

ANNUAL REPORT 2018

EXTRACT OF THE OFFICIAL FINANCIAL
STATEMENTS IN SWEDISH.

Realfiction Holding AB
559110-4616



REALFICTION™

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SUMMARY OF THE YEAR

Total revenue amounted to SEK 23.8 million (2017: SEK 16.3 million)

Net profit/(loss) after financial income and expenses amounted to SEK -12.7 million (2017: SEK -10.2 million)

Gross profit totaled SEK 11.4 million (2017: SEK 7.5 million)

Gross profit margin was 47.8% (2017: 45.8%)

Earnings per share was SEK -1.01 (2017: -0.87)

The solvency ratio was 22.5% (2017: 62.2%)

Cash flow from operating activities amounted to SEK -14.3 million (2017: SEK -9.8 million)





CEO COMMENTS

”

Our MaaS business model is growing significantly in 2019. We maintain our forecast that the Company's Sales Activities will become cashflow positive on a monthly basis by the end of 2019 and we will continue to gear up towards a proof of concept of our groundbreaking Project Echo in 2019. We also maintain our forecast of reaching a yearly revenue of 100mDKK within 2-3 years.

2018 Growth: Looking back at our first full year as a public company, I can say that we have made quite a transition. We have redefined our go-to-market model, launched a new business model, strengthened the whole team from management through sales, technology and execution, planted the seeds to what may be the next generation flatscreen technology and last but not least improved both topline and profit margin. Our yearly revenue grew by TSEK 7,480 or 45.8 % to a total of TSEK 23,799. With an overall improvement of our gross profit margin to 47.8% in 2018 from 45.8% in 2017, our gross profit grew with TSEK 3,896 to a total of TSEK 11,370.

STEP-UP-19 strategy: In October 2018, we announced our “STEP-UP-19 strategy”, with plans to boost both current sales activities and our development of future Mixed Reality technologies. The strategy has the following 3 main components:

Magic-as-a-Service: We have developed our offering into complete integrated marketing solutions in addition to selling separate products. Magic-as-a-Service (MaaS), is our Mixed Reality marketing solutions offered as an all-in service including everything from rental of the hardware (Mixed Reality displays with client-specific features when needed) to the 3D content and on-site installation, service and maintenance. This has enabled us to substantially increase our recurring revenues and thus building a stable cash flow.

We currently offer MaaS services in two main segments being retail and events. And the work we have done in 2018 has laid the ground for expansion in 2019 leading to profitability with large scaling potential.

Innovation / Project Echo: We continued to enhance our product and content portfolio by adding new features, but towards the end of 2018, we announced our new focus in a revolutionary

directional pixel technology. Enabling full 3D displays with look around capability, without the bothersome headsets and glasses, in a neat and well-known flat screen body, will open many hugely interesting segments. Especially because our technology approach allows for much higher resolution than other attempts. I am confident that once we are ready to demonstrate the first prototypes of the core technology to the large industry manufacturers, they will be busy analyzing the potential advantages of utilizing this technology. In the beginning of 2019, Project Echo entered its second phase. The technology is now patent pending and we have begun development collaborations with several industry leading experts on the core components.

Project sales: Realfiction's global network of partners consists of more than 150 resellers and/or content developers in Europe, North and South America, Asia, Australia, the Middle East

and other regions. Despite the shift in business model and go-to-market strategy, the Company will continue to offer partners the option to purchase the range of Mixed Reality displays, 3D animations and accessories. And I am pleased to say that we continue to build a solid pipeline with our resellers.

Projections: Our MaaS business model is growing significantly in 2019. We maintain our forecast that the Company's Sales Activities will become cashflow positive on a monthly basis by the end of 2019 and we will continue to gear up towards a proof of concept of our groundbreaking Project Echo in 2019. We have just implemented the first few steps of our STEP-UP-19 strategy and are already seeing positive results. We also maintain our forecast of reaching a yearly revenue of 100mDKK within 2-3 years.

Thank you for your valued support.



Clas Dyrholm
CEO, Realfiction Holding AB



NEW BUSINESS MODEL AND INNOVATION

Throughout 2018 we have been working to improve our business model, going from sales of hardware to adding content creation services and rental models to the full solution principles of our Magic-as-a-Service (MaaS) concept, and the customer reactions have been great.

With the implementation of the first Mixed Reality media channel in Hypermarket outlets, we have begun a journey towards a highly scalable recurring revenue stream, where we can utilize our innovative technology and our knowhow efficiently. We are still in the first phase where Denmark is the focus area, but we are already getting interest from other countries. Our event solutions have really taken off, and we are expecting a healthy growth from this category as well. In both the retail and expo solutions, we utilize the power of our technology instead of selling it, and therefore we expect to see a continued improvement on the gross profit margin.

In 2017, the Company launched the new product family DeepFrame, the world's largest Mixed Reality display, and strengthened the successful Dreamoc series with the majestic Dreamoc Diamond. These successful launches received major media attention in 2018, especially DeepFrame in the USA, and DeepFrame was also acknowledged with the prestigious "CES 2018 Innovation Awards Honoree" award. Together with our portfolio of Dreamoc products, DeepFrame is offered for sale and as a part of our MaaS offer.

With the first evidence that MaaS is the future business model for Realfiction, in the spring of 2019, we have strengthened the Company's balance sheet and liquidity via a capital increase for 24.5 MSEK. The cash will be used to further intensify the execution of our go to market strategy for MaaS and to invest into a new innovation project that we expect will ensure that Realfiction takes a leap beyond our competitors.



SELECTED EVENTS IN 2018

January



Realfiction's DeepFrame and Dreamoc Diamond presented to prominent companies such as Apple, LG and Verizon in January.

February



Realfiction is testing customer-engaging mixed reality concept in one of Denmark's largest shopping malls.

March



Realfiction and LEGO initiates test project with DeepFrame, the world's largest Mixed Reality display.

April



IBM installs Realfiction's Mixed Reality display DeepFrame at its new innovation centre in Abu Dhabi.

May



Realfiction receives order for 49 Dreamoc HD3 displays to be used by global snack company Mondelez.

August



Realfiction presents "Magic-as-a-Service", an innovative Mixed Reality service for the retail industry.

September



Realfiction's "Magic-as-a-Service" to be rolled out in high-traffic retail locations.

Oktober



Realfiction receives DeepFrame One order from one of the world's largest automotive companies.

Oktober



Realfiction announces more ambitious strategy, new major innovation and secures funding.

November



Realfiction takes next step in its cooperation with LEGO.

December



Realfiction announces Mixed Reality media channel with Bilka.

