



# G5<sup>®</sup> GAMES

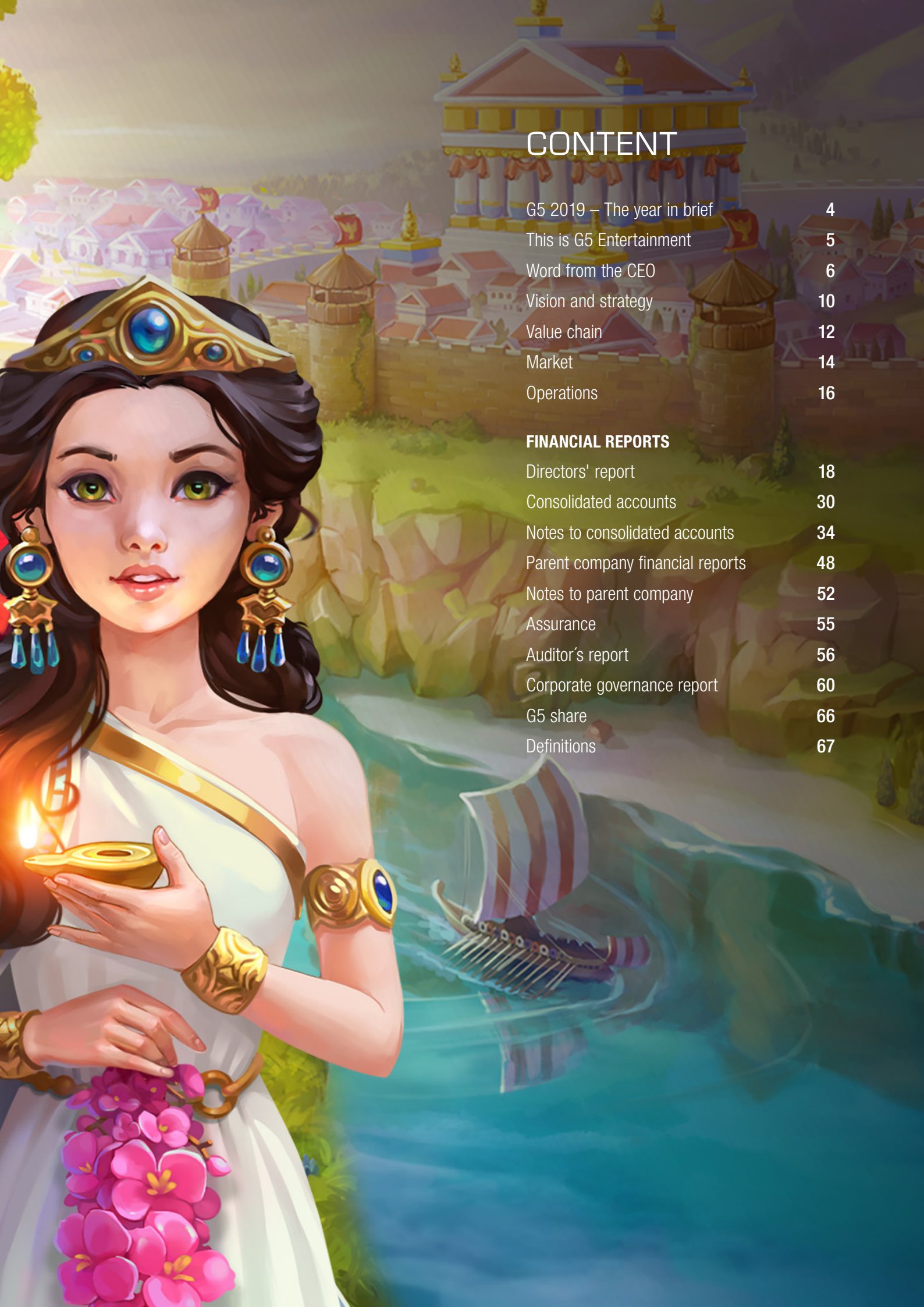
**G5 ENTERTAINMENT AB**

REG.NR: 556680-8878

ANNUAL REPORT 2019



The Annual Report is prepared in Swedish and translated into English. Should differences occur between the Swedish Annual Report and the English translation, the Swedish version shall prevail.



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## G5 2019 – THE YEAR IN BRIEF

### 1,2 BILLION

Revenue for the period (SEK)

### 52 MILLION

Operating profit for the period (SEK)

- ▶ Consolidated revenue was SEK 1,233 M (1,450), a decrease of 15 per cent compared to 2018
- ▶ EBIT for the year was SEK 51.8 M (143.4), a decrease of 64 per cent compared to 2018
- ▶ Net result was SEK 45.0 M (128.8)
- ▶ Earnings per share before dilution was SEK 5.01 (14.45) and after dilution SEK 4.97 (14.24)
- ▶ Cash flow before financing activities was SEK 44.2 M (74.7).

## G5 IN NUMBERS

### FINANCIAL KEY RATIOS, KSEK

	2019	2018	Change %
Revenue	1,233,039	1,450,025	-15%
Commission to distributors	-375,304	-440,378	-15%
Royalty to external developers	-157,740	-262,671	-40%
<b>Gross profit</b>	<b>699,995</b>	<b>746,976</b>	<b>-6%</b>
Gross margin	57%	52%	
Operating costs excluding costs for user acquisition	-292,216	-225,952	29%
<b>EBIT excluding costs for user acquisition</b>	<b>407,779</b>	<b>521,024</b>	<b>-22%</b>
EBIT margin before costs for user acquisition	33%	36%	
Costs for user acquisition	-355,962	-377,576	-6%
Costs for user acquisition as a percentage of revenue	-29%	-26%	
<b>EBIT</b>	<b>51,817</b>	<b>143,448</b>	<b>-64%</b>
EBIT margin (%)	4.2%	9.9%	
Earnings per share before dilution	5.01	14.45	-65%
Cash flow before financing activities	44,222	74,703	
Cash and cash equivalents	152,268	138,531	

F2P	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
DAU (mn) <sup>1</sup>	1.6	1.6	1.7	1.8	2.0	2.0	2.1	2.2
MAU (mn) <sup>1</sup>	5.8	6.2	6.3	6.9	8.2	8.0	8.2	8.9
MUP (thousands) <sup>1</sup>	215.7	222.7	221.7	248.8	275.4	286.1	321.5	337.8
MAGRPPU (USD) <sup>1</sup>	52.3	45.8	46.5	44.3	44.7	44.2	46.2	44.3

<sup>1</sup>For more information regarding the operational metrics, see the glossary on page 67.

## THIS IS G5 ENTERTAINMENT

G5 Entertainment AB (G5) is a developer and publisher of free-to-play games, F2P, that are mostly played on smartphones and tablets. In 2019, G5 generated revenues of SEK 1,233 million and EBIT of SEK 52 million. Geographically, G5's most important markets are the US and Asia which combined accounted for 78 per cent of group revenues in 2019.

The company, which is listed on Nasdaq OMX since June 2014, is headquartered in Stockholm and had 628 employees at the end of 2019. The division responsible for intellectual property rights, creative processes and game licensing is located in Malta, while development offices and studios are situated in Moscow and Kaliningrad in Russia and Kharkiv and Lviv in Ukraine. G5 also has a marketing office in San Francisco, USA.

Mobile games are the fastest growing segment of the overall gaming market. The mobile games market is, according to consulting firm NEWZOO, expected to grow by about 12 per cent annually from USD 68 billion in 2019 to more than USD 95 billion in 2022. The number of players worldwide today stands at 2.3 billion, a figure which is expected to rise to 2.7 billion by 2020.

G5's games target the "casual player" segment, which is a rapidly growing market. The main target group is predominantly made up of female players over 35 years of age. The company's mobile games portfolio contains 20 F2P-games, the category which dominates the mobile games market.

G5 primarily offers proprietary games but also publishes games licensed from other developers. The company's games are available for iOS, Android, Kindle Fire and Windows platforms and to a certain extent Facebook. They are distributed to customers through Apple App Store, Google Play, Microsoft Store and Amazon Appstore.

### G5's employees and offices



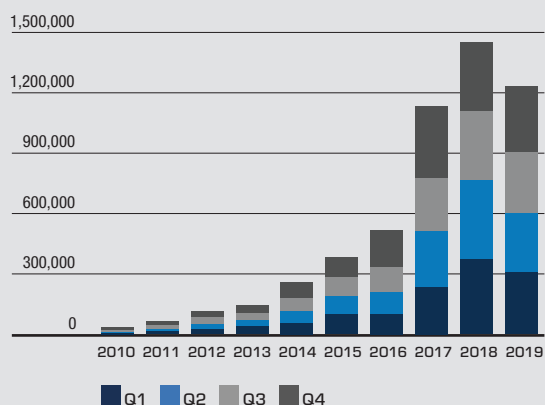
WORD FROM THE CEO:

# PRIMED FOR GROWTH

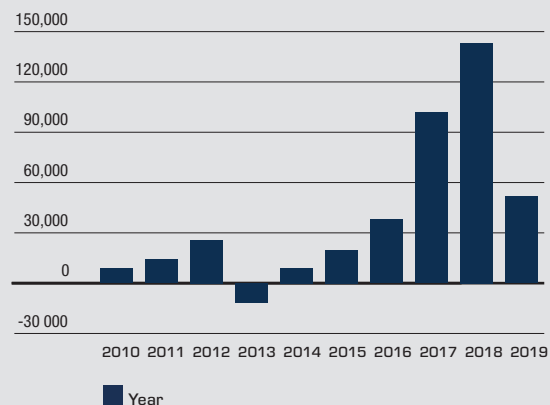


2019 was an important year for G5 as we continued to deliver on our strategy of a sustainable, healthy, and self-funded development of the company. We achieved it by being profitable and cash flow positive, a base that gives us the ability to take managed risks in the business. This approach has produced the outstanding growth we have seen in the last ten years.

Revenue 2010-2019 (KSEK)



EBIT (KSEK)



We are a growth company at heart, and our investments in past quarters to develop a range of new exciting games put us in a solid position to thrive in the long term. We released five new games in 2019 and we plan to release five new games in 2020. Our investments and hard work are paying off, making us optimistic for the year ahead.

We made the decision to start expanding our development team in 2017 with the goal to invest in our own portfolio of new games and raise the bar of quality. We were fully aware of the investment and effort it would take. We knew we could afford it and that strategically it was the right move. In 2019, we started to see the results of this investment. The share of own games continues to increase, and we see a strong pace of growth for them.

Since launch, Jewels of Rome has continued to grow in popularity. In the fourth quarter, it was responsible for well over ten percent of the group’s revenue. In January 2020, its contribution to the group’s revenue was already above 15 percent, and it has already achieved higher monthly revenue than Mahjong Journey – our previous most successful internally developed game – ever delivered. On a monthly basis, Jewels of Rome is the highest grossing internally-developed game we have ever had.

Hidden City, a licensed game on which we pay royalties, is still our top game by monthly revenue and remains stable and strong. The developers are doing a great job and are focused on evolving the game to keep players engaged.

