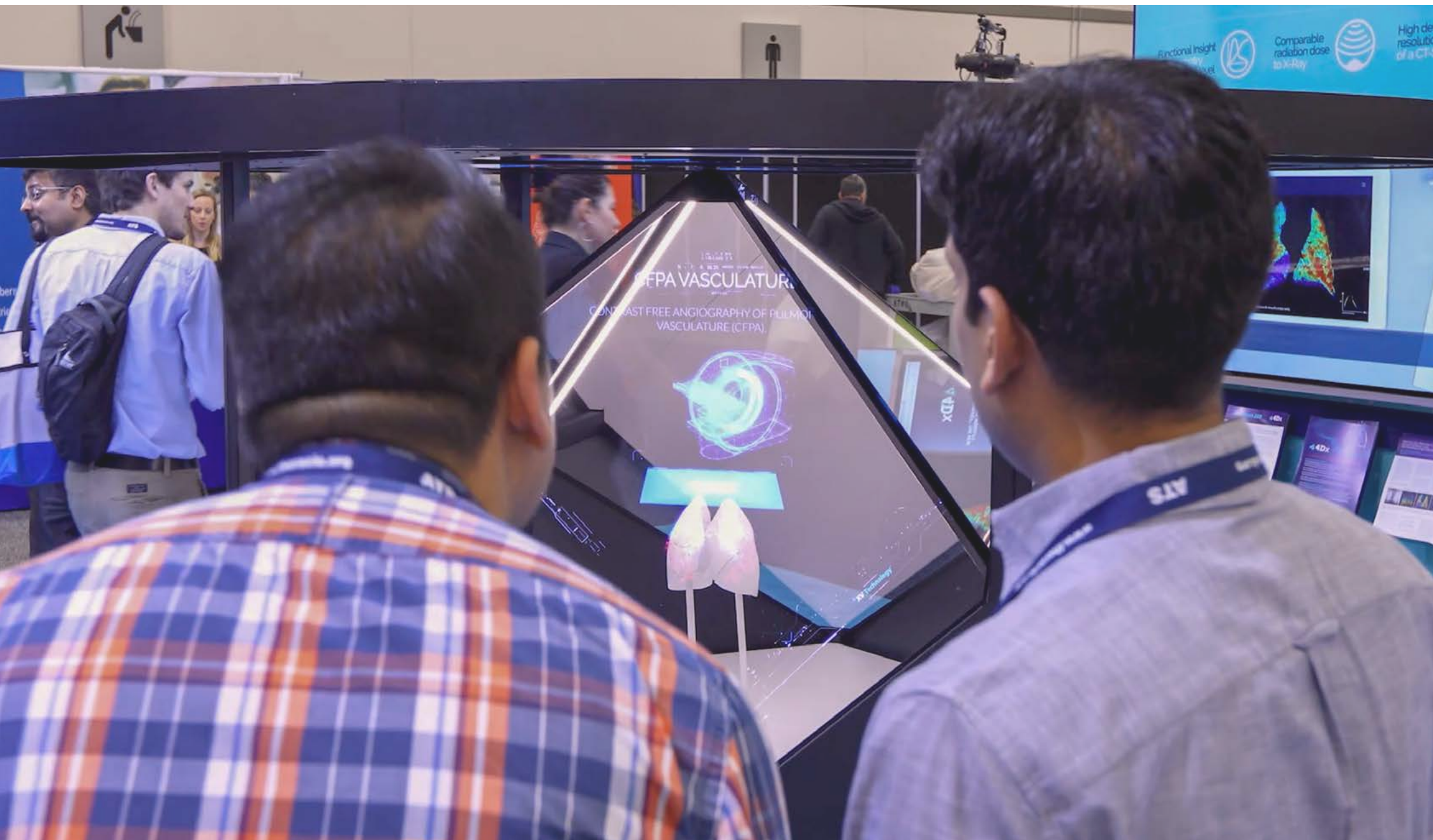
When looking ahead, the future for Realfiction looks extremely exciting. When the Covid-19 pandemic is under control our ambition is to scale up our MaaS activities aimed at large international customers, and for every month that passes we are taking ECHO closer to the market by initially focusing on integration in TV sets and displays from leading manufacturers.



Clas Dyrholm

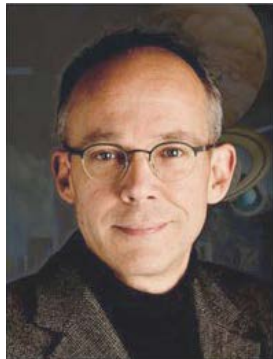
CEO, Realfiction Holding AB





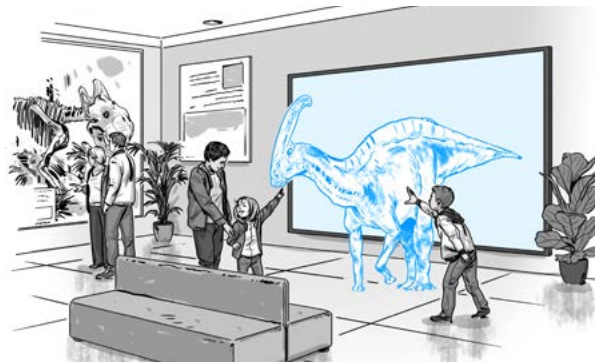
SELECTED EVENTS IN 2019

February



Steen Iversen, with many year of experience in display technologies and previously Technical Director and General Manager for IMAX Theatres International's European department, joins Realfiction as the company's Director of Advanced Display Technology.

March



Realfiction files a patent application for its revolutionising ECHO technology that makes it possible to create free-floating holograms without the need for glasses or other accessories.

March



The company presents Ibsen Photonics A/S and University of Southern Denmark (NanoSYD) as development partners for ECHO.

April



24.5 MSEK in financing is received via a preferential share issue of 17.5 MSEK and a directed share issue of 7 MSEK.

July



Realfiction presents the company's first MaaS media channel in the travel industry that includes airports in Denmark and the Netherlands as well as ferries from DFDS Seaways and Colorline with routes in the Nordic region.

September



The company expands its MaaS concept to Sweden and launches a campaign in 14 ICA Maxi stores in the country's three largest cities: Stockholm, Gothenburg and Malmö.

September



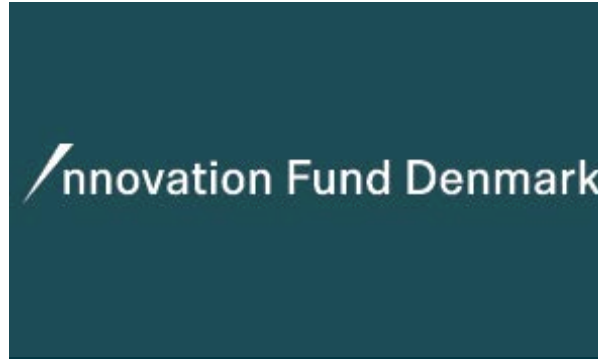
Realfiction finalises a proof of concept for its patent pending ECHO technology, demonstrating that the company's directional pixels work as intended and can be scaled to large formats with high resolution.

October



A novelty search by the Danish patent office and the patent focused law firm Budde Schou clearly shows that Realfiction's ECHO technology is unique and offers unique advantages compared to known technologies.

Oktober



The company receives a 500,000 DKK grant from the Danish Innovation fund for the completion of a beta version of a display based on ECHO.

November



Realfiction conducts a directed share issue, securing 14.4 MSEK in additional financing.

October



Realfiction announces that the company's ECHO technology can be implemented in existing display technologies to reduce the energy consumption with up to 80 %.