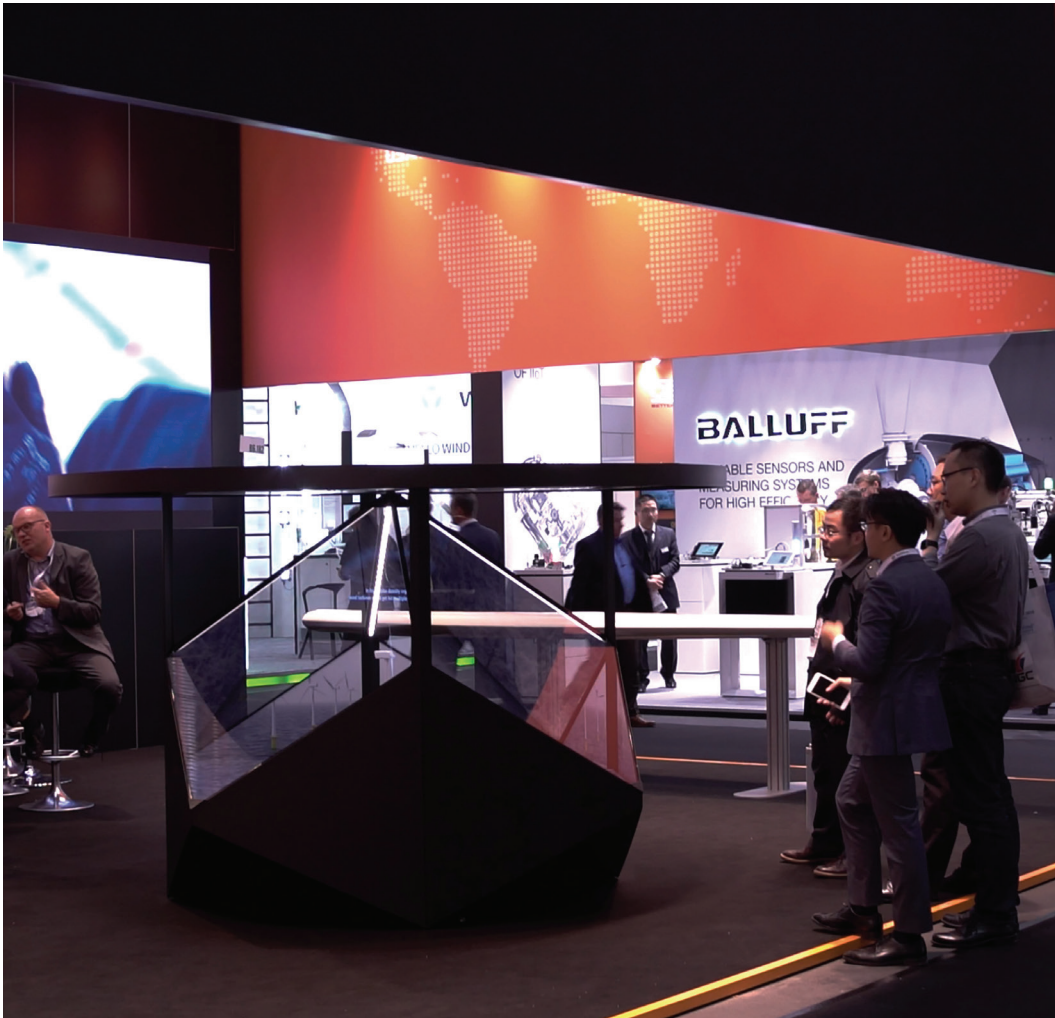
December



Breakthrough for Magic-as-a-Service in North America - Galla USA og Lexus Miami.



SAMPLE CASES WITHIN MAGIC-AS-A-SERVICE EVENTS AND RETAIL



*“...WHEN WE SAW THIS SOLUTION, IT WAS DEFINITELY THE
RIGHT WAY FOR US TO SHOWCASE
OUR TECHNICAL PRODUCTS IN A NICE LOOKING WAY”*

- KENNETH IVERSEN,
BUSINESS DEVELOPMENT MANAGER AT POLYTECH



COMPLEX STORYTELLING MADE EASY

PolyTech is a cutting-edge company that operates within the global industry for renewable energy. As a market leader within their field, they develop integrated solutions for some of the world's largest corporations within wind energy. As with many companies, they often struggle with explaining the delicate and complex product offering.

By renting the Dreamoc Diamond as the eye-catcher for their trade fair space, PolyTech was able to easily overcome that initial barrier and present their newest solution at the WindEnergy fair in Hamburg with massive success.

THE SOLUTION

PolyTech chose the Dreamoc Diamond to act as the highlight on their trade fair space, and strategically placed it in a central position for all to see. Inside the display, the vivid hologram beautifully told the story of their unique product offering, visually highlighting the important USP's, features and details in a few minutes – something that would normally take a salesperson much longer to verbally explain to new leads at the fair.

By using the Diamond display, PolyTech was able to successfully bypass the initial explaining phase, thereby approaching leads that already understood the values of their complex product offering. Furthermore, they gained significant interest and awareness at the fair, constituting their position as market-leaders within their field.



Danish snack-brand KIMs used the Magic-as-a-Service retail concept to promote their two new types of chips as part of a nation-wide product launch. Being a part of the larger Orkla Foods corporation, KIMs promoted the new products with a 4-week MaaS campaign that took place in 18 Bilka hypermarkets in Denmark, featuring 6-7 million customers every month.

By using the holographic display to deliver their campaign message, KIMs created an in-store experience that visualized the unique new way of heatblasting the chips, essentially creating a lighter product with 30% less fat. The in-store campaign was placed in some stores as end-cap positions, and in other stores in central locations within the product category area.

THE RESULTS

During the campaign period, KIMs saw an uplift of at least 25% on one of the new varieties, and an entire doubling of sales in the second variety that was promoted. The sales uplift was compared to 50 similar supermarkets in the country, which did not have the holographic display installed, but corresponded to the same number of monthly customers as in the Bilka stores. The campaign did not include an additional price promotion in any of the stores.