**DELIVERING ON THE PIPELINE**

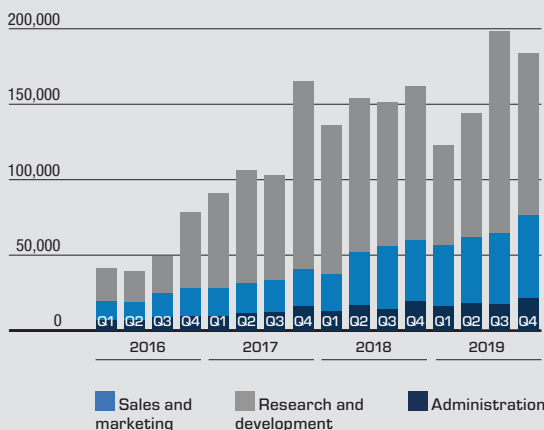
G5 launched five new games in 2019: Match Town Makeover, Jewels of Rome, Hidden Treasures, Wordplay: Exercise Your

Brain, and Jewels of Mahjong. The soft launch showed that Match Town Makeover required more work, but I am glad to announce that the game will be published globally shortly. Hidden Treasures, Jewels of Mahjong and Wordplay: Exercise Your Brain were all released in the fourth quarter and all games are now launched globally on multiple platforms. They are showing good results and are demonstrating the potential to be profitable products. These launches show the breadth of the offering we provide to our players: Hidden Treasures is a new mix between hidden object and Match-3 genres, while Jewels of Mahjong is a game in the evergreen mahjong solitaire genre where we also have Mahjong Journey, one of our top-sellers and one of the top-grossing games in this genre in the world. In addition to that, Wordplay: Exercise Your Brain takes us into a whole new popular genre. In addition to the work going into these titles, in the first quarter of 2020 we have also released Jewels of The Wild West, our latest free-to-play Match-3 puzzle. Jewels of the Wild West builds on the success of Jewels of Rome but is set in a run-down city in the Old West which needs to be rebuilt. The game was launched globally and has demonstrated very good potential to be another big success for the company, like Jewels of Rome.

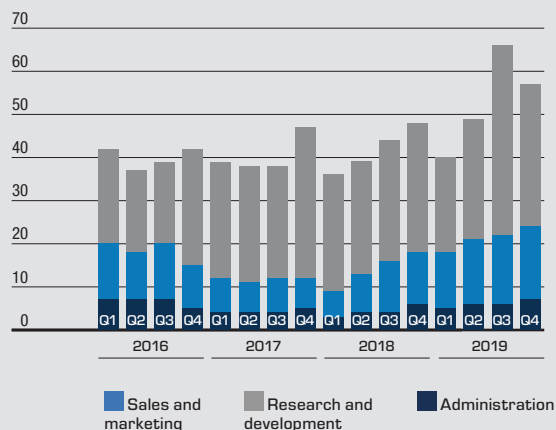
As I said, most of these games were released late in 2019. The initial traction for these games looks favorable and we expect to see their contribution to the top line go up during 2020.

Jewels of Rome stands out among our releases due to a combination of a strong development team, outstanding player lifetime value, effective marketing strategy and a robust pace of growth to date. It makes us optimistic that monthly revenue of the game can continue growing during 2020 and potentially achieve significantly higher levels.

**Costs (KSEK)**



**Costs as a % of revenue (KSEK)**



“Everything points to continued success for our own games, but we understand growing needs to be done responsibly.”

The market for Match-3 genre games to which *Jewels of Rome* belongs is very large, much larger than that of hidden object games, and therefore the potential positive impact for the company can be outstanding.

Everything points to continued success for our own games, but we understand growing needs to be done responsibly. We are conscious of how we spend our money both in user acquisition and development and are increasingly tougher on underperforming games. We will even halt investment in a game if we feel the money and - more importantly - time and focus, would be more wisely spent on other opportunities. An example of this tougher approach is our *Solitaire Tour* game. We stopped investing in the game and put it into harvest mode in the fourth quarter. We'll continue to prune our portfolio going forward and put the money to work where we think we can get the best return.

G5 is financially strong and has the ability to develop, release and market games, while also returning excess cash to shareholders. The board plans to propose a dividend of SEK 2.50 per share, in line with last year. The dividend corresponds to around 50 percent of net profit for the year. During the first quarter we also announced, and started, buying back own shares.

## OUTLOOK FOR 2020

We plan to return to year-over-year growth in 2020, while maintaining profitability and a positive cash flow. Stating the obvious, the comparables are getting easier on the top-line side, as we have established a new base during 2019. Thanks to the launch of our new games and the additional four new releases planned for this year we are well positioned for future growth.

Our investments in the workforce has put pressure on short-term margins due to increased fixed costs. This pressure is going to ease with the growth in revenue generated by the games released late 2019 and those that we will release in the beginning of 2020. Our margins will also improve as our new games, which are more profitable for us since we don't have to pay royalties, continue to gain traction with customers, and the percentage of revenue from own games continues to grow, improving our gross margins.

We are also committed to responsible, reasonable, and efficient marketing in 2020 to deliver growth and a positive profit margin. During the latter part of 2019 and in the beginning of 2020, we have been working very hard on the staffing, tools

and processes surrounding user acquisition. Our marketing in 2020 has so far been more effective than in 2019 thanks to the efforts made.

We are determined to deliver a profitable Q1. We have maintained a high activity level in development, we have a stable foundation to stand on from the existing portfolio and we have improved our marketing efforts. These are three things that we carry with us for the rest of the year and we hope that with own games taking off even more, profit margin expansion is possible. The result depends on how well own games perform in 2020, as they allow for higher gross margins than before and through that for higher EBIT margin than before.

The COVID-19 virus has impacted millions around the world. Our thoughts go out to all of you as we all scramble to find our way back to the lives we had before the pandemic hit. We have noticed many more are turning to the G5 Friends network to link up with fellow gamers and our games are in higher demand ever since lock downs have been instituted around the world. G5 is doing its best to be there for players who want a place to find a few minutes of fun and slip away from reality.

We are closely following the advice set by governments and public health authorities and have implemented suggested health and safety measures to help protect our employees, such as working remotely as much as possible. G5 remains fully operational and committed to maintaining our services and support without disruption.

I want to take this opportunity to thank our committed and hard-working employees for all the great work put down during 2019. We have an exciting time ahead as we continue to execute on our strategy. 2020 will be an exciting year for us with so many new games recently released and others set to hit the market soon. In previous years we have laid the foundation for the future by building our larger development teams with the top talent, and starting many new exciting games for our audience. We now see these games come out of that effort and in 2020 we will start to benefit from the hard work we did over many years. With more of our own games on the way to the market, G5 is in a strong position to capitalize on the growth of the audience of mobile games worldwide and to thrive in 2020. I hope you follow us and watch our progress.

**Vlad Suglobov**  
CEO, co-founder





PLAY  
A PART  
TOGETHER



## VISION AND STRATEGY

# FROM ONE OF MANY TO ONE OF FEW

G5 aims to go from “one of many” developers and publishers of free-to-play games for smartphones and tablets to “one of few”. To achieve this the company shall deliver above market growth through adhering to the following four strategic guidelines that have been established.

- ▶ G5 shall continue to focus on its core audience of women 35+, maximizing the knowledge about its audience and using it to bring new products to the market.
- ▶ G5’s customers, the players, shall be offered top quality content in our games, existing and new.
- ▶ G5 shall exceed market growth through smart marketing, by maintaining the engagement of existing customers and winning new players.
- ▶ G5 shall, in a responsible way, venture into new and adjacent genres and target groups.

### G5 TARGET GROUPS AND GENRES

G5’s main target group is women aged 35 and over. In G5’s more popular games women account for around 70 percent of the users.

G5 Entertainment has a clear focus in relation to game genres and target groups. The games that are developed and published can generally be referred to as puzzle games. The G5 games are in the four genres Hidden Object, Match-3, Solitaire/Match-2 and Word games. They are adventure or casual games where the player progresses by solving puzzles and finding clues.

### FOCUS ON F2P-GAMES

G5 exclusively makes F2P games. This type of game can be continuously updated throughout the game’s life cycle. This increases G5’s ability to retain players during a longer time period which renders these games a significantly greater earning capacity than other game types.

### USER ACQUISITION

G5 is actively acquiring new players through marketing, so called user acquisition (UA). This is an important part of the business model for F2P-games and the company invests a significant share of the revenues in user acquisition. G5 has developed a profound knowledge about its player types, its target group and how to reach these. It also uses advanced analytical tools to secure a healthy return and payback time on marketing investments.

The purpose is to create a larger user base which can provide higher long-term earnings, if not immediately during the subsequent quarter, then after an additional one or two quarters, when revenues have had time to catch up with spending. Through analytical tools the company can track spending with good precision and make sure that the right kind of players are attracted.

Because players keep playing the games for a long period of time and are monetized only gradually, the profit margin is affected in the short term when the company decides to substantially increase spending on UA and hold it at the new level, while the revenue increases gradually. Over time profitability grows in the following quarters, and then in relation to a larger revenue.

A broad user base is also an asset that the company can benefit from in the coming launches in order to attract existing players to try new games.

### RETENTION AND EARNINGS POTENTIAL

G5 has one of the largest mobile games portfolios in its niche and target group. Only a few other established players are consistently targeting the company’s main target group and create games with a similar structure to G5’s most successful products. The company’s continued success will depend on its ability to continue offering existing and new customers the best and most engaging experiences. At the same time, those games that are launched must possess enough earnings potential. This means that the company needs to continue to produce and/or license successful games, and that the company’s development over time will depend on its ability to do that.

# G5'S SUCCESS FACTORS



## 1. PLAYERS

- Main audience women 35+
- Loyal and repeat buyers
- Growing demography

### DEFINED TARGET GROUP

G5 focuses on games for women over the age of 35, a globally growing and financially strong target group that is loyal to their games and where G5 is one of the leading players in the market in its niche. Mobile gaming platforms have opened up gaming for the company's target group and women account for a growing share of the active players on mobile gaming platforms, more and more reports show that women account for almost 50% of the number of players. In G5's successful titles women account for 70% of the active audience.



## 2. GAME GENRE EXPERTISE

- Hidden object
- Solitaire/Match-2
- Match 3
- Word games
- Gradual genre expansion

### EXTENSIVE PORTFOLIO

G5 has a number of F2P games that are attractive to large numbers of players in the target group. The company focuses on games in the genres Hidden Object, Mahjong Solitaire Match-3 and Word games, all popular in G5's target group.

### FOCUSED ACTIVITIES

G5 focuses on F2P games that are accessible, do not require upfront payment and provide a longer gaming experience. This allows players to become involved and continue playing for a longer period, which increases the game's earning capacity.



## 3. DEVELOPMENT

- Analytics and Analytical approach
- World class development talent

### PROPRIETARY PLATFORM

The G5 has the capacity for quality assurance, customer support, sales, marketing and user acquisition, as well as cross-selling between games.