January 2020



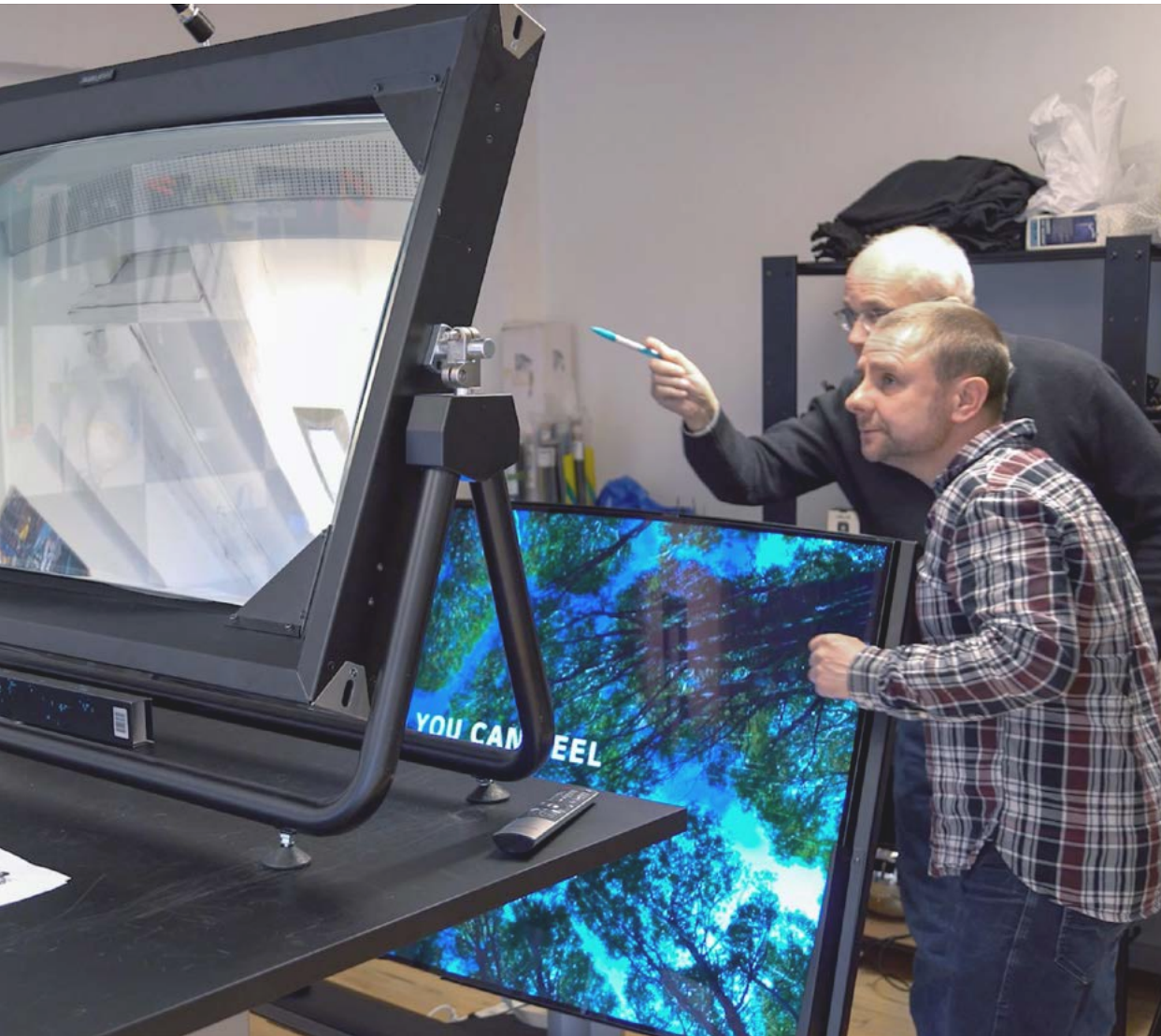
The company finalises the first beta version of a LCD display with built-in ECHO technology for one user with a pixel density corresponding to a 27 inch high-resolution display.



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*We are driven by the dream of creating this free-standing 3D story right
here as part of reality*

CLAS DYRHOLM, CO-FOUNDER & CEO AND PETER SIMONSEN, CO-FOUNDER AND HEAD OF R&D



R&D team working in the Realfiction lab

INNOVATION – ECHO

Since the beginning of our journey more than a decade ago, our vision has always been about creating experiences that bring people together. At the heart of this vision sits our innovation team, a group of dedicated, like-minded individuals all sharing the belief that our technology should be about enabling magical moments that can be collectively experienced and shared with others.

Positioned in the so-called field of Mixed Reality, Realfiction is dedicated to exploring and inventing technology that breaks with the current approach of head-mounted wearables, as we believe this is just the first, primitive stage.

We want to create social Mixed Reality that takes back the public space and enables epic experiences that challenge the very perception of reality.



VISION

Our new ECHO technology is expected to make it possible to watch, enjoy and use visual presentations in ways that so far have been exclusive to science fiction universes such as Iron Man, Minority Report, Star Wars, etc. Finally, fiction can become a natural part of social interactions between human beings in the real world. Assuming Realfiction succeeds in developing this patent pending technology, we will potentially set a new standard for home entertainment, how we experience TV shows, series and movies on our phones, tablets and TV's, in comparison to the switch from black and white to color TV.

Our objective is to manufacture new directional pixels to present a clear path towards commercial mass production of displays comprising millions of directional pixels. In its final and fully commercial form, the technology and related content effects will be available at scale and at price points that enable consumer adoption (B2C). However, it is expected that the first working products will target certain industrial (B2B) applications with very specific requirements.



Close up of drawings in the Realfiction Lab

PROOF OF CONCEPT AND PATENTABILITY

The Proof of Concept was announced on 26 September 2019. The essence of the Proof of Concept is the demonstration that directional pixels can be constructed using the ECHO technology, that is much more precise, faster and scalable to larger displays than other types of directional pixels.

In order to evaluate the patentability, it is common practice that the European patent authorities research databases all over the world, to search for existing and filed patents similar to ECHO's. However, this is a process that commonly takes several years to complete. Realfiction therefore requested novelty searches from Budde Schou (Patent Attorneys) and the Danish Patent and Trademark Office to obtain an early assessment of ECHO's position. A firm conclusion presents that Realfiction's directional pixel technology (ECHO) is indeed novel concerning the known techniques identified.





POTENTIAL

During the recent development process, a new discovery has shown that the ECHO technology can be implemented into existing display technologies, and significantly reduce the overall power consumption with up to 80 %. This new and groundbreaking feature potentially paves the way for a faster time to market for ECHO, as the core technology behind the add-on power reduction could be licensed to key industry manufacturers of commercial television displays.

ECHO represents a licensing opportunity to Realfiction, which is due to materialise gradually. However, as with all other development projects, it should be noted that a risk exists that the development of ECHO may be delayed, impeded or challenged by others and other, currently unknown technologies.

INNOVATION FUND DENMARK

In late October, we were pleased to announce that we'd been awarded a grant from the Innovation Fund Danmark, as part of their InnoBooster program. The grant totals a value of up to 500.000 DKK and will cover approximately 33 % of the expected cost of developing and testing a beta-version of a 3D LCD display that will allow us to demonstrate the features and benefits of incorporating the new technology into a flat screen display.