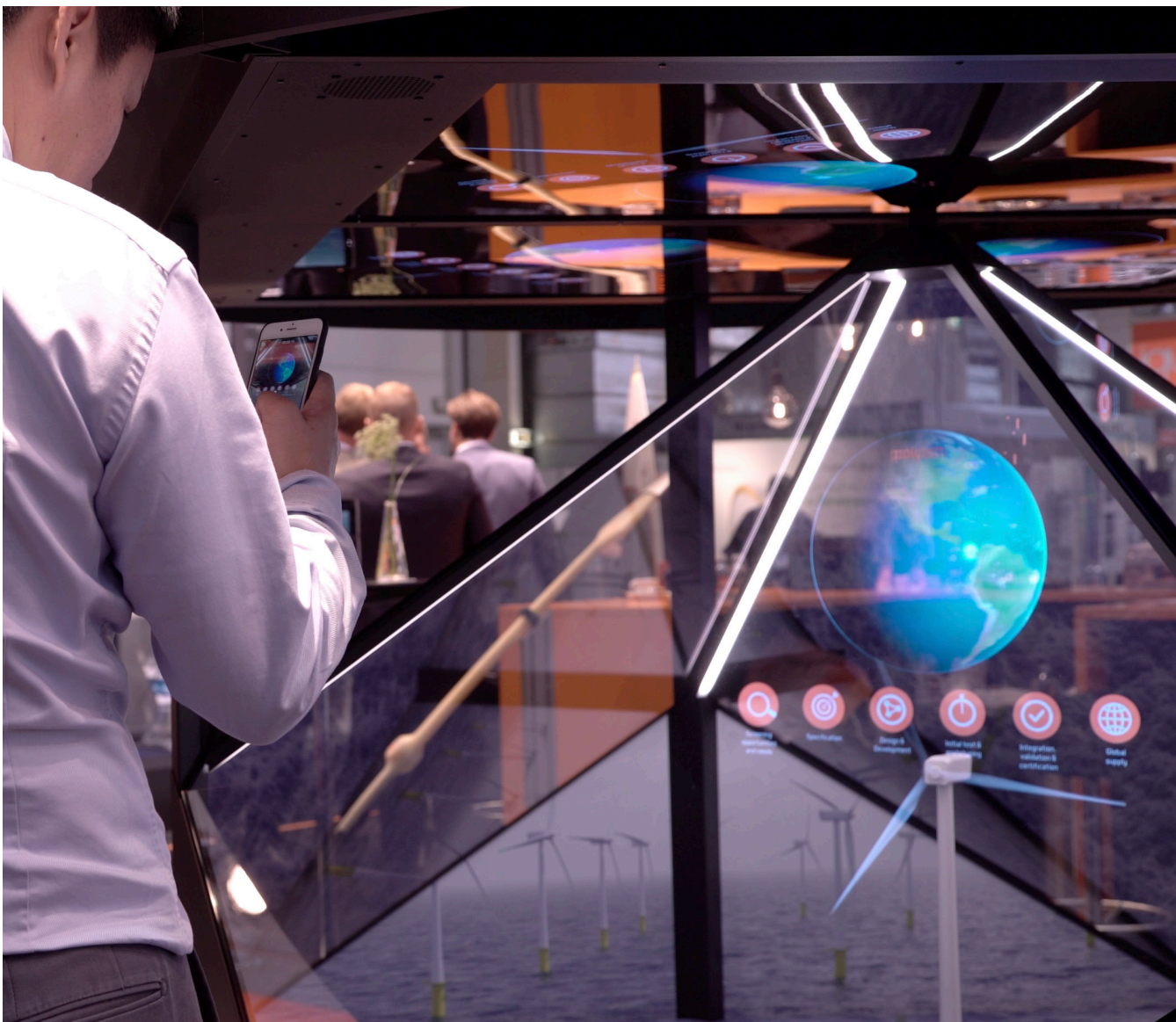
"THIS IS CLEARLY A STRONG MEDIUM FOR PROMOTING OUR NEW PRODUCTS, AS IT CREATES AWARENESS AND AT THE SAME TIME INCREASES SALES."

**ANDERS HYBHOLT
BRAND MANAGER, KIMs**





Close up of 3D hologram with Kusmi tea in Dreamoc HD3



COMPANY OVERVIEW

Realfiction develop, sell and rent out market leading mixed reality (MR) products and services based on innovative, as well as patent and designed protected, hardware platforms that has 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.

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.



”

*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

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, being 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.

Being 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.

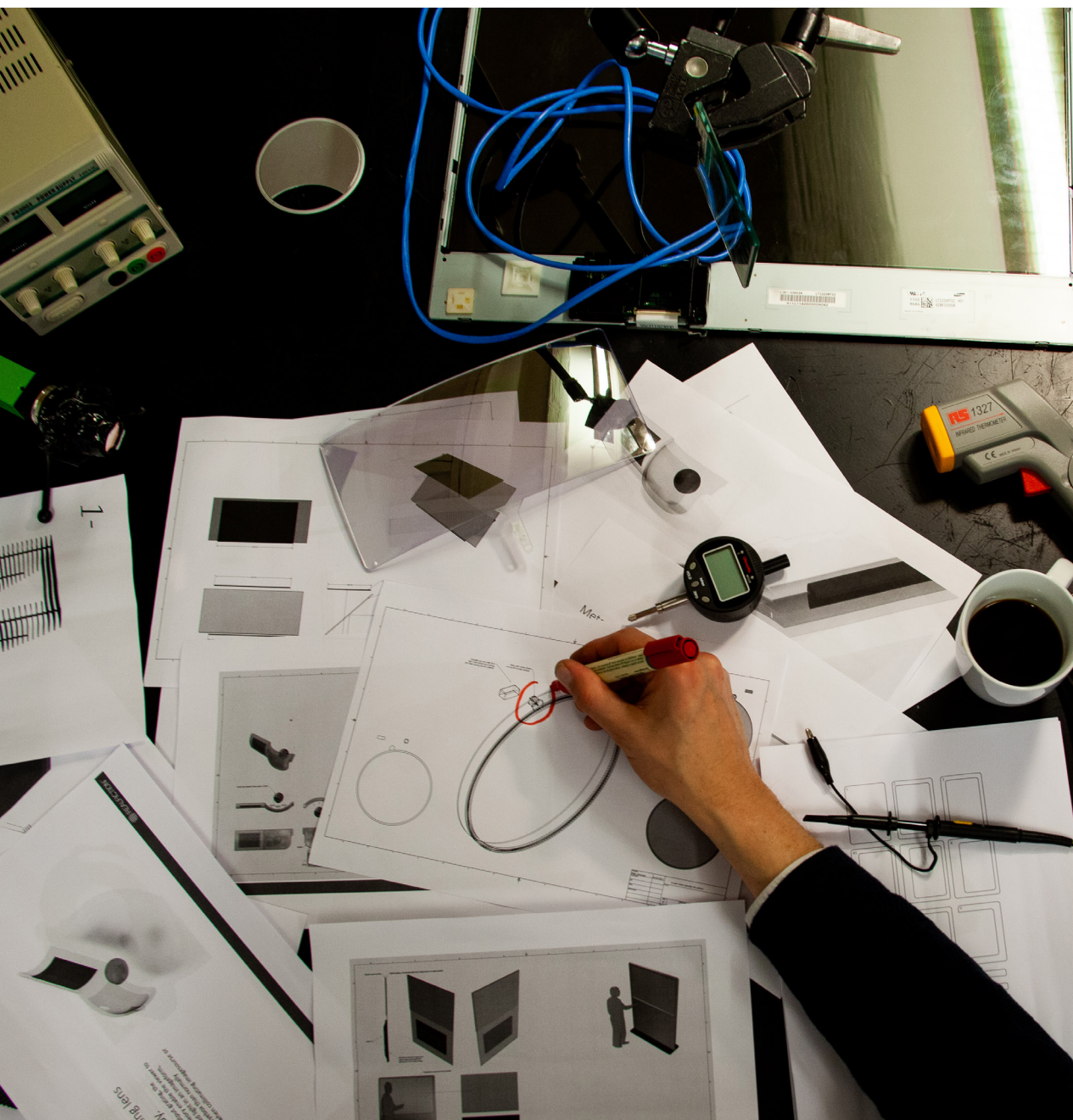
We want to create social Mixed Reality that takes back the public space and enables epic experiences that challenge the very perception of reality.



TRANSFORMING SCIENCE FICTION INTO REALITY

We have intensified our investment in innovation – and we now believe that we have found the technology that will allow us to invent the holy grail of 3D experiences; free-floating holograms that require no glasses, devices or other lenses between the human eye and the effect, and where 3D objects can be viewed and interacted with from different angles. This display has for many years existed purely as an item of science fiction, deemed improbable to ever surface in our present

lifetime. However, with the recently submitted patent applications for the new directional pixel technology, referred to as Project Echo, Realfiction is finally on the path to materialize this dream and bring it to market. Project Echo is the current center in the development department and can in the future provide significant licensing and joint cooperation opportunities. The Company expects to present a proof of concept later in 2019.