### OWN UA TEAM

G5 has built up its own organization for user acquisition, which concentrates on different types of campaigns to increase the number of users, and thereby also enhancing earnings in the long term. The company has also developed a powerful platform for analytics to evaluate the investments in marketing.

### EFFICIENT CHANNELS

G5's games reach the end user through global distributors such as Apple App Store, Google Play, Amazon Appstore, Microsoft Windows Store, and Facebook.



## 4. MARKETING

- G5 Brand
- User acquisition
- Distribution

### IN-HOUSE DEVELOPMENT

G5's gaming portfolio is based on proprietary and licensed games. Over a number of years G5 has strived to increase the proportion of revenue generated by its own games. In 2019 five new games were released and an additional five games are in production for release in 2020. One of the launches in 2019 was the game Jewels of Rome which quickly became the 2nd largest game in terms of monthly revenue in the portfolio.

### OWN STUDIOS

G5 has built and expanded studios in Russia and Ukraine over many years, both strong regions for game development and outsourcing of development services. To have game development activities in these countries amounts to a cost advantage in addition to access to world class talent.

### OWN ANALYTICAL TOOLS

G5 has an analytics platform that delivers real-time insight into player behavior and how earnings can be improved.

VALUE CHAIN

G5'S VALUE CHAIN

DEVELOPMENT

G5 strives to produce the best games in the genres where it is active. G5 develops and renews its game portfolio mostly through in-house game development but also, in carefully selected situations, through licensing of games from independent game developers. For its in-house development, the company seeks to employ the most talented individuals and pays a lot of attention to the quality and detail in the games.

The combination of own development, where the margins are higher, and licensing, where G5 can test new games and broaden the offering with limited risk, gives G5 a good portfolio balance. The model also reduces the dependence on individual game titles.

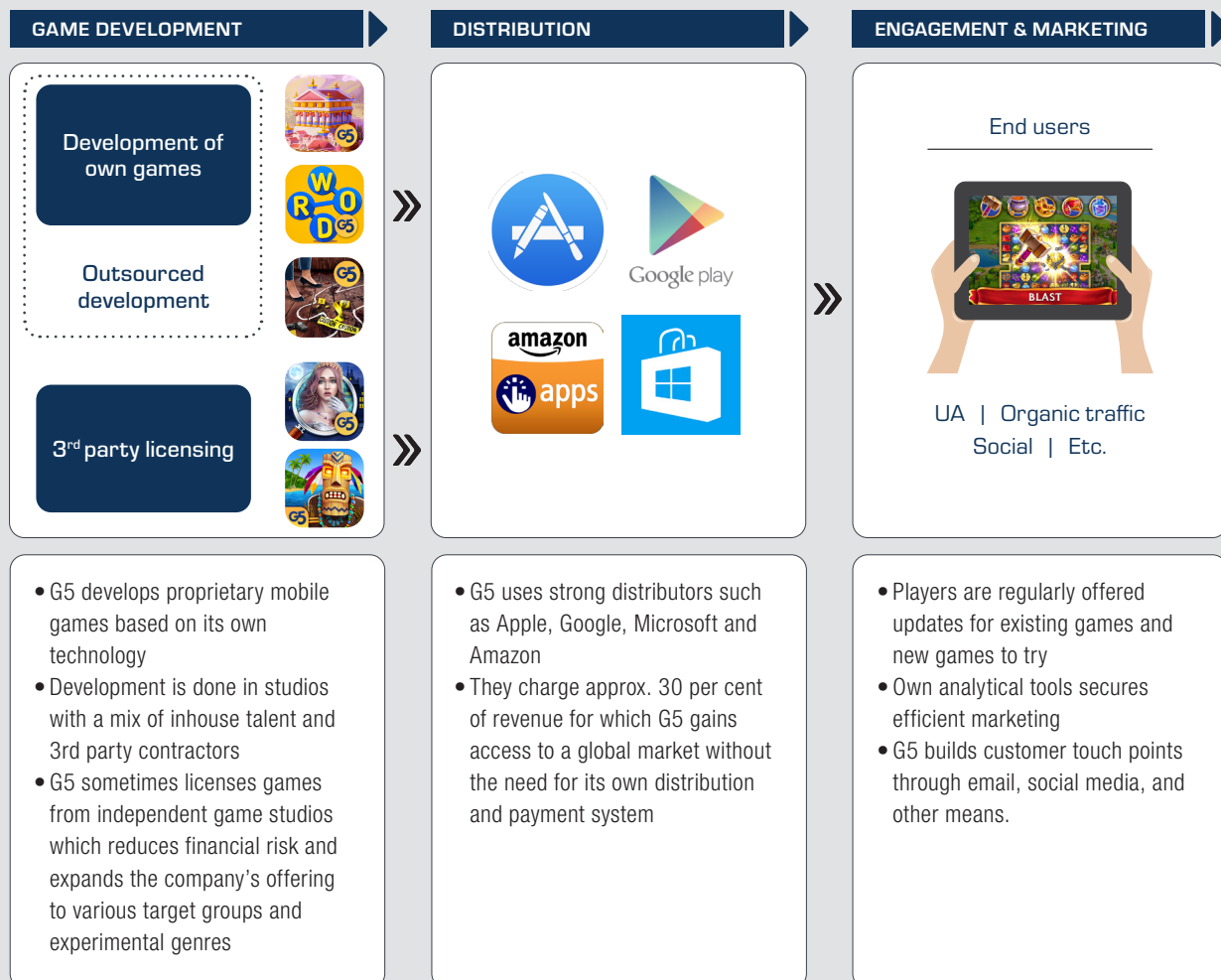
The contractual agreements for the licensed games vary but the starting point is usually an even split of game revenues between the developer and G5.

DISTRIBUTION AND PLATFORMS

G5 distributes its own games and the licensed games through a handful of strong and established application stores such as the Apple App Store, Google Play, Amazon Appstore and Microsoft Windows Store. Through these stores G5 makes the games available to the global market without the need to build its own distribution network and payment system to run its business. G5 usually pays 30 per cent of the revenues from each game to the app stores that are responsible for distribution, operations and payment processing. In addition, the stores also provide a source for organic traffic through the exposure of the games to the top charts, search tools and occasional promotion of the best games.

G5's games are adapted to smartphones and tablets with most screen dimensions being supported. The trend towards larger screen sizes on smartphones favors G5 as the gaming

Value chain



experience in G5's core genres typically benefits from a larger screen. This trend contributed to the company's success in the last years as it clearly correlates with higher in-game spending.

### ENGAGEMENT AND ANALYSIS

G5's customers constantly seek new gaming challenges and G5 therefore carefully analyzes the players' behavior through a comprehensive computer-based data analysis, both via the proprietary analytics platform and through the data coming in through the distribution channels. The results are used to further develop existing F2P games through continuous updates that in various ways improve the games. Such updates are often carried out monthly. The goal is to maximize the player interest and commitment so that they continue playing for a long time and are positively inclined to new products that G5 launched.

The analytical approach also contributes to securing returns from user acquisition, and optimizing the games' earnings capacity.

Players in G5's games are also motivated to engage with G5 through email newsletters and social media which creates important customer touch points for the company.

### THE OPTIMAL LIFE CYCLE

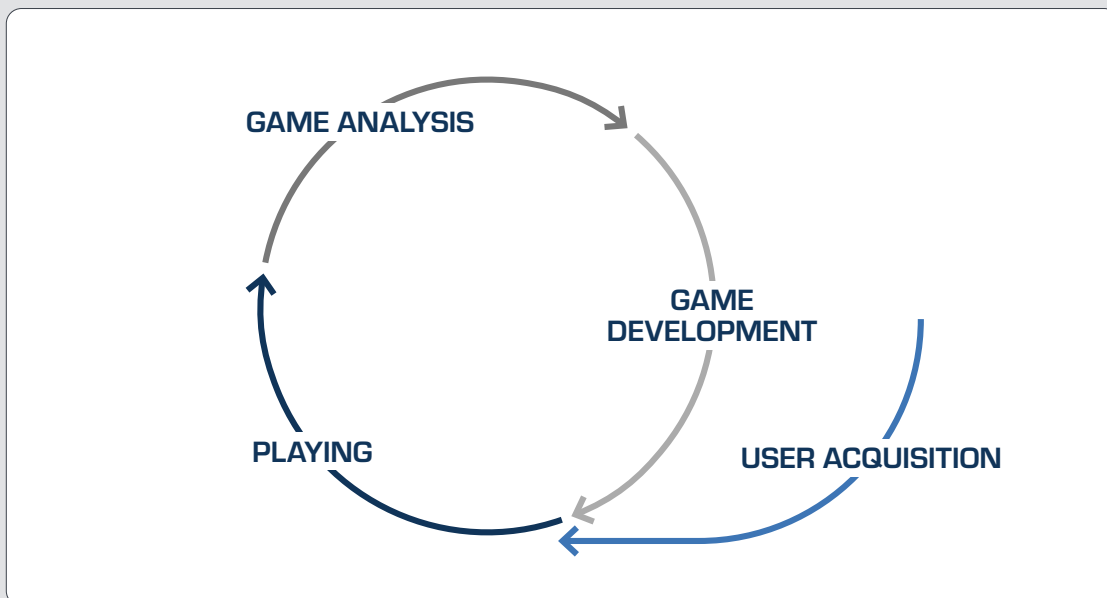
When G5 launches a new game, it takes the form of a so called soft launch where the game is tested against the market, only in one or two specific countries. The soft launch can be completed within months but is usually done over at least six months.

During the soft launch, as well as during the entire lifetime of the game, a large number of KPIs in the game are analyzed.

The KPIs all contribute to improve the games earnings capacity after which it can be compared to the investments required in user acquisitions, UA, and if UA then is profitable within the company's set return requirements. During the soft launch there is also more content added to the game. These steps are then repeated after the soft launch where G5 continuously adjusts the game to achieve an optimal performance. A game that is too easy, or which does not have a sufficiently exciting plot, does not normally reach the earnings requirements.

Similarly, a game that is perceived as too difficult makes players leave which in turn needs to be adjusted. These processes are ongoing throughout the game's lifecycle, which can last for many years. The goal is to extend the lifecycle of the game for as long as possible and to make sure that if players are about to leave the game, they would have had a such a positive experience that they would try another game by G5.

## The game cycle



During a game's lifetime G5 acquires users through marketing, which combined with organic traffic and cross-selling between games creates the user base that plays a specific game. During the game's lifetime G5 continuously tracks and analyzes how the players act in the game. Based on the analysis, G5 evolves the game by adapting the difficulty level and adding new features in the game. The goal is to keep the players in the game as long as possible and to strengthen the game's earnings capabilities.

MARKET

# GLOBAL TRENDS SUPPORT G5'S GROWTH

Both G5 as a company and G5's market have expanded significantly in recent years. Behind the expansion are a number of strong drivers in the form of technological progress and global trends in terms of demography and growing affluence. The technology allows advanced games on mobile platforms and a large and growing group of people have the interest, time and money to spend on mobile games.