R&D team working in the Realfiction lab



REALFICTION'S BUSINESS AND CONCEPT

ABOUT THE COMPANY

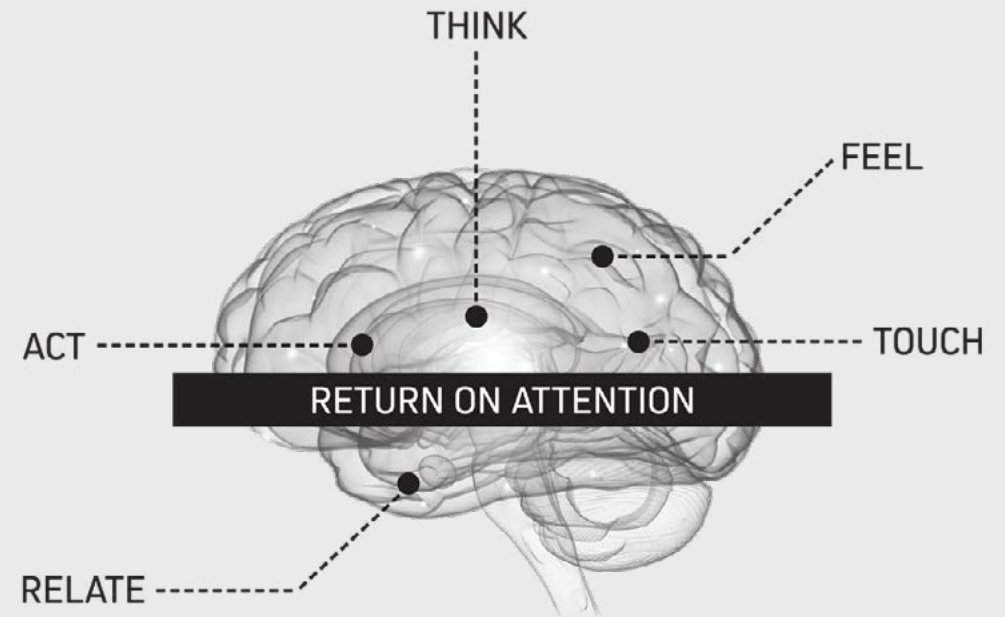
Realfiction develops, sells and rents out market leading Mixed Reality (MR) products and services based on innovative, as well as patent and design protected, hardware platforms that have been developed over more than a decade. All of the above is packaged into a simple, profitable and powerful service concept that we call "Magic-as-a-Service". The company's MR displays are especially well-suited for social environments as they do not require special glasses or other accessories.

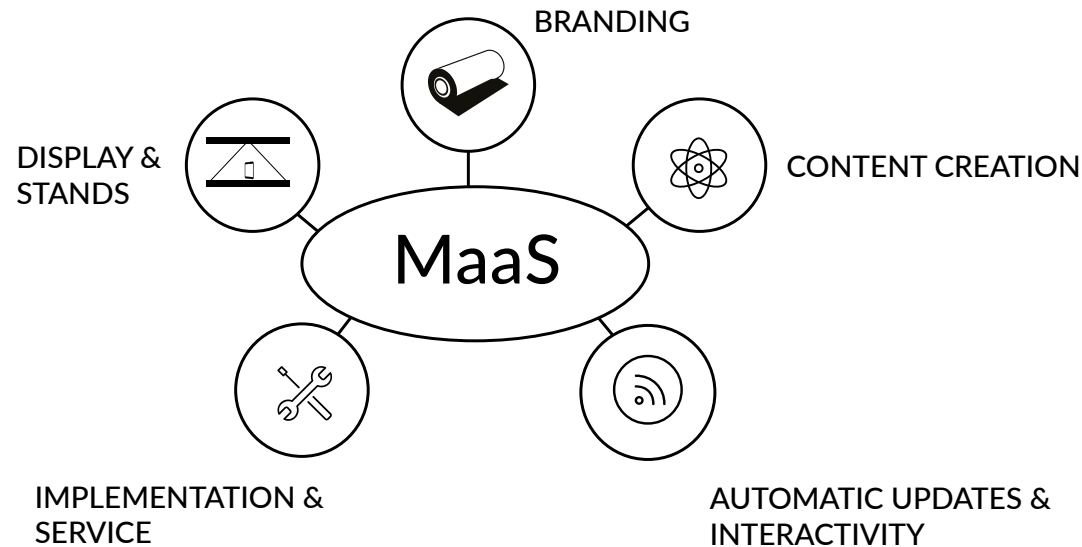
RELEVANT ACROSS MANY INDUSTRIES

Examples of customer groups that can benefit from the company's products and services are shopping centers and department stores, car manufacturers, experience-based businesses such as amusement parks and museums, natural meeting points such as airports and travel centers as well as sectors such as education, architecture, manufacturing and construction, where there is a strong demand for real-time 3D visualizing.

BRAND AWARENESS AND CUSTOMER CONVERSION

Realfiction's MR solutions can create interest for a brand or a specific product in a very visual and engaging way. Based on this attention, concrete value can be delivered, for example in the form of increased sales of a product and/or the conversion of visitors into members of bonus or loyalty programs. The company calls this method "Return on Attention".





MAGIC-AS-A-SERVICE (MAAS)

Realfiction continues to accelerate its Magic-as-a-Service (MaaS) business model, offering the company's full-solution concept as turnkey campaigns or event installations. The MaaS model provides retailers and brand owners with a very flexible way of utilizing Realfiction's portfolio of Mixed Reality displays, without the need for long-term investments in the hardware or involve external creative agencies.

With the MaaS business model, Realfiction provides domestic and international companies with a new and attractive way of showcasing their products and services towards customers. By delivering complete end-to-end solutions, Realfiction takes ownership of the entire value chain and customer journey from the creative storyboard, development of 3D content, holographic display rental, branding, and on-site installation. To deliver time and cost-

efficient 3D content to a variety of different clients, the company is continuously optimizing the content creation method. The high-quality 3D content is developed and customized for each client by Realfiction's in-house team of 3D artists and external developers.

The MaaS model can also function as a subscription-based service, where customers receive 3D content updates and rebranding on a monthly basis. This allows for regular in-store marketing promotions or a global tour of exhibition venues.

The company's go-to-market strategy for the MaaS model currently focuses on the two main verticals being (1) short-term rentals targeted towards the exhibition and event market, and (2) in-store advertising in retail. However, the concept can be expanded to address several additional market segments where added revenue can be attained in the future.

MAGIC-AS-A-SERVICE: IN-STORE ADVERTISING IN RETAIL

Throughout 2019, Realfiction has been focused on refining the Magic-as-a-Service retail concept in Denmark, and in the past few months in Sweden as well. The Magic-as-a-Service concept can deliver targeted in-store advertising to consumers, at the most vital part of the customer journey. This enables suppliers and brand owners with a time-efficient way of bringing below-the-line (BTL) campaigns to market, as well as present a unique way of generating attention and brand awareness.

We continue to see a growing demand for our offering in retail. Currently, we are exploring various options on how to further customize the offering to cater to specific client needs, such as additional branding, interactive elements, and other features to elevate the in-store experience further. The

continuous positive results and feedback that we are receiving from our clients and consumers alike are a firm reminder that our concept works, and indeed satisfy a market need in brick-and-mortar retail.

After having revised our activities with the Bilka hypermarket chain throughout 2019, it is evident that the implementation and logistical part of our retail offering needs to be handled in a different way going forward. In order to accomplish that, we will carry out our activities in a leaner and simpler organizational setup that utilizes external collaborating partners and industry agents when needed.

Our ambition is to expand the MaaS concept, with a structured focus on the FMCG (fast-moving consumer goods) sector.



Pictured above: Dreamoc XL4 at M&M's flagships store at Leicester Square in London December 2019.

MAGIC-AS-A-SERVICE: EVENTS AND EXHIBITIONS

Realfiction continues to see a growing demand for renting the company's portfolio of holographic displays for exhibitions and events. The targeted sales and marketing activities are primarily focused on driving awareness and attracting clients in the Nordic countries and the United States. With the Magic-as-a-Service concept for event and exhibitions, Realfiction is directly targeting larger industrial SME's and global corporations with local satellite organizations that use exhibitions and fairs as one of their main promotional activities.

By renting a display solution from Realfiction, companies can elevate the brand experience they provide to fair attendees, generate attention in their market space, and communicate their often-complex value proposition in a highly visual way. Realfiction delivers a full-solution that includes display rental, custom 3D content animation, external/internal display branding as well as logistics and installation at the exhibition.