Close up of drawings in the Realfiction Lab

THE TECHNOLOGY

Directional pixels and directional displays have been around for decades, with recent market players including Light Field Lab, Fovi 3D, Leia, JDI, BOE and Samsung. However, even state of the art directional displays suffers from severe restrictions that have prevented market acceptance outside of small niche use cases.

Project Echo comprises development of a completely new core technology for directional pixels that will enable mass production of the future standard type of displays. Flat images on today's flat screens as well as existing 3D displays all suffer from different drawbacks such as lack of look-around-capability, the need to wear glasses etc., resulting in insufficient viewer experiences. Project Echo's underlying technology is patent-pending since March 2019.





VISION

This new 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 the real world of social interaction between human beings. This is now within reach with the

Project Echo pixel technology. Assuming Realfiction succeeds in developing the patentpending technology, the Company believes it could 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.

PHASES AND MILESTONES

The next milestone is to complete and announce a proof of concept for the Project Echo pixel technology before the end of 2019. The objective is to manufacture new directional pixels to present a clear path towards commercial mass production of displays comprising millions of such 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.

POTENTIAL

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





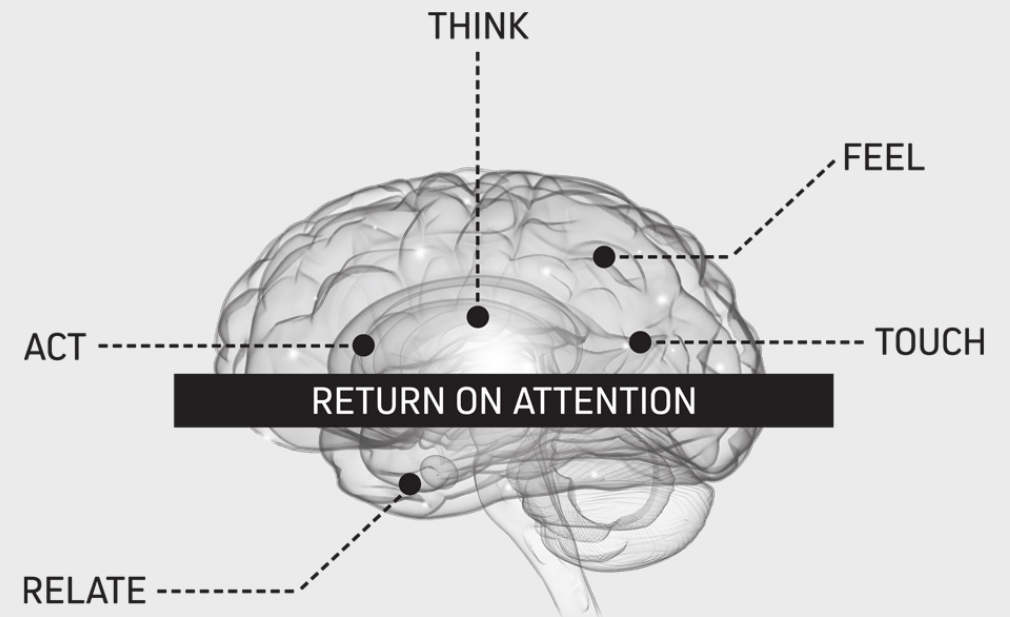
REALFICTION'S BUSINESS AND CONCEPT

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.

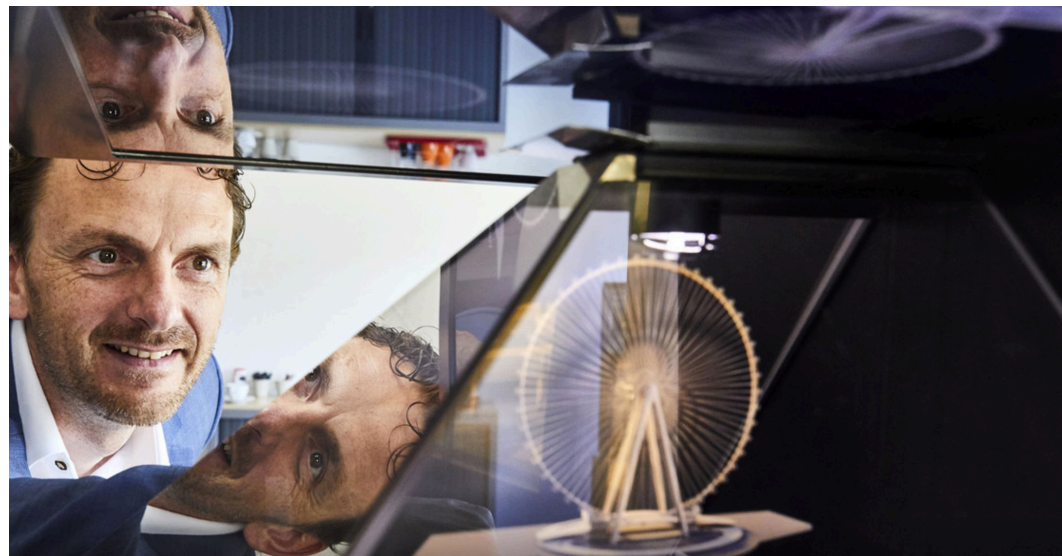
BRAND AWARENESS AND CUSTOMER CONVERSION

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".



ASTONISHING AND ENGAGING EXPERIENCES

For experience driven customer groups such as amusement parks, museums and event organizers, but also manufacturers of consumer products, Realfiction's MR platform serves as an opportunity to combine the physical and the digital world in new and ground-breaking ways.



FROM DISPLAY MANUFACTURER TO PROVIDER OF COMPLETE MR SOLUTIONS

Realfiction is repositioning the company from being a hardware provider to offering complete Mixed Reality solutions for truly magical experiences. This includes everything from the hardware (MR displays with client-specific features when needed) to the all-important 3D content and finally on-site installation and maintenance. This is an important paradigm shift that will enable the company to substantially increase its recurring revenues and thus building a stable cash flow that can be used to expand its line of leading products and solutions.



Top: Dreamoc HD3

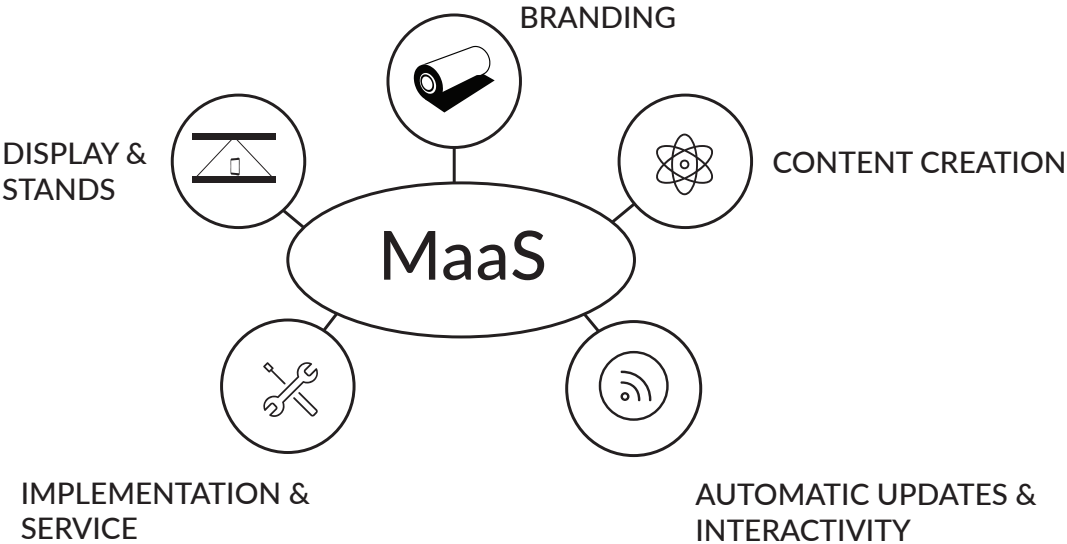
Bottom: Dreamoc XL3 at ardbeg brand activation in Holland