**TECHNOLOGY**

The biggest growth driver has been the global spread of mobile phones together with an accelerating trend of players abandoning regular phones and computers for the benefit of smartphones and tablets. The quick development in both software and hardware has enabled the use of advanced graphics and the handling of large amounts of data on mobile devices, something that has made the games increasingly advanced and of high quality. Bigger screens with ever-better resolution improves the gaming experience and contributes to increased usage.

As more people use smartphones and tablets G5's potential user base is constantly increasing and widening. Today, playing games is the most popular activity associated with smartphones, and it is mobile games that constitute the fastest growing segment in the gaming market.

**TIME TO PLAY**

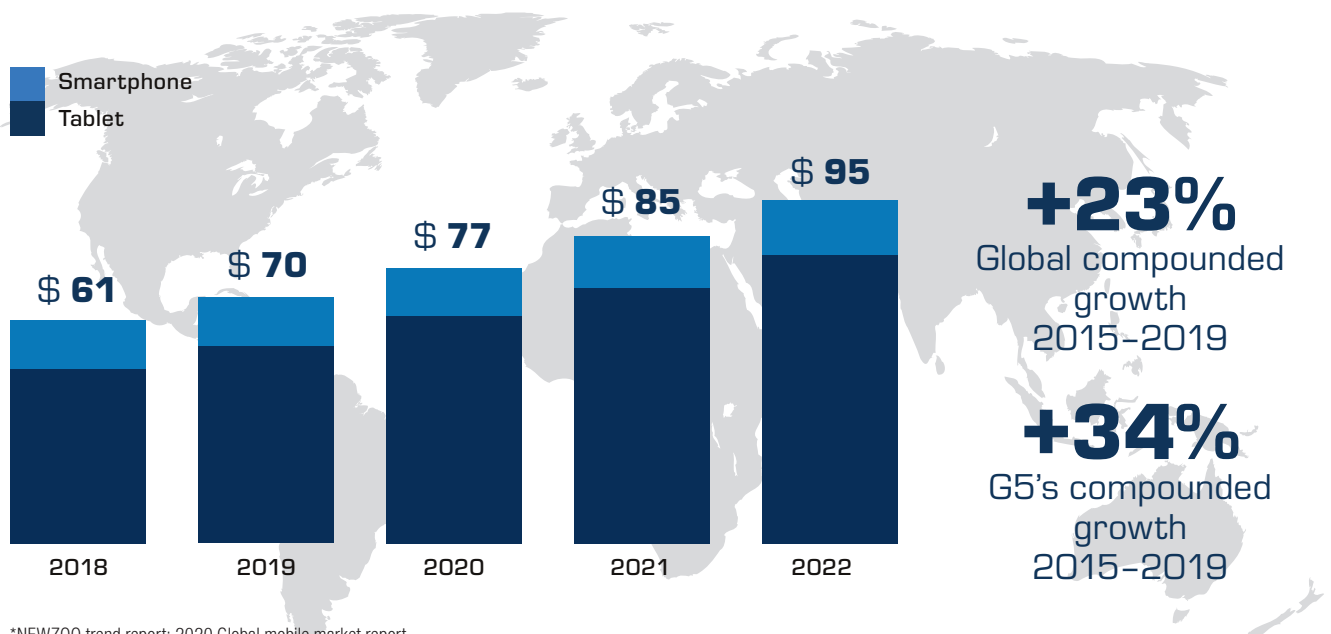
As the number of smartphones and tablets increases, an ever-improving gaming experience together with the opportunity to play anywhere, anytime, made users play only on mobile devices or in addition to traditional gaming platforms. Casual games of the type that G5 offers contribute to an increasing player base, because they are games that are easy to begin playing and they appeal to a wide target group, both in gender and age.

The average time each player spends on playing games continues to increase. According to the analysis firm com-Score, over 40 per cent of the total time that users of iOS and Android devices dedicate to their smartphones or tablets is devoted to games. Revenues from different types of mobile games are expected, according to consultancy firm NEWZOO, to increase from USD 62 billion in 2018 to over USD 95.4 billion by 2022.

**DEMOGRAPHY**

G5's games are aimed at a wide range of players but are popular in the segment of female players over 35 years. As early as 2009, G5 saw that this market segment was underserved by the gaming industry and therefore began to develop and publish games targeting this group. Only a few established

Worldwide revenue from mobile games, USD bn



\*NEWZOO trend report: 2020 Global mobile market report

market participants today produce games that are aimed at G5's target group.

The competition in the segment is lower than for other parts of the market, and it requires a thorough understanding of the needs of the target group which differ from other segments in the traditional gaming market. The target group has over time proved to be loyal who use and play the company's games for a long time, often more than a year. The female players have both the time to play and a financial strength that allows purchases in the games. They also prefer to use tablets and smartphones with larger screens, which benefits G5's games which are optimized for larger screens and have high quality content. In a global perspective, the demographic development will make the target group continue to grow for many years.

**GLOBAL BUSINESS - GROWING MARKET**

Mobile games in various forms are becoming a global business. Asia is today the overall largest market and accounts for half of the mobile gaming industry's turnover. The development is driven by China and Japan, and Japanese players spend more than any other user of mobile games.

G5's main markets are North America and Asia. In 2019, North America accounted for 53 per cent of the company's revenue and Asia for 25 per cent.

Through the G5 distribution channels, the games are available to a global market immediately after the launch of a new game. Also, the games are initially published in at least eleven different language editions to cater to all markets.

The company's main markets, North America and Asia, fit well with the company's strategy, as the target group is large and financially strong in these markets. There is great potential for continued growth in the markets that the company today addresses.

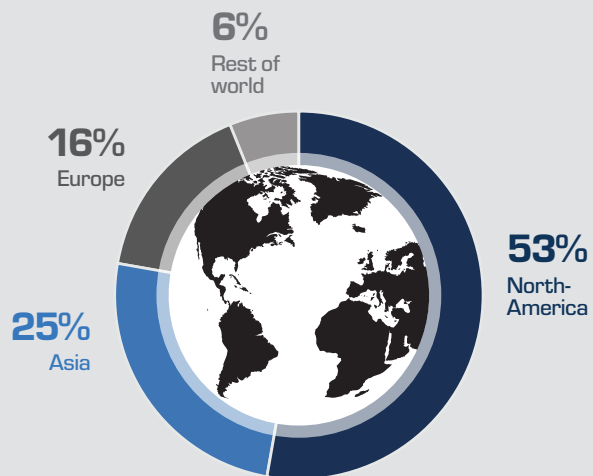
**G5 AND COMPETITORS**

G5 operates in a very competitive environment, where not only mobile game developers, but also the broader entertainment industry are trying to catch the audience's interest. That does however not mean that G5 competes with all mobile games on the market. There is for example virtually no competition between G5's games, which target women over 35, and games with a younger male target group aged 13 - 35. G5's games do not compete with war games, strategy games or role playing games, although they can be said to operate on the same market. Neither do they compete with casino games of various kinds but occupy a niche of their own.

**Target audience**

- ▶ Focus on female audience 35+
- ▶ Loyal audience
- ▶ Growing demographic
- ▶ Low piracy

**G5's Revenue share by region (2019)**



## OPERATIONS

## FOUR GENRES, ONE TARGET GROUP

G5 has chosen to focus its activities on four game genres, Hidden Object which currently is the company's primary genre, Match-3 which is a fast-growing genre for the company, Solitaire/Match-2, which is what G5 calls an "evergreen genre" and word games, a new genre for the company which appeals to the same audience.

The properties of the four genres are different, but they have in common that they are adventure and/or puzzle games where the player searches for clues and solves puzzles to advance in the game. They are also all liked by G5's main target group, women over 35, which is loyal, has time to play, good payment ability and is growing in size.

Today almost half of the 2.3 billion people that regularly play mobile games are women, with an average age of 37 years and they describe themselves as financially independent. In the same target group 64 percent say they prefer to play games on the mobile instead of on a computer, which is considerably

more than their male counterparts, where only 38 percent prefer the phone. 60 percent of G5's target group plays every day, they are habitual players and willing to spend money in the games. An increasing global prosperity where incomes are rising and people live longer and have more time for leisure, makes G5's main target group increase over time.

#### ► Hidden Object

The G5's Hidden Object games, where Hidden City is the leading game, is designed to be immersive and engage the players over a long time. They have advanced graphics, which is crucial for the success of the games and G5 works constantly to further develop the games. The games have the G5 social network "G5 Friends" built in, as well as seasonal content and the possibility to directly purchase clues and items needed in the game. The games have a long service life and high earning capacity. Two of G5's Hidden Object Games have so far earned over USD 150 million during their lifetime. After the release of one Hidden Object game in the fourth quarter of 2019 G5 is working on an additional Hidden Object game for release in 2020.

#### ► Solitaire/Match-2

G5's largest game in the genre is Mahjong Solitaire which is a Match-2 game where the player should match mahjong tiles in different combinations in a large and complex puzzle. The

## Top Games by Revenue– March 2020

 Hidden City®: Mystery of Shadows	<b>#1</b> Hidden City	Licensed	Released: February 2014
 Jewels of Rome™	<b>#2</b> Jewels of Rome	Wholly Owned	Released: May 2019
 Mahjong Journey	<b>#3</b> Mahjong Journey	Wholly Owned	Released: December 2014
 The Secret Society® - Hidden Objects Mystery	<b>#4</b> The Secret Society	Wholly Owned	Released: November 2012
 Homicide Squad™ - Hidden crimes	<b>#5</b> Homicide Squad	Wholly Owned	Released: January 2017
 Pirates and Pearls®	<b>#6</b> Pirates and Pearls	Wholly Owned	Released: August 2017
 Survivors: The Quest®	<b>#7</b> Survivors: The Quest	Wholly Owned	Released: December 2014
 Hidden Treasures	<b>#8</b> Hidden Treasures	Wholly Owned	Released: December 2019
 Jewels of Mahjong: Match times and restore the city	<b>#9</b> Jewels of Mahjong	Wholly Owned	Released: December 2019
 Supermarket Mania Journey	<b>#10</b> Supermarket Mania Journey	Wholly Owned	Released: December 2015



genre is well-liked by G5's main target group. During the year the offering has been expanded with Jewels of Mahjong that combines the Mahjong game with a more complex storyline which has not been seen in the existing Mahjong games currently in the market.

► **Match-3**

Today, Match-3 is one of the largest genres in mobile gaming and G5 estimates that the genre generates around USD 7 billion of revenue yearly. Match-3 games are somewhat easier to learn to play than Hidden Object and Solitaire. They are based on the player matching three items in a row to move on and this allows them to be played whenever the player has spare time. The game type is very popular with the G5's main target group, but also in wider groups. G5's Jewels of Rome that was released in the second quarter quickly became the second largest game in the portfolio by monthly revenue. G5 is working on additional Match-3 games to complement the portfolio which are set to be released in 2020 and 2021.