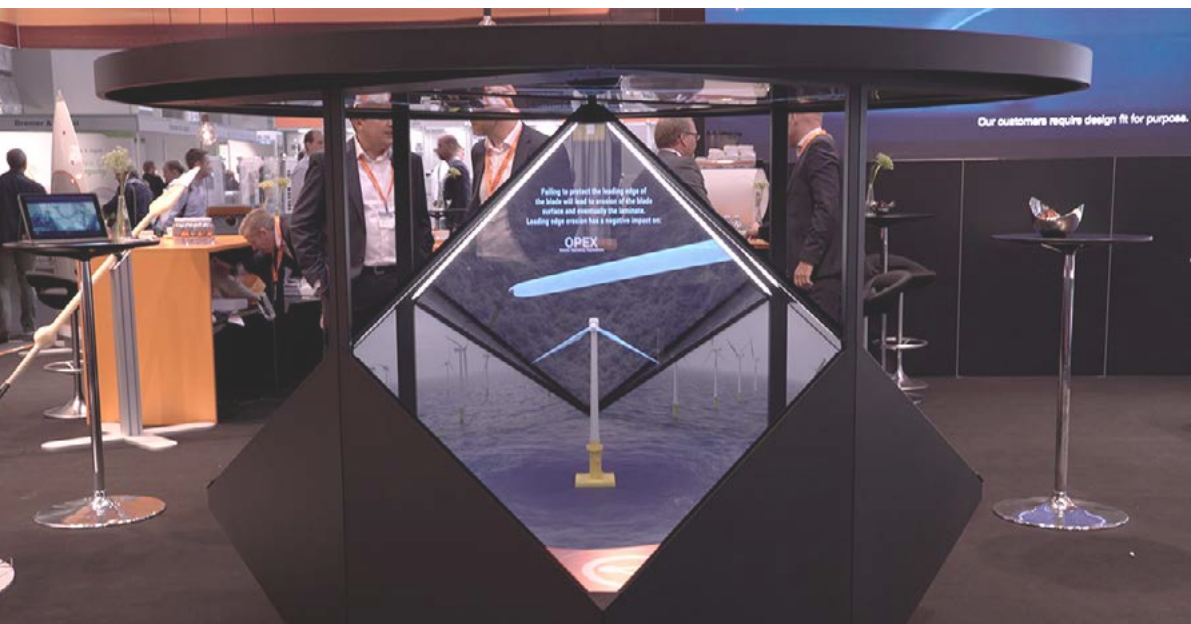
Realfiction's rental concept offers the three largest display models from the portfolio: The Dreamoc Diamond, DeepFrame, and the new Dreamoc XL4.

To accommodate for market needs, certain technical adjustments and add-on products have been developed in 2019. To generate additional engagement at the exhibitions, an interactive and customizable touchscreen can be added to all rental display models. Additionally, all of the displays now feature heavy-duty flight cases that can support the wear and tear of continuous transportation and handling.

By delivering a complete end-to-end solution, the rental program positions Realfiction as a one-stop service provider, successfully bypassing the client's need for hiring installation workforce or an external creative agency for developing the bespoke 3D content. Having the ability to directly demonstrate the effect of the Mixed Reality displays in front of potential customers has proven very important for accelerating the sales process. As such, Realfiction is establishing local showroom facilities in key locations in Denmark, the United States, and the United Kingdom, where a majority of the target companies are situated. The showroom facilities are located within the premises of external partners. Additionally, Realfiction will continue to fuel the lead generation by exhibiting at industry-specific fairs and accelerate its B2B appointment setting via external agencies.



Dreamoc Diamond installation at an exhibition in Copenhagen, November 2019



Top: Dreamoc Diamond at an architecture fair with KingSpan

Bottom: Dreamoc Diamond at Hamburg Wind Energy fair with PolyTech

SALES AND RENTAL VIA A WORLDWIDE NETWORK OF PARTNERS

Realfiction's global network of partners consists of more than 150 resellers and/or 3D content developers located in Europe, North and South America, Asia, Australia, the Middle East, and other regions. Despite an increased focus on driving the MaaS offering, the Company will continue to let partners purchase its portfolio of Mixed Reality displays and accessories.

Furthermore, the option for renting the displays for short-term periods will also remain. The production of the displays will continue to be outsourced to third-party manufacturers, as this allows Realfiction to continuously adapt the production according to local market demands.





DREAMOC AND DEEPFRAME – MARKET LEADING MIXED REALITY (MR) DISPLAYS

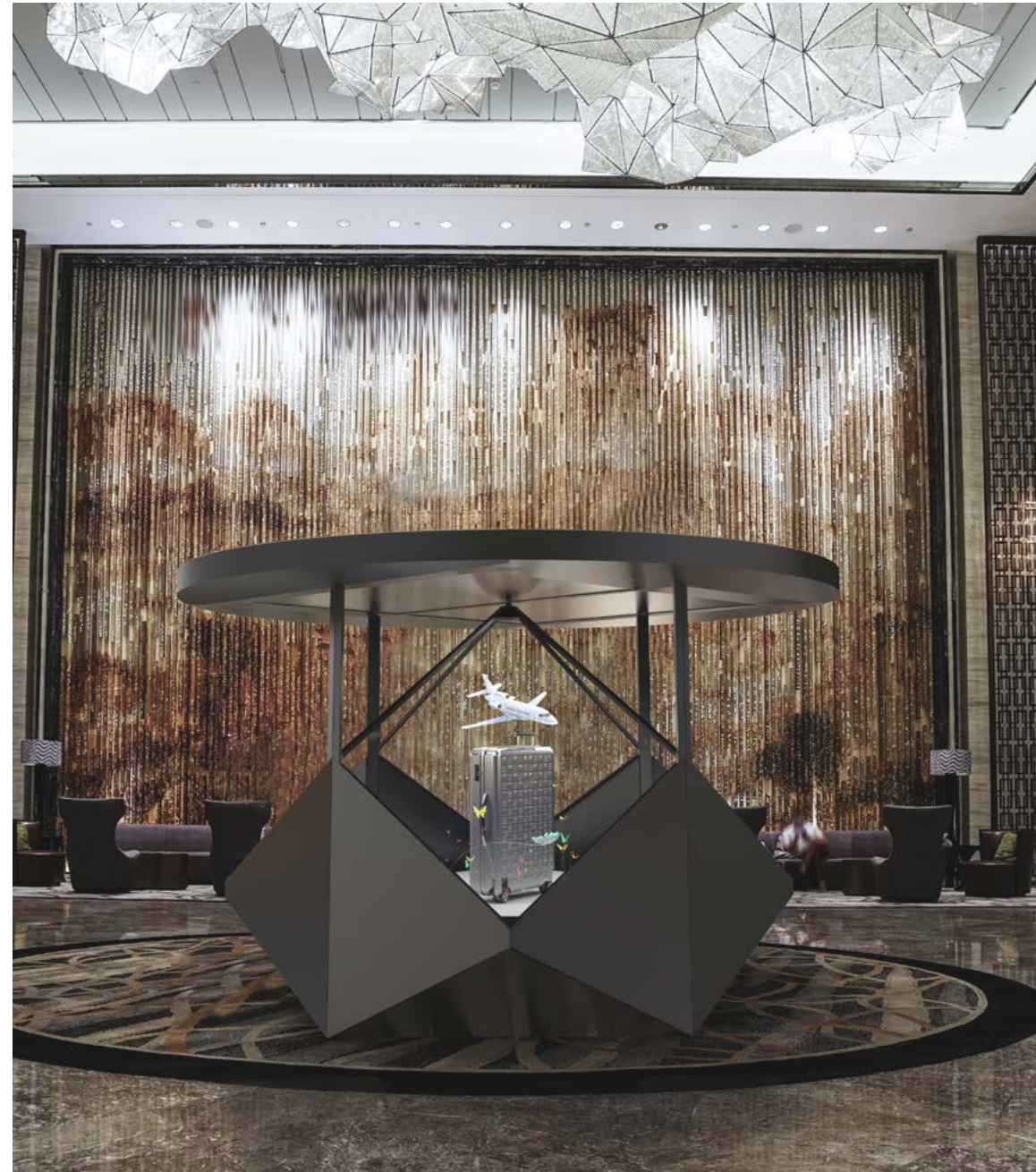
All our products are sold individually and packaged into a simple and powerful service concept that we call “Magic-as-a-Service”. Realfiction’s line of Dreamoc and DeepFrame displays is at the center of the company’s MR solutions offered to end-clients through its worldwide partner network.