**NEW AND INNOVATIVE RETAIL BUSINESS MODEL
WITH FIXED MONTHLY COSTS**

With Realfiction’s repositioning from being a hardware provider to deliver complete solutions, the company has created Magic-as-a-Service (MaaS) as a new business model, targeted directly at the retail industry. By providing full turnkey solutions, retailers and brand owners can access Realfiction’s portfolio of displays in an easier and much more flexible way, eliminating the need for upfront investments or having to involve other external agencies.

As the company has recently established the first permanent MaaS placements in hypermarkets in Denmark, the new business model becomes even more attractive in the shape of a designated Mixed Reality media channel. New and existing suppliers to the hypermarkets can access this new media channel on a campaign basis, and ensure unique brand exposure to millions of customers each month. As there will be 1-3 Mixed Reality displays with adjustable placements in each hypermarket, suppliers and brand owners can essentially cut their time-to-market and deliver in-store experiences that drive attention and increase sales.

Currently, MaaS is available for the retail industry in Denmark and the Nordic countries, with a forthcoming roll-out in Germany and the UK during 2019.

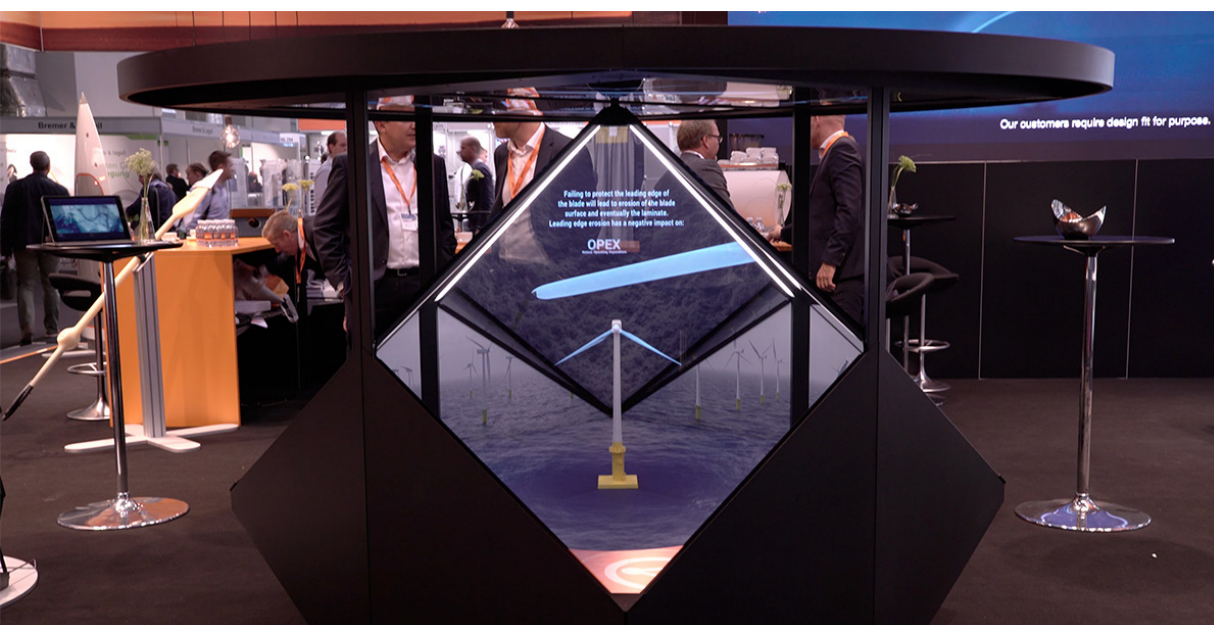




CONTINUED SALES AND RENTING VIA A WORLDWIDE NETWORK OF PARTNERS

Realfiction's global network of partners consists of more than 150 resellers and/or content developers in Europe, North and South America, Asia, Australia, the Middle East and other regions. Despite the shift in business model and go-to-market, the company will continue to offer partners the option to purchase its range of Mixed Reality displays and accessories, as well as provide access to the portfolio of displays for short-term rental purposes.

The company continues to outsource the production of the displays to third-party manufacturers, thus enabling the company to continuously adapting the production to the current demand for products in different geographical markets.



Top: Dreamoc Diamond rental at architecture fair with KingSpan
Bottom: Dreamoc Diamond at Hamburg Wind Energy fair with PolyTech



Magic-as-a-service Retail in Bilka hypermarket with KiMs



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

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 XXL3** are, as their names suggest, larger models that make it possible to create attention for really large objects, for instance at 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.





Visualising of DeepFrame in a museum

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. DeepFrame was awarded the "CES 2018 Innovation Awards Honoree" title at CES, the world's largest consumer electronics show that is held every year in Las Vegas, and has received a lot of international media attention.

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 visualization in education and research as well as in architecture, manufacturing and construction.



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

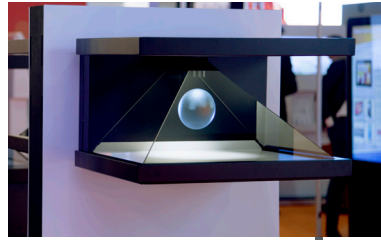
Peter Simonsen, Clas Dyrholm and Morten Corell join forces as the video design company ViZoo.



REALFICTION™

2008

In late 2007 Peter and Clas left Vizoo 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

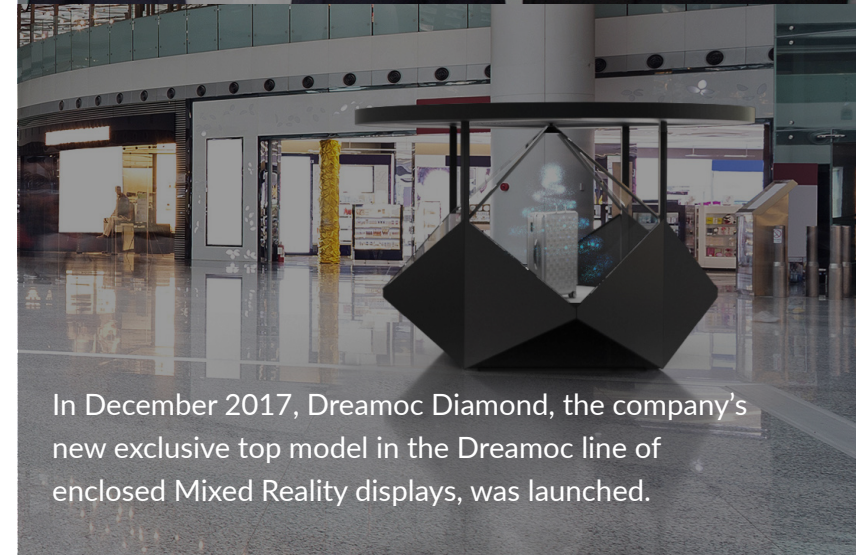
In spring 2009 Realfiction introduced the Dreamoc, an astonishing 3D retail product for high-end brands. Distribution was established through a worldwide network of partners.