► **Word games**

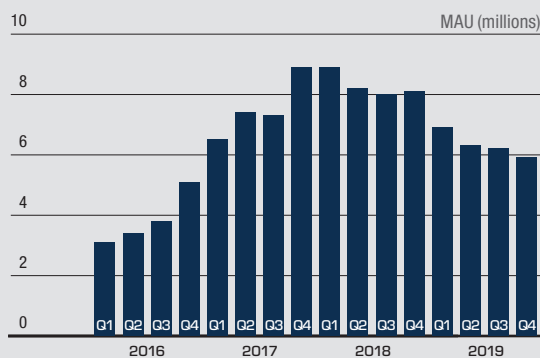
Word games is the newest addition to G5's portfolio of games. Wordplay: Exercise your Brain was released during the fourth quarter. Wordplay is a free-to-play word game that features combinations of word search games, crosswords and challenging vocabulary puzzles. Entering into the genre G5 knew that word games are popular with G5's audience.

**G5 AND THE PORTFOLIO OF GAMES**

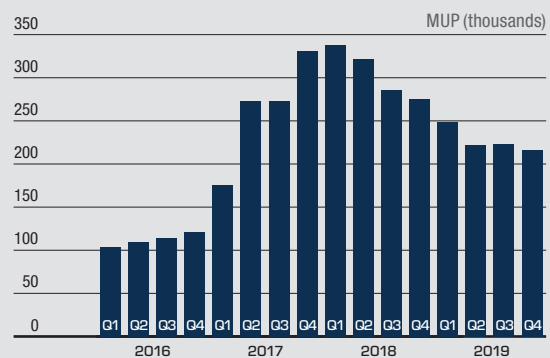
G5's revenue growth is driven by two factors; the total number of players playing the company's games and the game's earning capacity, which is the money that players are willing to pay while playing the game. G5 has over time demonstrated its ability to drive growth in the number of users through effective marketing and successful strategies for user acquisition, UA, focusing on quality users and countries with high MAGRPPU (Monthly gross revenue per paying user). An increasing number of players also mean that more individuals have the opportunity to discover G5's other games.

G5 has a large number of games in its portfolio. Several of them have shown a good, or very good, earning capacity over time. The licensed game Hidden City achieved the highest revenue of all G5 games in 2019. Licensed games, developed by other game developers, have meant that G5 has been able to launch new games on the market quickly and without great financial risk. Today, G5 has reached a position where the company has shifted its focus to games developed in-house, where earnings are significantly higher since no license fees are paid out. During the year G5 released five own games. Nine of the ten games that today top the revenue list are developed at G5's own studios and three out of ten were released in 2019.

Monthly active users (average over quarter)<sup>1</sup>



Monthly unique payers (average over quarter)<sup>1</sup>



<sup>1</sup> For more information regarding the operational metrics, see the glossary on page 65.

# DIRECTORS' REPORT

The Board of Directors and Chief Executive Officer of G5 Entertainment AB (publ), corporate identity number 556680-8878, hereby submit the Annual Report and the Consolidated Accounts for the operations of the parent company and group in the financial year January 1, 2019 – December 31, 2019. All amounts are reported in SEK thousands (KSEK), unless otherwise specified. Information in parentheses refers to the previous accounting year, that is to say 2018. Words such as “G5”, “the company”, “the group”, and similar expressions refer in all cases to the parent company, G5 Entertainment AB, and its subsidiaries.

## OPERATIONS

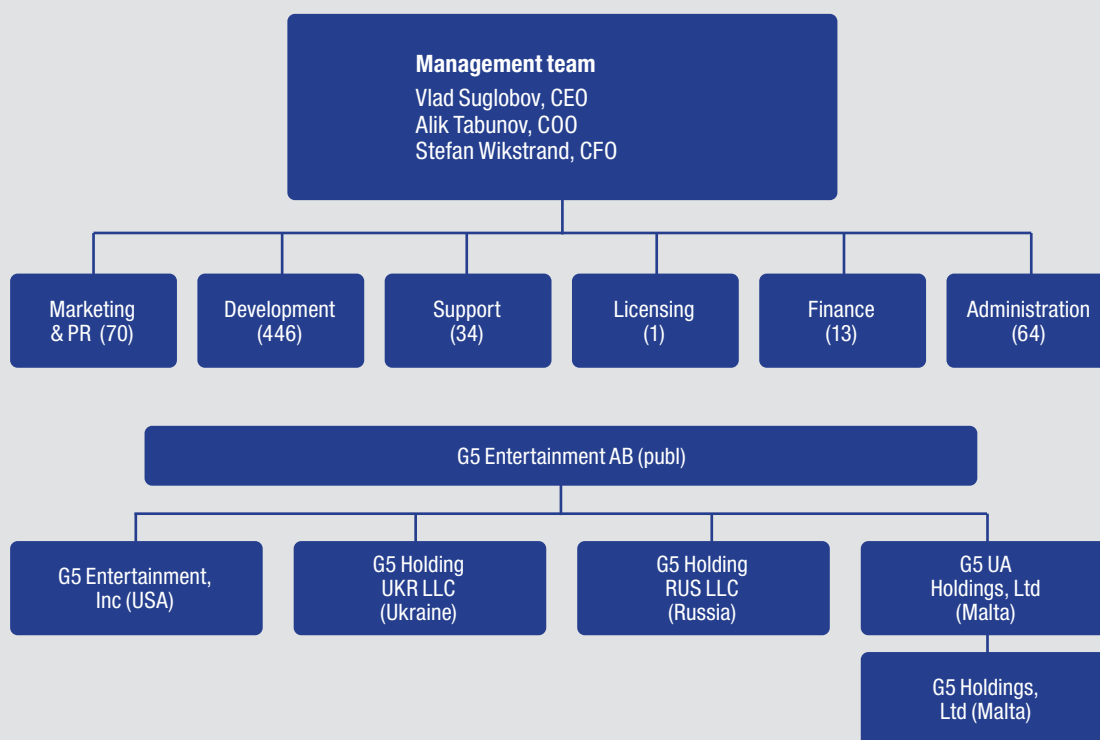
G5 is a developer and publisher of free-to-play games for smart phones and tablets, the games are also to some extent released for personal computers. G5 is active in a market that has grown sharply with the wide spread adoption of smart phones and tablets. For a long time the biggest driving factor in this market and G5’s growth has been the rapid transition from the classic mobile phones and PCs to smart phones and tablets.

Thanks to the rapid technological progress and the development of hardware, games that are designed for mobile devices have become more and more advanced and high quality, both in the content and game play, as well as the possibility to pro-

cess large amounts of information to produce advanced graphics. In line with the technological development and market penetration, the user base has increased significantly but also broadened. With the ever improving experience on mobile, many users choose to leave their traditional gaming platforms and become mobile as well as users who never tried games before, or were only playing occasionally, are becoming regular casual game players on their mobile devices. Casual games that are well adapted for mobile platforms and are becoming more popular also help broaden the user base. This is because casual games are games that are easy to start playing for an inexperienced gamer, and therefore they appeal to a broader audience, both in terms of age and gender. In addition to the number of mobile devices used, the time spent playing games on these devices, and the amount of money people spend on games on average, is also increasing.

Today, games are the most popular activity linked to smart phones, and mobile games is the fastest-growing segment of the entire games market. According to comScore more than 40% of the time users of iOS and Android devices spend on their mobile phone or tablet is devoted to games. The revenue from various types of mobile games is expected, according to the analytics company Newzoo, to increase from \$ 56 billion 2017 to over 106 billion by 2021.

## Organizational chart



## G5 2020 AND ONWARDS

G5 operates in the fastest growing segment of the gaming market, where revenues from smartphone and tablet games is expected to continue to grow significantly in the coming years. The company has a broad portfolio of games with a growing number of proprietary free-to-play games, has focused on an economically strong and loyal audience and has a large experience in developing attractive games in different genres. The business model is simple and scalable where the number of players can grow significantly without at the same time requiring a larger organization. The company has also shown a very high growth rate in the past five years.

In the coming years, G5 will continue to develop and improve its proprietary free-to-play games and thereby improve the company's profitability while maintaining the growth. G5 strives to achieve excellence in its games and push the boundaries of quality within their genres. With larger scale and more resources, the company is dedicated to producing some of the best games in the world within their genres. The company has five new free-to-play games for release during 2020 and in-line with the company's focus on own games, all of them will be proprietary. The company will balance user acquisition spending with the goals to achieve higher profitability, while sharpening its focus on retaining customers, and acquiring customers organically through the application stores and internal tools.

## ORGANIZATIONAL STRUCTURE

G5 Entertainment AB (publ) with its registered office in Stockholm, Sweden, is the parent company of the G5 group.

The group comprises six different functions, of which development and quality assurance is the largest by the number of employees. The CEO is based in San Francisco since 2011, where the group has a marketing office, but spends several months per year in Moscow, where the group has a development studio with a large part of the senior developers employed by the group. The office in Moscow has continued to expand during the year to take advantage of local talent pool. Game licensing and management of the group's IPRs (Intellectual Property Rights) is done from Malta, where the COO is stationed together with the second part of the senior development team and the licensing team. The CFO is stationed in Stockholm. The Ukrainian office in Kharkov employs about 370 people and is the largest in terms of the number of employees, and houses most of the company's quality assurance staff. The group's Kaliningrad development office has been growing and taking over some of the company's important games and has become an important creative component of the group's structure. The group also has small studios in Lvov (Ukraine) and Cheboksary (Russia).

## ACTIVITIES DURING 2019

2019 has been a transitional year for the company. The largest game in the group started to mature during 2018 which continued into 2019 impacting the top-line negatively. At the same time the investments in development capacity over the last years has generated five releases during the year, where Jewels of Rome quickly became the second largest game in the portfolio.

Investments in user acquisitions decreased with six percent as a consequence of the lower revenue.

Five new proprietary game was launched during the year, Jewels of Rome, Matchtown Makeover, Jewels of Mahjong, Wordplay: exercise your brain and The Hidden Treasures. In addition to the releases made the current games in the portfolio are regularly updated with new content and features. Such updates also contain optimizations to improve the profitability of the games as well as increased and enhanced content for the players.

Management has, in addition to game development, focused on the sizeable hirings made during the year and continuous improvements to the internal processes to be able to update, enhance and analyze the portfolio of free-to-play games more efficiently and underpin the continued growth.

The Board believes that G5 is positioned for continued strong long term growth with a competitive and growing portfolio of free-to-play games, work processes to continuously improve the games, and an efficient marketing organization.

## SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

During the first quarter of 2020 there was an outbreak of COVID-19 which became classified as a global pandemic. The virus spread quickly and in the beginning of the second quarter all relevant countries for the company's operations were impacted. The full economic implications of the virus is not known when this report is released but it is obvious that the economic consequences will be severe. Even though the operations of G5 is not insulated from the global economy, gaming in general, and gaming with electronic distribution in particular, can see increased engagement as people have more time to play games. Also gaming is a cheap form of entertainment relative to other forms of entertainment and games are free to download and play, as payments are strictly optional. G5 quickly took measures to protect its staff and in the timespan of a few days relocated the staff to work from home. Also all travel was suspended, as well as the participation in larger internal and external events.