DREAMOC – WORLD CLASS HOLOGRAPHIC EFFECTS

Dreamoc is a series of MR displays with a diamond shaped glass chamber where pictures and 3D animations appear to be floating together with real products. Different models have chambers of different size and design, and the content can be seen either from the front or from several directions simultaneously.

Dreamoc HD3 is the smallest and most flexible model for single products that can be experienced from several directions simultaneously. **Dreamoc POP3** can only be experienced from the front and is especially well suited for displays on shelves and for displaying several objects together. **Dreamoc XL3 and Dreamoc XL4**, the most recent model to be launched by Realfiction, are as their names suggest larger variants that makes it possible to create attention for really large objects at for example exhibitions/fairs and other event, airports or in shopping malls.

Dreamoc Diamond is one of Realfiction's biggest Dreamoc displays, and the most elegant. A Dreamoc Diamond creates an extraordinary experience that fits brilliantly into exclusive boutiques.





DEEPFRAME – THE WORLD’S LARGEST MIXED REALITY DISPLAY

With the patent pending product series DeepFrame, that was launched in 2017, Realfiction has once again broken the barriers for what can be achieved with Mixed Reality. DeepFrame is the world’s largest MR display and can create unbelievable real time experiences where holographic images and animations are projected over existing surfaces and objects. It was awarded the “CES 2018 Innovation Awards Honoree” title at CES, the world’s largest consumer electronics show.

DeepFrame One is the first plug and play model in the DeepFrame series that makes it possible to create unforgettable experiences for shopping malls and showrooms, amusement parks, museums, conferences, events and car showrooms. Other possible use cases include visualisation in education and research as well as in architecture, manufacturing and construction.



Dreamoc XL3 in Mercedes's
reception hall, Malmö

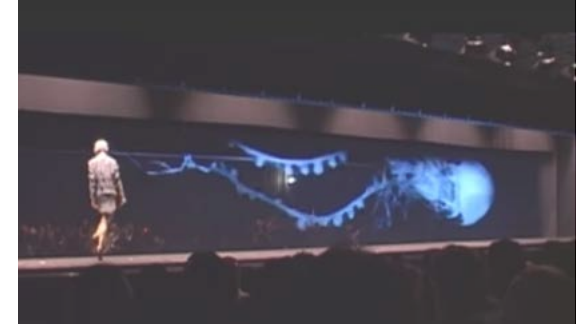
COMPANY HISTORY

Founded in Denmark in 2008, Realfiction is a leading innovator and provider of Mixed Reality solutions and services, a market estimated to reach USD 80 billion by 2025. Realfiction continues to invent technologies within Mixed Reality, with an intention to disrupt the industry by pursuing the vision of converting science fiction into real fiction.



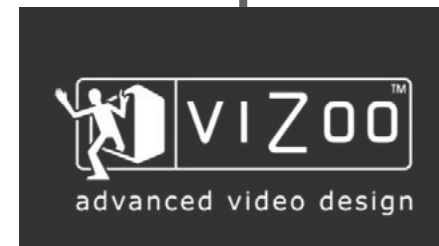
2002

The first video holographic installation was developed and tested in late 2002, inside a fashion shop in the heart of Copenhagen, Denmark.



2007

In 2007, Diesel came to us with the vision of an underwater holographic fashion show. The result was an amazing 18-minute-long voyage where audiences on both sides could see real life models mixing with a virtual underwater world.



2003

Peter Simonsen, Clas Dyrholm and Morten Corell join forces as the video design company ViZoo.



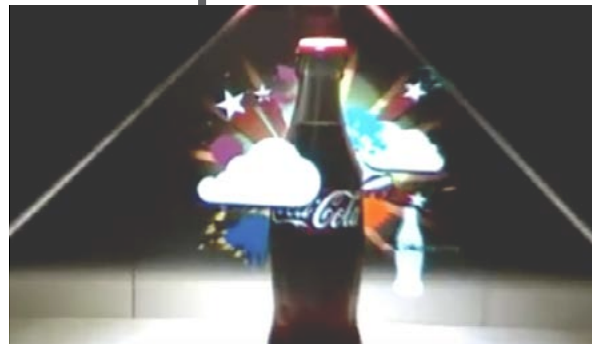
2008

In late 2007, Peter and Clas left Vizooto to follow their dream of developing innovative products for the retail industry. In October 2008, after a year of preparation, they founded Realfiction.



2014

In 2014, the Dreamoc HD3 was launched with more features and higher quality but at a lower price. The display marked a huge evolutionary step for the Dreamoc technology.



2009

In spring 2009, Realfiction introduced the Dreamoc, an astonishing 3D retail product for high-end brands. Distribution was established through a worldwide network of partners.



2017

In May 2017, the company launched DeepFrame. It can display visuals of virtually any size, fundamentally changing how digital visualizations meet reality.



2018

In August 2018, Realfiction presented "Magic-as-a-Service", an innovative complete service for Mixed Reality solutions including everything from rental of hardware to client-specific 3D content.



2019

In October 2019, the company announced that its ECHO technology can be implemented in existing display technologies to reduce the energy consumption with up to 80 %.

2020



2019

In September 2019, Realfiction finalised a proof of concept for its patent pending ECHO technology. This demonstrated that the company's directional pixels can be scaled to large formats with high resolution.



In Q1 2020, the first beta version of a LCD display with built-in ECHO technology was finalised. It is developed for one user and has a pixel density corresponding to a high-resolution 27 inch display.

In February, Realfiction signed an agreement with EDEKA, Germany's largest department store company with over 11,000 stores, regarding a collaboration to test and evaluate the company's Magic-as-a-Service concept at 25 EDEKA stores.





MARKET OVERVIEW AND OUTLOOK

The awareness and demand for products and services related to mixed, augmented and virtual reality is growing rapidly. Some say that it is the fourth wave of computing following the PC, internet and mobile.

This trend of growing interest and demand is expected to continue during the following years as more usable solutions are launched on the market. Realfiction expects this to spur additional demand from customers in a wide spectrum of segments from marketing and retail to the experience industry, education, architecture and construction.

According to the November 2019 update of the Worldwide Augmented and Virtual Reality Spending Guide, published by the global analysis company IDC that is owned by IDG (the world's largest company in media, data and marketing services), the AR and VR market is expected to grow to 18.8 billion USD in 2020, an increase of 78.5 % compared to the estimate for 2019¹. Further strong growth is also expected in the following years, with an average annual growth rate of 77.0 % in 2019-2023. This would constitute an even stronger growth than what Goldman Sachs predicts in a report where the value of the AR and VR market is expected to grow to 80 billion USD in 2025². According to the IDC report, the distribution and service sector is expected to constitute 23.4 % of the market while the consumer segment constitutes 37.4 % in 2020.

1) <https://www.idc.com/getdoc.jsp?containerId=prUS45679219>

2) <http://www.goldmansachs.com/our-thinking/pages/technology-driving-innovation-folder/virtual-and-augmented-reality/report.pdf>

According to a report by Goldman Sachs, the global VR/AR market is expected to be worth

80 billion USD

in 2025, divided roughly equally between the business to business market (B2B) and the consumer market.