2017

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



In July 2017, Realfiction was listed on the Nasdaq First North Stockholm trading platform.



In December 2017, Dreamoc Diamond, the company's new exclusive top model in the Dreamoc line of enclosed Mixed Reality displays, was launched.

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 a report by Goldman Sachs¹, 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.

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

So far, Realfiction has sold more than

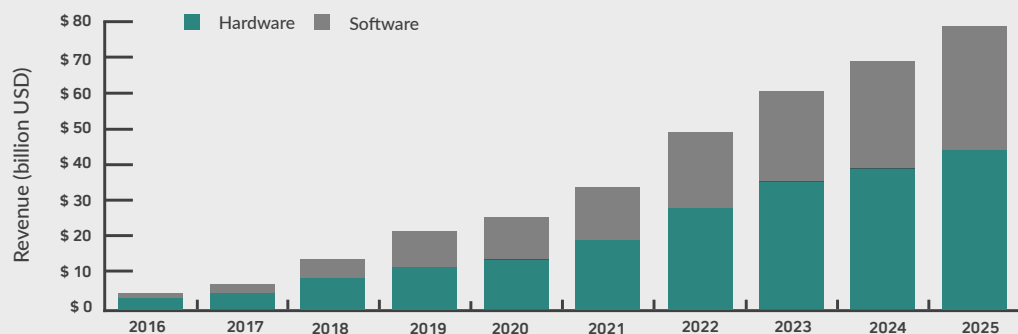
10.000

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

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

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.

Realfiction is also evaluating the consumer segment together with global manufacturers of consumer products, including its Taiwanese production partner AmTRAN. AmTRAN is one of the world's largest OEM manufacturers of LCD displays and other electronic products.



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

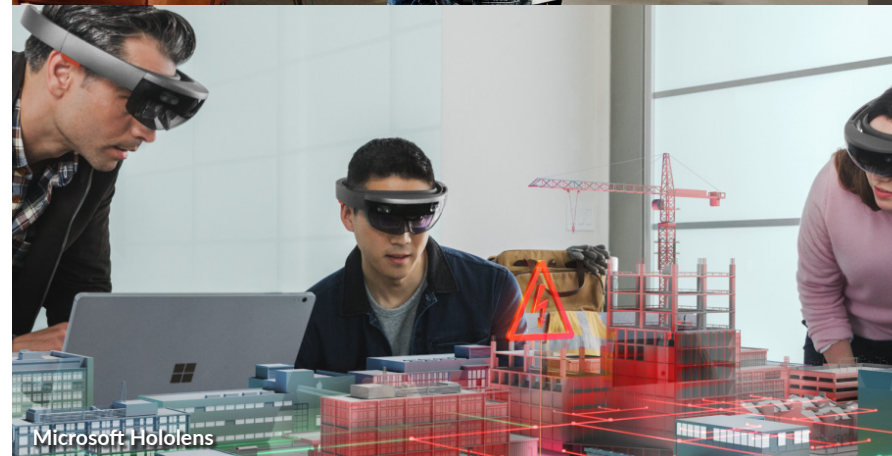


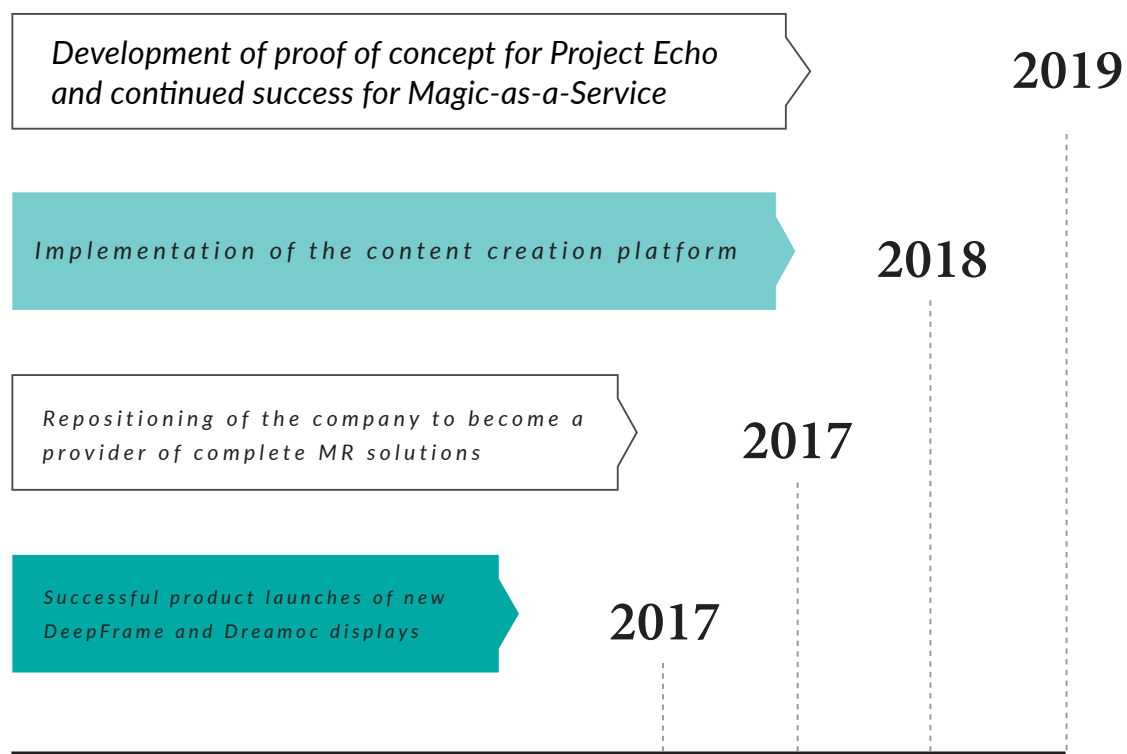
COMPETING TECHNOLOGIES AND COMPANIES

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 actors that 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 2019

If the overall MR market continues to grow strongly, the global interest and demand for Realfiction's MR solutions can be expected to increase substantially in the upcoming years. This positive outlook is strengthened by the positive tendencies shown by our new Magic-as-a-Service concept, in combination with continued sales of products through our partner network.

In 2019, we will also focus on finalizing proof of concept for Project Echo – our development of a brand new core technology for directed pixels that will enable mass production and the creation of a next-generation display standard.

Currently, Realfiction does not provide any future guidance related to number of products sold or rented, but the company expects to increase its turnover compared to 2018.



FINANCIAL REVIEW

This is an extract from parts of the official Swedish Annual Report. The official report is available at the company's website² under "Financial reports" and is called "Årsredovisning 2018 (PDF)".