See more information regarding COVID-19 under the risk section on page 23.

## REVENUE AND EARNINGS

### Revenue and gross profit

Revenue amounted to SEK 1,233 M (1,450), a decrease of 15% compared to 2018.

The group's cost of revenue was SEK 533 M (703). Gross profit amounted to SEK 700 M (747), a decrease of 6 per cent compared to 2018. Gross margin was 57 per cent (52).

## OPERATING COSTS

### Research and development

Costs for research and development increased by 31 per cent compared to 2018. Research and development costs are impacted by amortization and write-downs which amounted to SEK 103 M (88) and SEK 7 M (4) respectively. Adjusted for amortization and write-downs of the company's game portfolio the costs were SEK 73 M (48), an increase of 52 per cent. The increase in costs, excluding amortization and write-downs,

is in large explained by increased capacity in the development department, increased costs for IT-infrastructure, also a lower capitalization factor which is a function of development resources being allocated to development of internal platforms and projects.

**Sales and marketing**

Costs for sales and marketing are primarily affected by the costs for user acquisition. With the reduction in revenue the costs for user acquisition decreased. Sales and marketing costs have decreased by 3 per cent. User acquisition in relation to revenue has increased to 29 per cent (26). Excluding costs for user acquisition sales and marketing has increased with 51% due to a larger team and enhanced technical tools for user acquisition, also in the second half of the year some costs previously attributed to user acquisition was moved to general sales and marketing.

**Administration**

Costs for administration has increased to SEK 70 M (64), an increase of 17 per cent. Within administration there are also costs related to training, corporate events and other efforts towards the employees.

**Other operating income and operating expenses**

Currency exchange rate differences on operational assets and liabilities have impacted the year with SEK 0 M (0).

**Operating profit**

Operating profit was SEK 52 M (143) and the operating margin was 4 per cent (10). Operating profit decreased with 64% year over year as revenue decreased compared to last year while there was continued investments in all areas of the business.

**Net profit**

Net profit was marginally affected by financial items. Tax affected the result with SEK -7 M (-15) corresponding to a tax rate of 13 per cent (10).

Net profit amounted to SEK 45 M (129) which is corresponding to earnings per share before dilution of SEK 5.01 (14.45).

**FINANCIAL POSITION**

During the year the company has capitalized development expenses amounting to SEK 116 M (116). The company amortizes its games over 24 months. The company separates released and not released games where not released games include games that have been active in the app stores for less than 6 months as this initial period is needed for optimization of the game. During the initial 6 month period after launch, the company does not amortize the free-to-play games. Amortizations amounted to SEK 103 M (88). Write-downs, which is a part of the ongoing business with a games portfolio, amounted to SEK 7 M (4). Capitalized development expenses are also impacted by currency exchange differences of SEK 8 M (21), as they are capitalized in one of the subsidiaries that has USD as its functional currency. At year-end total capitalized expenses amounted to SEK 211 M (198).

Accounts receivable and deferred income are primarily attributed to the revenue from the stores.

Accrued expenses and accounts payable are primarily constituted of royalty related to licensed games, debts to external developers and costs for user acquisition.

Equity amounted to SEK 386 M (347) corresponding to a equity/asset-ratio of 70 per cent (65).

FINANCIAL RATIOS	2019	2018	2017
Equity/asset-ratio	70%	65%	54%
Return on equity	12%	45%	46%
Return on total assets	10%	30%	30%
Current ratio	1.7	1.4	1.5

**CASH FLOW**

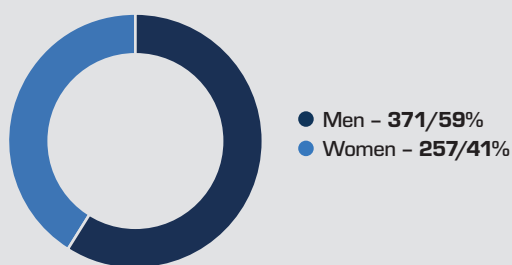
During the year the group had an operating cash flow before changes in working capital of SEK 184 M (227). Cash flow before investing activities amounted to SEK 169 M (218).

Investments have impacted the cash flow with SEK -124 M (-143). Investments are primarily constituted of capitalized development expenses that amounted to SEK -114 M (-116).

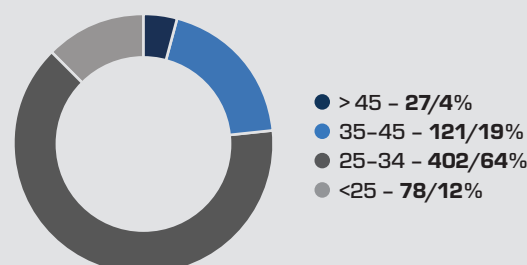
Cash flow amounted to SEK 13 M (45).

Available cash on December 31, 2019 amounted to SEK 152 M (139).

**Employee gender distribution**



**Employee age distribution**



## SEASONAL VARIATIONS

G5's sales are to some extent affected by seasonal variations where the fourth and first quarter are normally the strongest and the second and third quarter are seasonally weaker. The fourth quarter is positively impacted by the holidays that occur during the quarter and the first quarter is positively affected by a larger number of new devices on the market.

## EMPLOYEES

As of December 31, 2019, G5 had 628 employees across seven locations, Stockholm (3), San Francisco (9), Malta (7), Moscow (115), Kharkov (370), Kaliningrad (101) and Lvov (23). G5 constantly strives to attract employees that are essential for the company to maintain a strong market position. The company's HR department cooperates with local universities to scout for candidates. G5 is working proactively with the recruitment process, approaching students with challenging tests and case studies, in order to attract them. G5 has a training program, where new engineers and designers initially start as associates and increasingly get involved in the company's projects under supervision and coaching of more senior colleagues. The same applies for corporate functions within its operations department. With the increasing profitability, G5 is actively searching for, and aims to employ the best talent in the field in order to be able to keep the quality standards high and push the boundaries of the genres G5 is active in. The company is providing a competitive compensation package for its employees, which is in line with, or above the local standards.

## RESEARCH AND DEVELOPMENT

G5 has developed and owns the Talisman™ cross-platform mobile technology and Development Tools that facilitates a cost-efficient, high-quality development process for multiple platforms. The Talisman™ technology is being continuously improved to be adapted in accordance with rapid technological progress. In addition, the company has analytic platforms and the publishing platform.

The largest part of the development expense is spent on developing and maintaining the games portfolio. A large part of the work is specific for the respective game, but a part of the development is related to mechanics and functionality that can be reused and enhanced for future titles.

## SHARE INFORMATION

As of December 31, 2019, G5 Entertainment's share capital was 928,135 SEK divided between 9,021,350 ordinary shares and 260,000 c-shares, each with a quoted value of 0.10 SEK per share. The average number of outstanding shares during the year was 8,993,225 shares. Each share confers equal rights to participation in G5's assets and earnings. The ordinary shares confers the holder with one vote, the c-shares confers 1/10 of a vote. All class c-shares are held by the company to be able to deliver shares in accordance with the performance share programs. No shareholder owns more than 10 percent of the total number of outstanding shares.

The annual general meeting 2019 authorized the Board of Directors to issue up to 10% of the outstanding shares, with or without deviation from the shareholders' preferential right. No issue of ordinary shares was made during 2019, the company issued 260,000 c-shares.

For more information regarding the share, see page 66.

## Sustainability report

As a fast-growing company with 628 employees in Russia, Ukraine, Sweden, the US and Malta, G5 has a responsibility to contribute to sustainable economic, environmental and social development in the countries where it operates. G5 is focused on developing appropriate policies and governance models to further develop the work in these areas. In the current process, the company is focusing mainly on issues relating to its employees, in addition to environmental and ethical issues.

## G5'S BUSINESS MODEL

G5 operates in a market where revenues from games played on tablets and smartphones are growing fast. The company focuses its activities on so-called free-to-play games (F2P). The F2P-games are free to download and play but during the user journey some players may buy virtual goods and tools that enhance the gameplay experience and/or make it easier to advance in the game. These payments still make up almost 100% of G5's revenue stream even though the company is conducting early experiments with regard to advertising monetization in some of its games. A fundamental advantage of F2P games is that they can be continuously developed and updated and thus have a virtually unlimited life cycle, with higher earnings as a result.

The company has chosen to build a broad portfolio of games consisting of both proprietary and licensed games that are attractive to a large group of players. G5 focuses on game types that are divided into genres such as Hidden Object, Puzzle, Match-3 and word games, and has a target audience of women over the age of 35. This is a large, economically strong and loyal user base, as they play each game over longer periods of time compared to other demographics.

G5 has built up its own development platform and its own publishing platform, both of which are attractive to third party developers who want to take their own games to the market. G5's games are then distributed to customers through a few global distributors; primarily Apple App Store, Google Play, Amazon Appstore and Microsoft's Windows Store. The distributors, for a fee of normally 30 percent of revenues, account for global distribution, operation and payment streams.

G5's main markets are North America and Asia. To increase the number of users, G5 systematically works with User Acquisition, commonly known as UA. The company has a dedicated UA team that continuously works with a large number of campaigns to increase the number of users and thus the earnings in each game. In practice, this means investing a significant portion of earnings into UA, resulting in an increased number of users and higher earnings. With this approach, G5 gradually increases both the number of users and revenue over time.

G5's business model is simple and scalable. The combination of proprietary and licensed games allows G5 to let the game portfolio grow with new games, without simultaneously bearing the full development cost. At the same time, the number of users can increase significantly, without simultaneously requiring a larger and more complex organization, as G5 does not need to invest in its own operations, distribution and payment channels.

## ECONOMIC SUSTAINABILITY

G5 contributes to local, regional and national economic growth by directly and indirectly creating jobs, as well as paying taxes and duties where the business is conducted. The group usually host two corporate events each year, which also contributes to local economic growth. Given the uncertainty of the COVID-19 pandemic the company will at most hold one event in 2020. Long-term growth and profitability for G5 is good for both society and employees. At the same time, G5 will be a responsible company that always acts in accordance with existing legislation at national, regional and local levels.

## ENVIRONMENTAL CONCERNS

G5's core business operations has very limited environmental impact. The company rents its offices and therefore doesn't own any property. The landlords are usually responsible according to the lease for e.g. electricity supply, waste disposal and in some cases recycling. G5 assumes that this is handled according to local rules and regulations and that sustainable energy sources are sought after where available. Similarly, G5 utilizes external providers for the majority of its servers and corresponding equipment needed for operations. Where G5 has the opportunity to choose an electricity supplier, the company chooses larger, recognized partners. This is for two reasons, partly because the business is entirely dependent on reliable electricity supplies and partly because major suppliers are already carrying out their own sustainability work.

G5 primarily affects the environment through employee travel, and by dismantling end-of-life hardware, primarily in the form of computers. G5 is a geographically diversified company with offices in 5 countries, so where possible, the company strives to replace travelling with internet-based communications, such as video conferencing, both for environmental and cost-related reasons. Also, where possible, transportation types with the least possible environmental impact are used.