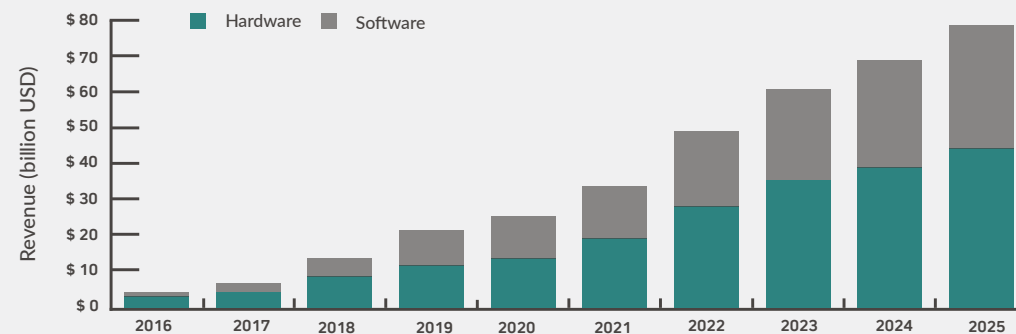
So far, Realfiction has sold more than

10.000

units of its Dreamoc line of mixed reality displays for use by well-known brands and industrial-customers.

Initially Realfiction is focusing on the B2B market and the professional business to consumer market (B2C). The company currently has a leading position in the field of displays capable of producing floating or holographic content without the need for special glasses. Examples of B2B uses are exhibitions and trade fairs, while B2C use cases include displays used in retail or brand promoting settings. So far, Realfiction has sold more than 10 000 units of its Dreamoc line of mixed reality displays for use by well-known brands and end-customers.

With the development of its revolutionising ECHO technology, Realfiction is aiming to expand its business operations into the consumer market. Initially, the technology is expected to be integrated in existing display technologies.



Source: Goldman Sachs Global Investment Research, www.goldmansachs.com/our-thinking/pages/technology-driving-innovation-folder/virtual-and-augmented-reality/report.pdf



COMPETING TECHNOLOGIES AND COMPANIES

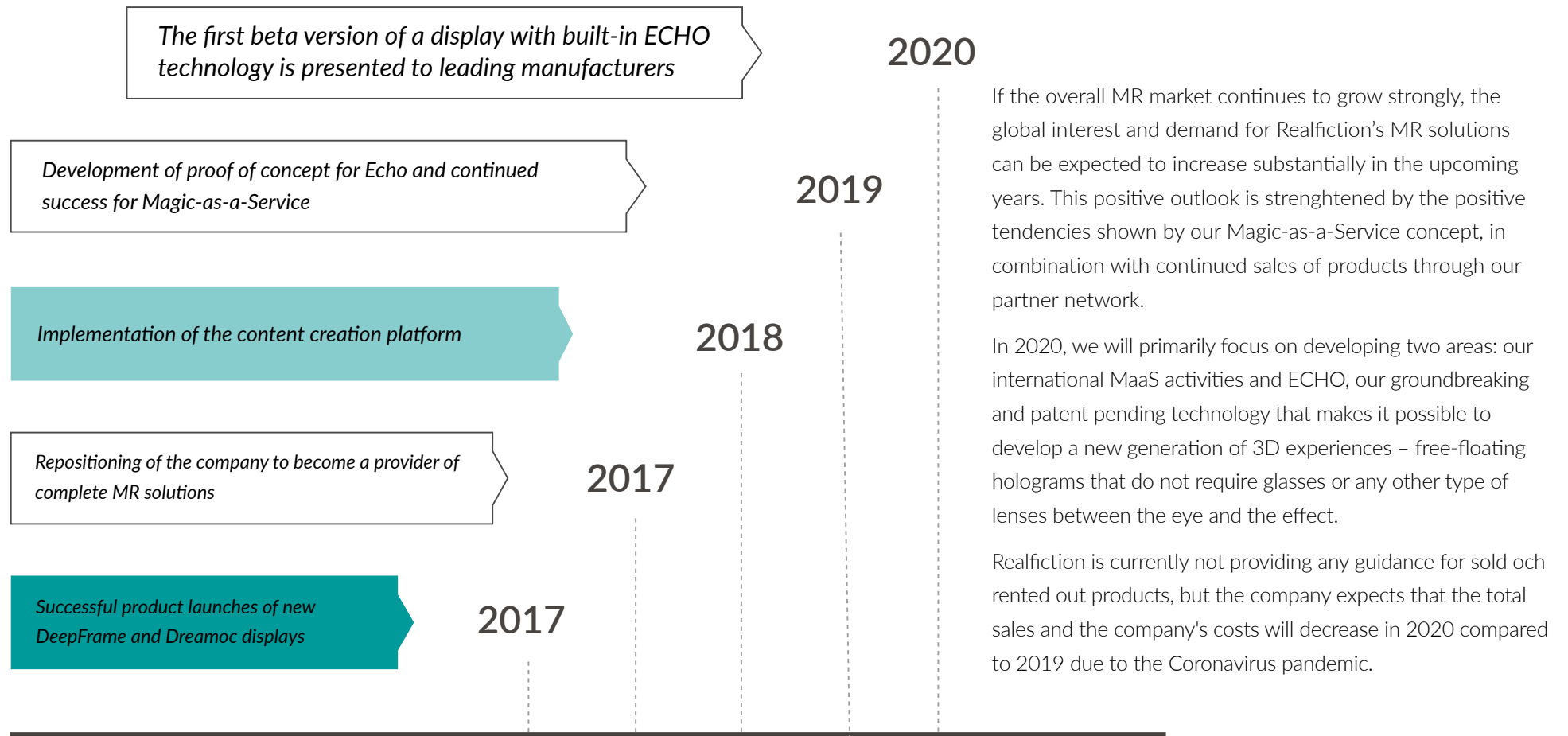
Currently, Microsoft (with its HoloLens and Mixed Reality platform) and Magic Leap are two of the largest players in the mixed reality segment. Both companies offer solutions based on head-mounted displays. Because of this, only the person wearing the product will be able to experience the overlay of 3D objects and effects that blend with the physical reality.

Realfiction's MR displays are fundamentally different, as they do not require the user to wear any special displays, glasses or other equipment. Experiences can thus easily be shared in social settings, which is a major advantage compared to other MR technologies.

There are also competitors who have tried to replicate Realfiction's glasses-free approach to MR without infringing on its intellectual rights. However, Realfiction is not aware of any competitor that have been able to come close to achieving the high-quality 3D/holographic effects and superior build quality that is offered by its Dreamoc and DeepFrame MR displays.



OUTLOOK AND TARGETS FOR 2020





FINANCIAL REVIEW

The Board of Directors and the Chief Executive Officer of Realfiction Holding AB hereby publishes the annual report and the consolidated accounts for the financial year 2019.

This is an extract from parts of the official Swedish Annual Report. The official report is available at the company's website under "Financial reports" and is called "Årsredovisning 2019 (PDF)".

Business operations

Realfiction develops, sells and rents out market leading products and services in Mixed Reality (MR) based on innovative, as well as patent and design protected hardware platforms. All offerings are packaged in an easy and powerful service concept called "Magic-as-a-Service".

The parent company's registered address is in Helsingborg.

Group structure & Shareholding

Realfiction Holding AB has two fully owned subsidiaries, Realfiction ApS and Realfiction Lab ApS. All activities are mainly carried out in the subsidiaries. In addition to the above, Realfiction Holding AB does not own any shares in other companies.

Income Statement

Group net revenue amounted to 21,357 TSEK in 2019 and 23,799 TSEK in 2018. This corresponds to a decrease of 10 % compared to 2018.