Group structure & Shareholding

Realfiction Holding AB has a fully owned subsidiary, Realfiction ApS. All activities are mainly carried out in the subsidiary, after which Realfiction Holding AB's only operational activity is to own and manage the subsidiary Realfiction ApS. In addition to the above, Realfiction Holding AB does not own any shares in other companies.

Developments in figures for 2018

Realfiction ApS, the Group's operating subsidiary, started its operations in 2008. The parent company of the group, Realfiction Holding AB, was formed in April 2017. Group relationship occurred on April 28, 2017. The transaction was treated as a transaction between jointly controlled companies.

The consolidated financial statements thus take the form of merged financial statements, i.e. as if the Group was formed on 1 January, 2017. For the parent company, the 2017 comparative figures in the profit and loss statement therefore consist of approximately 8 months.

Income Statement

Group net revenue for 2018 amounted to TSEK 23,799. This is a significant increase of 46% compared to 2017. The primary part of net revenue in 2018 consists of product sales from the Dreamoc and DeepFrame category, however during the second half of 2018 sales from our MaaS concept begins.

In note 17, we present our gross profit analysis. Cost of goods sold amounts to TSEK 12,429 in 2018 compared to TSEK 8,845 in 2017. Thus our gross profit in 2018 increased

to TSEK 11,370 from 7,474 in 2017 and resulted in an increased gross profit margin in 2018 of 47.8% compared to 45.8% in 2017. The significant increase in the gross profit margin is primarily attributable to the increase in sales from our MaaS concept.

Other external costs decreased to TSEK 9,184 from TSEK 10,338 in 2017. The decrease is primarily due to decreased innovation and development expenditure in 2018 compared to 2017.

Personnel costs are at a high level in 2018 due to onboarding of sales resources and continuous investments in product and market development.

Other income consists of development grants, rent and subsidies and amounts to 1,126 in 2018 compared to TSEK 1,274 in 2017.

Group net financial costs consist of interest on the loan with Vækstfonden and the new bridge loan which is further described below. The net result for the Group in 2018 amounts to TSEK -11,923 compared to TSEK -8,729 in 2017.

Supplementary Income Statement

In note 18 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. With increasing gross profit margin from our MaaS business, and continued revenue growth, the road towards ensuring profitability from our Sales Activities is shorter than before. Realfiction will capitalize development projects that fulfill the requirements of the

2/ <https://www.realfiction.com/investor-financial-reports>

capitalization accounting principle. In 2017 and 2018, the company did not have processes in place to allow for such capitalization. In 2017 and the first part of 2018, our primary expenditures in innovation and development are within the DeepFrame and Dreamoc Diamond categories. In the last part of 2018, we launched Project Echo, which aims at inventing the holy grail of 3D experiences; freefloating holograms that require no glasses, devices or other lenses between the human eye and the effect, and where 3D object can be viewed and interacted with from different angles.

Balance Sheet

Realfiction's total assets at 31 December 2018 amounts to TSEK 20,821 compared to TSEK 26,084 at 31 December 2017. Inventory at 31 December 2018 amounts to TSEK 8,909 compared to TSEK 4,804 at 31 December 2017. The increase in inventory compared to 31 December 2017 is a result of preparing the capacity to the increased sales and rental forecast to support the new "STEPUP-2019" strategy as presented in a press release and at a webinar on 27 November.

Trade receivables remain higher than last year due to the increase in sales during Q4 2018. Other payables increased to TSEK 10,922 at 31 December 2018 compared to 2,659 at 31 December 2017. The increase is primarily due to the bridge loan obtained in the beginning of October 2018. The bridge loan carries interest and Realfiction has the option to pay the lenders in Realfiction shares. The bridge loan amounts to TSEK 6,406 at 31 December 2018.

The Group's solvency ratio at 31 December 2018 was 22.5% compared to 62.2% at 31 December 2017.

Realfiction Holding AB issued a shareholder contribution of TSEK 7,911 to wholly owned subsidiary. The premium was received place on 31 December 2018 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 Q4 2018, Realfiction rolled out our Magic-as-a-Service platform and we designated additional displays that will be rolled out as part of our Magic-as-a-Service platform in early 2019. These displays have been capitalized as tangible assets which increased to TSEK 1,707 at 31 December 2018 compared to TSEK 163 at 31 December 2017.

Liquidity and funding

Realfiction's liquidity at 31 December 2018 amounts to TSEK 5,140 compared to TSEK 17,137 at 31 December 2017. Cash flow from operating activities for 2018 amounts to TSEK -14,323 compared to TSEK -9,752 for 2017.

Cash flows from operating activities in 2018 are negatively impacted by the increase in inventory and tangible assets and continuous investments in product- and market development. The additional inventory will have a positive impact on the future cash-flows as products in inventory are gradually sold and paid.

In October 2018, Realfiction secured funding of MSEK 6.1 to allow the first part of our "STEP-UP-2019" strategy to be carried out. As such Realfiction had positive cash flow from financing activities in 2018 of TSEK 3,723 compared to TSEK 22,911 in 2017 (where 2017 was positively impacted by the IPO in May 2017).

Shareholdings 31 December 2018

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. 31

December 2018 the number of shares in Realfiction Holding AB was 11,633,135 pieces. 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 rate risk

The Group's interest rate risks are mainly connected to interest-bearing liabilities with floating interest rate, totaling TSEK 3,899 at 31 December 2018 compared to TSEK 5,386 at 31 December 2017.

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 31 DECEMBER 2018

- The company received several significant orders for its Mixed Reality solutions in the beginning of 2019. They include three Magic-as-a-Service retail campaigns in Denmark, three rental orders including usage at CES 2019 and two hardware orders covering the sale of a total of 39 smaller Dreamoc displays.
- The company received several new significant orders from customers in Europe and the United States. These orders include one DeepFrame and three Dreamoc Diamond Mixed Reality displays.
- Steen Iversen joined Realfiction as the company's Director of Advanced Display Technology. With prior positions including Technical Director and General Manager of IMAX Theatres International's European office, his new role at Realfiction will include leading the development of Realfiction's ground-breaking Mixed Reality platform Project Echo.
- It submitted patent applications for its new directional pixel technology, referred to as Project Echo. The purpose is to bring displays to market that present 3D to audiences without glasses or other lenses between the human eye and the effect, and where 3D objects become solid and can be viewed and interacted with from different angles.
- The company has established a development cooperation with Ibsen Photonics A/S and works with their optical designer M.Sc-EE, Optics, Michael Rasmussen regarding the development of Project Echo.
- The company has opened new development facilities in Copenhagen and contracted with University of Southern Denmark, NanoSYD and freelancers to gain access to leading nanophotonics and thin film electronics laboratory facilities and specialists for Project Echo
- That the company's revenue, gross profit and gross profit margin continued to grow in Q1 2019. Based on preliminary unaudited financial data, the Company expects revenue for the first quarter of 2019 will be KDKK 5,033 (KSEK 7,024). Compared to the average revenue of the previous 4 quarters, this represents an increase of 17% from KDKK 4,304.
- To further accelerate its growth, the Company has carried out a Public Issue of 17.5 MSEK and a directed Issue of up to 7 MSEK. The subscription leads to an increase in the number of shares from 11,633,135 to 14,057,908.