G5 strives, as far as possible, that the expired and outdated equipment is sent for proper recovery. The largest volumes in this respect are created at the company's office in Ukraine, where the most employees are located. As G5's units are small and relatively autonomous in terms of administrative issues, recycling is adapted to local conditions and requirements. From the company management level there are minimum requirements and guidelines issued for the work.

## SOCIAL RESPONSIBILITY

### Equality

For the office in the United States, G5 has issued a special policy, "Personnel Management Rules for the United States Office", which complies with US rules and practices regarding, for example, gender equality, equal treatment and integrity. For the businesses in Russia and Ukraine, the countries where G5 has the majority of its employees, G5 strictly adheres to the respective labour laws of these countries. The laws govern all issues such as diversity, gender equality and employee rights and obligations. The labour law thus constitutes an important regulator for both companies and employees. While the company takes non-discrimination seriously, the hiring and promotional decisions within the company are based on employee assessment only, as the company operates in highly competitive industry. Through its procedures G5 has proven that a healthy gender balance can be achieved in a technology company.

## Code of conduct

G5 has a common code of conduct for the company as a whole. Also each office can have its own policies that do not constitute rules, but are clear recommendations for how employees interact, facilitate effective communication, and work to develop a good culture at the workplace. The basic principles for each employee's conduct towards colleagues and companies, as well as the company's responsibility and conduct, are included as part of each employment contract.

## Working environment

G5 develops software and therefore has no direct physical stressful work environment. In regards to the mental and social work environment, it is regulated, partly in the previously mentioned labour laws, and partly in the policy for each individual office.

## GOALS AND GOAL FOLLOW-UP

For the part of the business that does not work with game development, each employee is evaluated annually in terms of achieved results, skills development and possible changes in responsibilities. The evaluation is carried out by the respective departmental management, which also decides on tasks for the coming period, and takes any decisions on promotion or other changes. As of December 2019, the departmental management will, by decision, give each employee regular feedback to be taken into account in the evaluation.

In the development department, every employee is evaluated annually in the same way, based on achieved results, competence development and responsibility. Here, the evaluation of the individual project's producer and project manager is performed, although the head of the department also participates in the evaluation process. This makes it possible to properly evaluate both the employee's own skills and achieved results in the role of a member of a project team.

The management team for the developers is evaluated in terms of both the development of the projects and its own personal goals. This evaluation is conducted rolling every six months.

## EMPLOYEE SURVEY

The 2019 employee survey showed continuous good results. The Satisfaction Index, which shows the percentage of employees who would recommend G5 to others, amounted to 96 percent (94). The categories "satisfied with their own duties" and "satisfied with their working conditions at large" both showed a decline compared to last year which has sparked an internal review. A large part of the explanation is the large inflow of new employees during the year.

## EMPLOYEE TURNOVER

G5 regularly monitors the development of the company's staff turnover, as this is an important indicator of the mood of the company and how well the work processes function. In 2019, staff turnover was 21.8 percent (15.8) In recent years, G5 has increased the staff at a fast pace. A large part of the company's employees are young and it is not uncommon that it is their first job. These factors have a negative impact on staff turnover, especially when they have passed their first year. G5 evaluates and compares its staff turnover with the overall market as well as IT companies specifically, and in those comparisons G5 is very well-placed.

## ANTICORRUPTION

G5's operations shall be characterized by a responsible approach from all aspects of the company's business.

The G5 Board has issued a special policy dealing with corruption and bribery: G5 Entertainment AB Anti-Corruption and Bribery Policy. The policy will ensure compliance with rules regarding bribery and corruption principles. It applies to all employees and suppliers in all markets and also in relationships with customers and partners. If there are suspicions of violation of the policy, an internal investigation will be carried out immediately, which may be supplemented by an external review, if necessary, by an independent actor. All events are reported to the company management and board. G5's CFO is responsible for anti-corruption work.

## Risks and risk management

G5 is exposed to a number of risks that could affect the group's results and financial position. G5 continually evaluates, identifies, and manages the company's risks. The risks deemed most significant to the company are classified below as market, operational or financial risks.

### Market and operational risks

#### Market conditions

The company operates in a new and rapidly changing industry, which makes it difficult to evaluate the business and prospects. The mobile gaming market, from which G5 derives substantially all of its revenue, is a market that is maturing but is still a rapidly evolving industry. The growth of the mobile games industry and the level of demand and market acceptance of G5's games are subject to high degree of uncertainty. The company's future operating results will depend on numerous factors affecting the mobile games industry, many of which are beyond the company's control, including changes in consumer demographics and public tastes and preferences, the availability and popularity of other forms of entertainment, the worldwide growth of sales of smart phones, tablets and other connected mobile devices, and the rate of any such growth and general economic conditions, particularly economic conditions adversely affecting discretionary consumer spending. The ability to plan for game development, distribution and promotional activities will be significantly affected by the company's ability to anticipate and adapt to relatively rapid changes in the tastes and preferences of its current and potential players. New and different types of entertainment may increase in popularity at the expense of mobile gaming. A decline in the popularity of mobile gaming in general, or the company's games in particular would harm its business and prospects.

#### COVID-19

The global pandemic causing the disease COVID-19 will have a significant impact on the world economy. The full economic implications of the virus is not known when this report is released but it is obvious that the economic consequences will be severe. Depending on the length and depth of the economic impact from the pandemic G5 can be impacted. G5 is not insulated from the global economy but the board believes that gaming in general, and gaming with electronic distribution in particular, can see increased engagement as people have more time to play games which also can be seen in the beginning of the pandemic where downloads of G5's games has increased. The effects from the pandemic, positive or negative, can not be quantified at this moment.

## Political risk

G5 faces political, regulatory and economic risks as a result of its international operations and game development business, any of which could have adverse effect on the operations of G5. Political, economic and social instability, including potential hostilities in Ukraine could potentially negatively impact the company given that G5 has a development studio in Kharkov, Ukraine where it employs almost 376 people as of December, 2019. It is the group's policy to keep critical code and materials backed up outside Ukraine and Russia, keep intellectual property rights in EU entities, and transfer funds to subsidiaries on an as-needed basis.

## Competition

G5's success depends on the company's ability to develop and/or license new and innovative games. Competition within the broader entertainment industry is intense and G5's existing and potential users may be attracted to competing forms of entertainment such as offline and traditional online games, television, movies and sports, as well as other entertainment options on the Internet.

If G5 is unable to sustain sufficient interest in its mobile games in comparison to other forms of entertainment, including new forms of entertainment, the business model may no longer be viable.

There are relatively low barriers to entry in the mobile games industry compared to other games markets, they are however rising with the increasing amount of apps, as marketing budgets become more important. G5 expects more companies to enter the sector and a wider range of games to be introduced. The company's competitors that develop so called "casual" free-to-play games for mobile devices vary in size. There are larger well-established publicly-listed videogame companies that are active on different video game platforms, like Activision (owns King), Electronic Arts, and Ubisoft, which have their own mobile game operations through acquisitions over time and internal development. There are also mobile-focused publicly-listed companies like Zynga, Glu, and Rovio, which are the company's closest peers/comps in the public market. There are also numerous private companies successfully developing and operating "casual" free-to-play games. Among these companies that are active and prominent in the genres where G5 operates are Wooga, MyTona, Vizor Interactive, and Playrix, to name just a few. There are also numerous other private companies active in the space where G5 operates. In addition, traditional online game developers and distributors who are currently primarily focused on specific international or video games market segments may decide to develop mobile games. These current and potential competitors have resources for developing and/or acquiring rights to additional mobile games, may be able to incorporate their existing brands and assets into their mobile games, have a more diversified set of revenue sources than G5 does and may be less affected by changes in consumer preferences, regulations or other developments that may impact the mobile games industry. G5 expects new mobile game competitors to enter the market and existing competitors to allocate more resources to develop and market competing games and applications.

**Risk related to distribution channels**

The company depends on continuing co-operation with its distributors. Apple, Google, Amazon, and Microsoft operate primary distribution platforms for G5's games. G5 generates substantially all of its revenue through these distribution channels and expects to continue to do so for the foreseeable future. Deterioration in G5's relationship with these companies can harm G5's business.

G5 is subject to Apple's, Google's, Amazon's, and Microsoft's standard terms and conditions for application developers, which govern the promotion, distribution and operation of games on relevant platforms stores: Apple App Store, Google Play, Amazon Appstore and Windows Store.

G5's business would be harmed if any of the above mentioned distributors discontinue or limit access to its respective platform by G5 and other game providers, modify its terms of service or other policies, including the provisions on revenue share, on how the personal information of its users is made available to application providers on the respective platform, establish more favorable relationships with one or more of G5's competitors, or develop their own competitive mobile game offerings. The distributors have broad discretion to change the terms of service and other policies with respect to G5 and other game providers, and those changes may be unfavorable to the company.

G5 and other game providers have benefited from the distributors' strong brand recognition and large user bases. If one or more of the distributors lose their market position or otherwise fall out of favor with their user base, G5 will need to identify alternative channels for marketing, promotion and distribution of its games, which may require substantial resources and investments, and may not be effective. G5 has also benefited from the free promotion of its games on distributors' stores, granted by the decision of the distributors' editorial teams and at their sole discretion. If G5 fails to receive the recognition from the distributors' editorial teams in the future, G5 may need to spend additional resources on marketing and promotional activities that may not be as effective.

**Risk related to user preferences**

It is difficult to continuously predict players' demand at large, especially as G5 develops new games in a new genre for new markets. If G5 isn't launching games that successfully attract and retain players, and unless the company increases the life of existing games it will hurt the company's market share, reputation and financial performance.

**Delay in release of games and updates**

Delays and/or irregularities in the release of new games and updates can negatively affect the group's revenue and operating margins. Delays can result from a delay in the development, e.g. due to external developers not meeting timelines, or from additional time needed to receive certifications and approvals from game rating agencies, platform owners, and distribution channels (electronic download stores).

**Technological developments**

Like all game publishers, the group is dependent on technological advances. G5 continuously has to adapt to new technologies for game development, new distribution models based on new technologies, etc.. Failure to do so could have adverse

effects on the business.

Although G5 conducts a thorough quality assurance of its products, no software is absolutely flawless, and G5's games and game updates may contain errors, bugs, weaknesses or corrupted data. Such errors may not be noticed until the game has been released, particularly as G5 is working under time pressure to launch new games and rapidly release updates to existing games. Undetected errors in the application code, errors in the games or corrupted data can impact G5's business, have a negative impact on the players' experience, damage the company's reputation and image, have G5's players stop playing the company's games, use resources that could have been used for other tasks, and delay market acceptance of the company's games. All of these factors could harm G5's operating results.