The primary part of net revenue in 2019 consists of product sales from the Dreamoc and DeepFrame category, while the sales of the company's Magic-as-a-Service concept amounted to 3,819 TSEK compared to 880 TSEK in 2018.

In note 16, we present the company's gross profit analysis. Cost of goods sold amounts to 9,990 TSEK (12,429 TSEK). The gross profit for 2019 can thus be established to 11,367 TSEK (11,370 TSEK), which resulted in an increased gross profit margin in 2019 of 53.2 % compared to 47.8 % in 2018. The significant increase in the gross profit margin is primarily attributable to the increase in sales from the company's MaaS concept.

In 2019, Realfiction activated development costs related to ECHO fulfilling the conditions for the activation principle. This means that the operating result for 2019 is positively affected by 3,427 TSEK (0 TSEK) due to activation of salaries and expenses related to ECHO.

Other external costs increased to 9,899 TSEK in 2019 compared to 9,184 TSEK in 2018. The increase is primarily due to increased sales and marketing expenses in 2019 compared to 2018.

Personnel costs are at a high level in 2019 due to onboarding of sales resources and continuous investments in product and market development.

Other income consists of rent and subsidies and amounts to 489 TSEK compared to 1,126 TSEK for 2018 that also included a grant for the development activities.

Group net financial costs in 2019 consisted of interest on the loan with Vækstfonden. In 2018, interest on a bridge loan was also included. The net result for the Group in 2019 amounts to -12,947 TSEK compared to -11,923 in 2018.

Supplementary Income Statement

In note 17, we present our supplementary income statement with our two main activities; Sales Activities and Innovation & Development. The supplementary income statement illustrates our investment in Innovation & Development, and the underlying performance of our Sales Activities.

Balance sheet

Realfiction's total assets at 31 December 2019 amounted to 37,834 TSEK compared to 20,821 TSEK at 31 December 2018. The inventory at 31 December 2019 amounted to 7,242 TSEK compared to 8,909 TSEK at 31 December 2018.

Trade receivables remain higher than last year due to the increased credit sales. Other payables decreased to 3,953 TSEK at 31 December 2019 compared to 10,922 TSEK at 31 December 2018. The decrease is primarily due to the conversion in 2019 of a bridge loan to equity. The bridge loan was received in the beginning of October 2018.

The Group's solvency ratio at 31 December 2019 was 74.7 % compared to 22.5 % at 31 December 2018.

Realfiction Holding AB issued a shareholder contribution of 13,556 TSEK to the wholly owned subsidiary. The premium was delivered on 31 December 2019 and will not entitle the shareholder to recover the supplement later. The contribution was made by reducing the company's loan receivable on the subsidiary with the corresponding amount.

Investments

In 2019, the company invested 1,845 TSEK (1,831 TSEK in 2018) in its Magic-as-a-Service platform in the form of additional displays under tangible fixed assets.

In 2019, Realfiction invested 5,603 TSEK (0 TSEK) in intangible fixed assets related to the company's development of ECHO, with the aim to develop a new generation of 3D experiences – free-floating holograms without the need for glasses or other types of lenses between the eye and the effect, and the possibility to see and interact with 3D objects from different angles.

Liquidity and funding

Realfiction's liquidity at 31 December 2019 amounts to 17,240 TSEK compared to 5,140 TSEK at 31 December 2018. Cash flow from operating activities for 2019 amounts to -11,013 TSEK compared to -14,323 TSEK for 2018.

Cash flows from operating activities in 2019 was positively impacted by an

decrease in inventory and negative affected by an increase in tangible assets and continuous investments in product- and market development.

The share

Realfiction Holding AB's share was listed on Nasdaq Stockholm First North 14 July 2017. The share is traded with the ticker REALFI and its ISIN-code is SE0009920994. At 31 December 2019, the number of shares in Realfiction Holding AB was 15,610,613 pieces (including fully paid but not yet registered share issue) compared to 11,633,135 pieces on 31 December 2018. The company has one share class. Each share entails equal rights to recognize the company's assets and results.

Financial risk management

The financial risks can primarily be divided in the following categories:

Currency risk

The Groups sales are made in local currency as well as in foreign currency, primarily USD and DKK. Purchases are primarily made in DKK and USD. When deemed necessary, future currency flows are hedged through financial instruments. The goal is to try to neutralize the currency effects when transactions are made in different currencies. At the end of the year, the company did not own any currency futures or warrants.

Interest risk

The Group's interest rate risks are mainly connected to interest-bearing liabilities with floating interest rate, totaling 3,961 TSEK at the balance day compared to 3,899 TSEK at 31 December 2018.

Credit risk

The Group tries to find business partners with the highest possible credit rating. The majority of the Group's sales can be made with low credit risk. Historically, the credit losses have been low.

Liquidity risk

The Group is constantly working to maintain and improve its liquidity.

Significant events after the end of the year

- On February 6 2020, Realfiction announced that the company, supported by a 500,000 DKK Innobooster grant, had finalised the first phase of the development of a beta version of a display with built-in ECHO technology based on a LCD display. The result is a 15x15 cm LCD display with a pixel density corresponding to a 27 inch Full HD display. The display has a complete colour spectrum and shows a realtime-generated, stereoscopic 3D image with eye tracking for one user.
- On February 12, it was announced that Realfiction had signed an agreement with EDEKA, Germany's largest department store group with over 11,000 stores, regarding a test phase for its one-stop concept Magic-as-a-Service at 25 EDEKA stores in Germany starting in March 2020.
- On March 13, Realfiction announced that the company is experiencing a temporary Coronavirus-related effect in its Experience (hardware) and Magic-as-a-Service (MaaS) segments due to exhibitions, fair and other events being postponed or cancelled.
- On March 26, it was announced that Realfiction has a strong financial position with sufficient liquidity to uphold all business activities, including the development of ECHO, into 2021. Due to the high level of uncertainty as a consequence of the Coronavirus situation, the company will not provide any new guidance for 2020 until the situation is stabilised. Realfiction also announced that the test launch of the MaaS media channel in Germany at 25 EDEKA stores was paused due to EDEKA having to focus on its core business until the coronavirus situation is stabilised. Before this pause, the launch was off to a positive start, and the order book was full up until August.

Multiple year overview (TSEK)

Group	2019	2018	2017	2016*
Net revenue	21,357	23,799	16,319	19,640
Result after financial items	- 14,792	- 12,733	- 10,226	- 4,075
Total Balance Sheet	37,834	20,821	26,084	14,089
Solvency ratio** (%)	74.7	22.5	62.2	3.6
Average number of employees	17	15	12	10
Gross profit ¹⁾ ***	11,367	11,370	7,474	9,030
Gross profit margin (%) ****	53.2	47.8	45.8	46.0
Earnings per share (SEK) *****	- 1.04	- 1.01	- 0.87	-

* Comparative 2016 figures for the Group refer to the Danish subsidiary Realfiction ApS.

** Solvency ratio: Equity as a percentage of the balance sheet total. Key ratios of equity are presented to provide a better understanding of Realfiction's long-term ability to pay its debt.

*** Gross profit Net turnover after costs for goods sold

**** Gross profit margin: Gross profit as a percentage of Net revenue.

***** Earnings per share: The net profit or loss for the period divided by the average number of shares.

1) See note 17

Parent company	2019	2018	2017*
Net revenue	600	600	0
Result after financial costs	- 1,226	- 1,203	- 702
Total Balance Sheet	59,962	30,734	25,000
Solvency ratio (%)	98.7	77.1	99.6
Average number of employees	0	0	0

*The first fiscal year of the parent company is 2017, from 28 April 2017.

OWNERSHIP STRUCTURE

The table below shows key shareholders in Realfiction Holding AB per 31 December 2019. This includes fully paid but not yet registered/issued share issue.