Multiple year overview (TSEK)

Group	2018	2017	2016*
Net revenue	23,799	16,319	19,640
Result after financial items	- 12,733	- 10,226	- 4,075
Total Balance Sheet	20,821	26,084	14,089
Solvency ratio** (%)	22.5	62.2	3.6
Average number of employees	15	12	10
Gross profit ^{1) ***}	11,370	7,474	9,030
Gross profit margin (%) ****	47.8	45.8	46.0
Earnings per share (SEK) *****	- 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	2018	2017*
Net revenue	600	0
Result after financial costs	- 1,203	- 702
Total Balance Sheet	30,734	25,000
Solvency ratio (%)	77.1	99.6
Average number of employees	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 2018.

Name	Number of shares	Ownership (in %)
Ceranco Equity S.C.S ¹	3,195,747	27.47
Clape Holding ApS ²	2,875,000	24.71
AmTRAN Technology Co. Ltd.	1,308,838	11.25
Nordnet Pensionsförsäkring AB (custodian)	798,046	6.86
Other shareholders (more than 950)	3,455,504	29.71
Totalt	11,633,135	100.0

1. Ceranco Equity S.C.S is an investment company with private investors, with board member Søren Jonas Bruun as its general partner and main owner of the associate management company.
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:

balanced earnings	0
share premium reserve	23,740,450
loss for the year	- 1,203,839
	22,536,611

The board proposes to:

The loss of the year is offset against the share

premium reserve	- 1,203,839
Thereby adding to the share premium reserve	22,536,611

PROFIT AND LOSS

SEK '000		Group	
	Note	2018	2017
Operating income			
Net sales		23,799	16,319
Other income		1,126	1,274
Total operating income		24,925	17,593
Operating expenses			
Cost of goods sold		- 12,429	- 8,845
Other external costs		- 9,184	- 10,338
Personnel costs		- 14,768	- 8,351
Depreciation of tangible and non-tangible assets		- 290	- 18
Total operating expenses		- 36,671	-27,552
OPERATING PROFIT/LOSS	17 & 18	- 11,746	- 9,959
Result from financial investments			
Other interest income and similar profit/loss items		219	363
Interest costs and similar profit/loss items		- 1,206	- 630
Total financial items		- 987	- 267
RESULT AFTER FINANCIAL ITEMS		- 12,733	- 10,226
Tax for result of the year		940	1,497
RESULT OF THE YEAR		- 11,793	- 8,729

BALANCE SHEET

SEK '000	Group	
	31-12-2018	31-12-2017
ASSETS		
Fixed assets		
Tangible fixed assets		
Fixtures, tools and installations	1,707	163
Total tangible fixed assets	1,707	163
Financial fixed assets		
Other long-term receivables	317	237
Total financial fixed assets	317	237
TOTAL FIXED ASSETS	2,024	400
Current assets		
Inventories etc.		
Finished products and goods for sale	8,909	4,804
Total inventories etc.	8,909	4,804
Short-term receivables		
Trade receivables	1,551	460
Current tax receivables	939	866
Other receivables	648	1,477
Prepaid expenses	1,610	940
Total short-term receivables	4,748	3,743
Cash and bank	5,140	17,137
TOTAL CURRENT ASSETS	18,797	25,684
TOTAL ASSETS	20,821	26,084

SEK '000	Group	
	31-12-2018	31-12-2017
EQUITY AND LIABILITIES		
Equity		
Share capital	1,163	1,163
Other received capital	23,952	23,952
Other equity incl. the result of the period	- 20,435	- 8,892
TOTAL EQUITY	4,680	16,223
Long-term liabilities		
Liabilities to credit institutions	2,051	3,799
TOTAL LONG-TERM LIABILITIES	2,051	3,799
Short-term liabilities		
Liabilities to credit institutions	1,848	1,587
Accounts payable	1,320	1,816
Other liabilities	10,922	2,659
TOTAL SHORT-TERM LIABILITIES	14,090	6,062
TOTAL EQUITY AND LIABILITIES	20,821	26,084

CHANGES IN EQUITY

Group

SEK '000	Share capital	Other contributed capital	Other own capital incl profit for the year	Total amount equity
Amount at the beginning of the year 01-01-2017	448	0	61	509
Registration through issue for non-cash consideration	802	198	0	1,000
Result of transaction between legal entities under common control	- 448	- 491	- 61	- 1,000
Share issues	361	27,047	0	27,408
Share issue costs	0	- 2,802	0	- 2,802
Foreign exchange difference for the year	0	0	- 163	- 163
Result for the year	0	0	- 8,729	- 8,729
Amount at the end of the year 31-12-2017	1,163	23,952	- 8,892	16,223
Foreign exchange for the year	0	0	250	250
Result for the year	0	0	- 11,793	- 11,793
Amount at the end of the year 31-12-2018	1,163	1,163	- 20,435	4,680

The number of shares amounts to 11,633,135 pieces and the quota value is 0.10 SEK/share.

The company has 1,237,929 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 2.33 SEK.

CASH FLOW ANALYSIS

SEK '000	Group	
	2018	2017
Operating activities		
Operating result	- 11,746	- 9,959
Adjustment for non-cash flow items	290	- 60
Received interest	218	363
Payed interest	- 1,298	- 630
Received tax	903	1,833
Cash flow from operating activities before changes in operating capital	- 11,632	- 8,453
Cash flow from changes in operating capital		
Decrease(+)/increase(-) in inventory	- 3,940	2,176
Decrease(+)/increase(-) in current receivables	- 133	- 1,197
Decrease(+)/increase(-) in current liabilities	1,382	- 2,278
Cash flow from operating activities	- 14,323	- 9,752
Investment activities		
Purchase of tangible fixed assets	- 1,831	- 181
Purchase of financial assets	- 70	0
Cash flow from investment activities	- 1,901	- 181
Financing activities		
Amortization of financial liabilities	- 1,724	- 1,685
Share issue	0	24,596
Bridgeloan	5,447	0
Cash flow from financing activities	3,723	22,911
Cash flow for the year	-12,501	12,978
Cash and cash equivalents at the beginning of the year	17,137	4,159
Foreign exchange difference in cash and cash equivalents	504	0
Cash and cash equivalents at the end of the year	5,140	17,137

Note 17 Gross profit analysis

	Group	
	2018	2017
Net revenue	23,799	16,319
Cost of goods sold	- 12,429	- 8,845
Gross profit	11,370	7,474
Other external costs	- 9,184	- 10,338
Personnel costs	- 14,768	- 8,351
Depreciation of tangible fixed assets	- 290	- 18
Other income and expenses	1,126	1,274
OPERATING RESULT	- 11,746	- 9,959

Note 18 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

	Not	2018	2017
Gross profit	17	11,370	7,474
Other external costs		- 7,750	- 8,279
Personnel costs		- 12,026	- 6,203
Depreciation of tangible fixed assets		- 290	- 18
Other income and expenses		315	536
Operating result		- 8,381	- 6,490

Innovation & Development Activities

	2018	2017
Other external costs	- 1,434	- 2,059
Personnel costs	- 2,742	- 2,148
Other income and expenses	811	738
Operating result	- 3,365	- 3,469



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