Name	Number of shares	Ownership (in %)
Ceranco Equity S.C.S ¹	3,194,447	20.46
Clape Holding ApS ²	2,875,000	18.42
AmTRAN Technology Co. Ltd.	1,997,461	12.80
Nordnet Pensionsförsäkring AB (custodian)	1,028,876	6.59
Försäkringsaktiebolaget, Avanza Pension	792,715	5.08
Other shareholders (more than 1 350)	5,722,114	36.65
Total	15,610,613	100.0

1. Ceranco Equity S.C.S is an investment company with private investors.

2. 50 % owned by CEO and board member Clas Dyrholm & 50 % owned by board member Peter Simonsen.

Proposed appropriation of retained earnings

(Amount in SEK)

Proposition for the appropriating the company's retained earnings

At the proposal of the general meeting:

Share premium reserve 58,830,349

Loss for the year - 1,226,114

57,604,236

The board proposes to:

Adding to the share premium reserve:

57,604,236

PROFIT AND LOSS

SEK '000	Note	Group	
		2019	2018
Operating income			
Net revenue		21,357	23,799
Capitalised work for own account		3,427	0
Other income		489	1,126
Total operating income		25,273	24,925
Operating expenses	16		
Cost of goods sold		- 9,990	- 12,429
Other external costs		- 9,899	- 9,184
Personnel costs	4	-18,149	-14,768
Depreciation of tangible and non-tangible assets	8	- 1,334	- 290
Total operating expenses		- 39,372	- 36,671
OPERATING RESULT	16 & 17	- 14,099	- 11,746
Result from financial investments			
Other interest income and similar profit/loss items	5	91	219
Interest costs and similar profit/loss items	6	- 784	- 1,206
Total financial items		- 693	- 987
RESULT AFTER FINANCIAL ITEMS		- 14,792	- 12,733
Tax for result of the year	7	1,845	940
RESULT OF THE YEAR		- 12,947	- 11,793

BALANCE SHEET

SEK '000		Group	
	Note	31-12-2019	31-12-2018
ASSETS			
Fixed assets			
Intangible fixed assets			
Development costs	8	5,451	0
Total intangible fixed assets		5,451	0
Tangible fixed assets			
Fixtures, tools and installations	8	2,225	1,707
Total tangible fixed assets		2,225	1,707
Financial fixed assets			
Other long-term receivables	10	323	317
Total financial fixed assets		323	317
TOTAL FIXED ASSETS		7,999	2,024
Current assets			
Inventories etc.			
Finished products and goods for sale		7,242	8,909
Total inventories etc.		7,242	8,909
Short-term receivables			
Trade receivables		2,275	1,551
Current tax receivables		1,821	939
Other receivables		930	648
Prepaid expenses		327	1,610
Total short-term receivables		5,353	4,748
Cash and bank	12	17,240	5,140
TOTAL CURRENT ASSETS		29,835	18,797
TOTAL ASSETS		37,834	20,821

SEK '000	Note	Group	
		31-12-2019	31-12-2018
EQUITY AND LIABILITIES			
Equity			
Share capital		1,406	1,163
Share issue under registration		155	0
Other received capital		60,245	23,952
Other equity incl. the result of the period		- 33,534	- 20,435
TOTAL EQUITY		28,272	4,680
Long-term liabilities			
Liabilities to credit institutions	11	3,043	2,051
TOTAL LONG-TERM LIABILITIES		3,043	2,051
Short-term liabilities			
Liabilities to credit institutions		918	1,848
Accounts payable		1,648	1,320
Other liabilities	13	3,953	10,922
TOTAL SHORT-TERM LIABILITIES		6,519	14,090
TOTAL EQUITY AND LIABILITIES		37,834	20,821

CHANGES IN EQUITY

Group

SEK '000	Share capital	Share issue under registration	Other contributed capital	Other own capital incl profit for the year	Total amount equity
Amount at the beginning of the year 01-01-2018	1,163	0	23,952	- 8,892	16,223
Distribution of last year's appropriation of retained earnings	0	0	0	-250	250
Result for the year	0	0	0	- 11,793	- 11,793
Amount at the end of the year 31-12-2018	1,163	0	23,952	- 20,435	4,680
Share issues*	243	155	38,677	0	39,075
Share issue costs	0	0	- 2,384	0	-2,384
Distribution of last year's appropriation of retained earnings	0	0	0	- 152	- 152
Result for the year	0	0	0	- 12,947	- 12,947
Amount at the end of the year 31-12-2019	1,406	155	60,245	- 33,534	28,272

*) Share issues consists of the following 4 increases in equity that were fully paid in 2019:

- Directed issue of 679,803 shares that were registered on 24 May 2019
- Preferential issue of 1,744,970 shares that were registered on 26 June 2019
- Exercise of subscription warrant of 69,000 shares that were registered on 7 January 2020
- Preferential issue of 1,483,705 shares that were registered on 10 January 2020

The number of shares amounts to 14,057,908 pieces and the quota value is 0.10 SEK/share. Additionally, there are 1,552,705 shares that were under registration on 31 December 2019.

The company has 1,168,929 outstanding warrants. Every warrant entitles the owner to subscribe for one Realfiction share.

The warrants can be used until June 22, 2027, with an average subscription price of 2.14 SEK.

CASH FLOW ANALYSIS

TSEK	The Group	
	Not	
	2019	2018
Operating activities		
Operating result	- 14,099	- 11,746
Depreciation	1,334	290
Received interest	92	219
Payed interest	- 787	- 1,298
Received tax	979	903
Cash flow from operating activities before changes in operating capital	- 12,481	- 11,632
Cash flow from changes in operating capital		
Decrease(+)/increase(-) in inventory	1,842	- 3,940
Decrease(+)/increase(-) in current receivables	303	- 133
Decrease(+)/increase(-) in current liabilities	- 677	1,382
Cash flow from operating activities	- 11,013	- 14,323
Investment activities		
Purchase of tangible fixed assets	-5,603	0
Purchase of intangible fixed assets	-1,845	-1,831
Purchase of financial assets	0	- 70
Cash flow from investment activities	- 7,448	- 1,901
Financing activities		
Amortisation of financial liabilities	0	- 1,724
Share issue	36,691	0
Bridge loan	- 6,405	5,447
Cash flow from financing activities	30,286	3,723
Cash flow for the year	11,825	- 12,501
Cash and cash equivalents at the beginning of the year	5,140	17,137
Foreign exchange difference in cash and cash equivalents	275	504
Cash and cash equivalents at the end of the year	17,240	5,140

Not 16 Gross profit analysis

		The Group	
	Note	2019	2018
Net revenue		21,357	23,799
Cost of goods sold		-9,990	-12,429
Gross profit		11,367	11,370
Capitalised work for own account		3,427	0
Other external costs		-9,899	-9,184
Personnel costs	4	-18,149	-14,768
Depreciation of tangible fixed assets	8	-1,334	-290
Other income and expenses		489	1,126
OPERATING RESULT		-14,099	-11,746

Note 17 Supplementary Income Statement - Group

Key figures from the income statement for the Group are presented below on the basis of the underlying activities. Realfiction has two main activities; 1) Innovation & Development activities, including all directly related expenses incurred in connection with the Innovation & Development activities in the Group and 2) Sales Activities, including all other activities in the Group.

Sales Activities

	Note	2019	2018
Gross profit (Note 16)	16	11,367	11,370
Other external costs		-8,761	-7,750
Personnel costs		-13,374	-12,026
Depreciation of tangible fixed assets		-1,310	-290
Other income and expenses		427	315
Operating result		-11,651	-8,381

Innovation & Development Activities

	2019	2018
Capitalised work for own account	3,427	0
Other external costs	-1,138	-1,434
Personnel costs	-4,775	-2,742
Depreciation of tangible fixed assets	- 24	0
Other income and expenses	62	811
Operating result	-2,448	-3,365