**Loss of key employees**

The company's success depends largely on the continued ability to identify, hire, train and retain qualified and/or experienced executives, game designers, product managers, engineers and other key employees. G5's ability to hire and retain qualified personnel depends on a number of factors, some of which are beyond G5's control, including the competitive environment on the local employment markets in which the group operates. The loss of an executive, experienced game designer, product manager, engineer, or another key employee due to, for example, such employee leaving to work for a competitor, may result in loss of important know-how and may significantly delay or prevent the achievement of development objectives or the implementation of the group's business strategy. If the companies within the group are unable to hire or retain qualified and experienced executives, game designers, product managers, engineers and other key employees, this may have an adverse effect on the company's business, financial position and profits in the future.

**Capitalized development expenses**

G5 capitalizes development expenses. Such expenses are recognized as assets on the balance sheet, if the expenses are expected to result in identifiable probable future financial benefits that are under the control of the group, and it is technologically and financially possible to complete the asset. Ongoing capitalized development expenses, where amortization has not started, are tested for impairment at least annually. In the event that such tests in respect of sustained decreases in the value of capitalized development expenses should lead to impairment, this may have an adverse impact on G5's financial position and profits in the future.

**Tax risk**

G5 manages its operations through companies in a number of countries. The business, including transactions between companies and how the group is structured, is operated according to G5's understanding or interpretation of current tax laws, tax treaties and other tax law stipulations and in accordance with G5's understanding and interpretation of the requirements of the tax authorities concerned. However, it cannot be ruled out that G5's understanding or interpretation of the above-mentioned laws, treaties and other regulations is incorrect in some aspects. Nor can it be ruled out that the tax authorities of the countries concerned will make assessments and take decisions which deviate from G5's understanding or interpretation of



the above mentioned laws, treaties and other regulations. The tax position for the G5 group, both for previous years and the present year may change as a result of the decisions of the tax authorities concerned or as a result of changed laws, treaties and other regulations. Such decisions or changes, possibly retroactive, may have an adverse impact on G5's business, financial position and profits in the future.

#### **Insurance risk**

The insurance market is still underdeveloped in Ukraine and Russia, and some risks, that in developed countries can be insured, cannot be insured in Ukraine and Russia where the group has operations. Costs for such unforeseen risks can therefore arise.

#### **Financial risks**

##### **Currency exposure**

G5 receives most of its revenue in USD, EUR and SEK, while expenses for employee compensation and other operating expenses at non-Swedish locations are in RUR, UAH, and USD. The company's sub-contractors and licensors are primarily paid in USD.

The company does not hedge these risks at present.

##### **Interest risks**

Interest risks are considered to be marginal, because at present G5 does not have any external funding.

##### **Credit risks**

Credit risk related to accounts receivable is considered immaterial, since almost all sales are generated through major companies, with consistently high credit ratings. These distributors pay the company monthly, based on sales to the end users. Payments to G5 are made 1-2 months after the sale to the end customer. The distributors take full responsibility for tracking and accounting of end customer sales, and send G5 monthly royalty reports that show amounts to be paid.

For development projects (development of the games), G5 partly uses external developers. Agreed consideration is a combination of upfront and royalty-based payments. Prior to the development of new games there are sometimes agreements to pay advances to the developers. These are recognized as other receivables on the balance sheet.

If a project does not develop as expected, the advances associated with the project in certain cases might have to be written-off.

##### **Funding risks**

For companies doing business in fast-growing markets, it is difficult to make precise medium or long-term financial forecasts. G5's financial position is strong which doesn't take out the risk from rapid changes brought on by competitors' actions or other market developments, the company may in the future need additional working capital, and turn to financial markets to attract such capital. If G5 is not able to raise funds, in time, at all, or on acceptable conditions, or if the company fails to meet its obligations under the company's credit arrangements, it may have an adverse effect on G5's business, financial position and profits.

## **GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES**

The Board of Directors proposes that the 2020 Annual General Meeting approves the following guidelines for remuneration to senior executives. The guidelines apply for the CEO of G5 Entertainment as well as members of the Executive Committee. The guidelines do not cover compensation decided on by a general meeting of shareholders, such as share-based incentive programs.

The guidelines shall be applied for compensation that is agreed upon, and changes made to already agreed upon compensation, after the guidelines have been adopted by the 2020 Annual General Meeting.

The guidelines steer the decisions on compensation made by the Board's Compensation Committee and CEO with respect to senior executives and by the Board in its entirety with respect to the CEO.

### **The guidelines' promotion of G5 Entertainment's business strategy, long-term interests and sustainability**

G5's vision entails that the Company shall be "one of few" in the mobile gaming space. To achieve this, G5 focuses on developing competitive mobile games for its target audience and through efficient marketing efforts promoting them to the same. As the company's most valuable resource is its employees, a strong employee focus is a foundation for achieving the vision of the group. Achieving the vision requires that G5 Entertainment can offer competitive compensation. The guidelines ensure that senior executives can be offered a competitive total compensation package.

G5 Entertainment also has long-term share-based incentive programs. The programs have been decided by the Annual General Meeting. The programs include the Chief Executive Officer (CEO), other senior executives and key individuals across the organization. The performance requirement of the share-based programs is the company's shares price which in the long-term has a clear relationship to the long-term value creation of the business. For further information about the programs see note C13 in the annual report or at [g5e.com/corporate](http://g5e.com/corporate).

Variable compensation covered by these guidelines shall aim to promote G5 Entertainment's business strategy and long-term interests.

### **Forms of compensation**

G5 Entertainment shall offer compensation that is in line with the going rate in the market and is based on factors such as the importance of the work duties and the executive's expertise, experience and performance, and may consist of fixed base salary, short-term variable compensation, pension benefits, insurance and other benefits. In addition, the general meeting of shareholders can decide on share-based compensation, which is not covered by these principles.

### **Fixed salary**

Fixed salary constitutes compensation for a work contribution at a high professional level that ultimately aims to create value for all stakeholders of G5 Entertainment, including but not limited to our users, shareholders and employees. Fixed salary

shall be competitive in the market and based on the expertise, experience and performance of the executive. Salaries are reviewed yearly.

#### **Variable compensation**

In addition to fixed salary, variable compensation may be payable. Variable compensation should primarily be based on the financial development of the company, measured in growth and operating margin for the group. A target range and a sum of normalized results are defined for both parameters. This in turn defines the result. The target ranges shall be adopted yearly by the Compensation Committee and the Board of Directors. The variable compensation is paid out based on quarterly results but the full measurement period is the financial year. A part of the variable compensation may also be tied to discretionary targets that the Board deems are important to achieve the long-term strategy of the group. The variable compensation is structured as follows:

The CEO's variable compensation during the year may not exceed 80 per cent of the fixed salary, divided so that 60 per cent shall be based on the Company's financial development and 20 per cent shall be based on targets determined by the board of directors.

The COO's variable compensation during the year may not exceed 70 per cent of the fixed salary, divided so that 60 per cent shall be based on the Company's financial development and 10 per cent shall be based on targets determined by the board of directors.

The variable compensation to other executive management may not exceed 60 per cent of the fixed salary and shall be based on the Company's financial development.

#### **Pension and other benefits**

The pension plan is to be in line with normal conditions in the market and the same for senior executives as for other employees. The pension premium shall be defined contribution.

Other benefits shall be of limited scope and may include, for example, disability, life and health insurance, and a car and travel benefit.

#### **Cessation of employment**

The employment agreements with senior executives shall contain a notice period of at least 3 months for the employees and a maximum of 12 months from the Company. Upon termination by the Company a severance pay may at most be equal to the fixed monthly salary for 12 months.

In addition, compensation may be payable for any noncompete obligation. Such payment shall compensate the executive for possible loss of income and shall only be made during the period that the executive lacks a right to severance pay. The monthly compensation shall amount to a maximum of 100% of the executive's monthly income. The compensation shall be payable during the time that the noncompete obligation applies, which shall be a maximum of nine months after the end of employment.

#### **Procedure for review, implementation and decision on guidelines**

The Board of Directors has established a Compensation Committee. The committee's duties include conducting preparatory work for the Board's decisions on proposed guidelines for compensation of senior executives, compensation and other terms of employment for this group. The Board shall review the guidelines yearly and propose updated guidelines for decision by the Annual General Meeting.

The guidelines shall apply until new guidelines have been adopted by a general meeting of shareholders. The Compensation Committee shall also monitor and evaluate ongoing programs and programs concluded during the year for variable compensation for members of the Executive management team, application of guidelines for compensation of senior executives, and applicable compensation structures and compensation levels at G5 Entertainment. The Compensation Committee's members are independent in relation to the Company and the Executive management team. In the Board's handling of and decisions on compensation-related matters, the CEO or other members of the Executive Committee are not present to the extent they are the subject of the matter at hand.

#### **Departures from the guidelines**

The Board of Directors may decide to temporarily depart from the guidelines entirely or partly if in specific cases there are special reasons for doing so and a departure is necessary to safeguard G5 Entertainment's long-term interests, or to safeguard the Group's financial soundness.

For senior executive remuneration 2019, see Note C7.

#### **DIVIDEND POLICY, FINANCIAL TARGETS**

G5 Entertainment is active in a market that grows quickly, and in order to benefit from this growth, the company intends to continue re-investing profits in activities that promote organic growth, such as product development and marketing. Future dividends will be subject to G5 Entertainment's future earnings, cash flows, working capital requirements, and general financial condition. In addition, investments in acquisitions as part of the company's growth strategy may impact the level of future dividends.

As the market currently undergoes a phase of fast growth, the Board believes the management should focus on maintaining strong organic growth. This will require investments into marketing and user acquisition, which in the short term may put pressure on profitability.

The Board has therefore decided not to provide any financial targets with regard to the company's future profitability at this stage.

**CORPORATE GOVERNANCE REPORT**

The corporate governance report is published with a separate auditors statement on page 60 in this document.

**PARENT COMPANY**

The parent company primarily manages group-wide functions such as legal, finance, and investor relations. Most distributor agreements are with the parent company.

At the end of the year the parent company had 3 (3) employees. The average number of employees during the year was 3 (3).

- Sales amounted to SEK 1,233 M (1,450)
- Operating result amounted to SEK 5 M (8)
- Result after net financial items amounted to SEK 71 M (8)
- The parent company's cash and cash equivalents as of December 31, 2019 was SEK 98 M (128)

The parent company's revenue decreased as the largest game in the portfolio declined during the year. As a consequence costs also decreased. Dividends received impacted net financial items positively compared to last year.

**OUTLOOK**

The group's revenue covers expenses, while excessive cash flow is used to invest for future growth: funding product development, and investing in a growing user base. Going forward, the management is going to maintain the balance between actively re-investing for future growth and maintaining a sufficient cash position.

**PROPOSED ALLOCATION OF PROFITS**

Earnings in the Parent Company at the disposal of the Annual General Meeting (KSEK):

Share premium reserve	50,554
Profit carried forward	47,909
Net result for the year	69,524
<b>Total</b>	<b>167,986</b>

The Board of Directors proposes that dividends be paid in an amount of SEK 2.50 (2.50) per share.

The Board of Directors proposes that the earnings be disposed of as follows:

To be distributed to the shareholders	22,554
To be carried forward to new account	145,432
<b>Total</b>	<b>167,986</b>

**STATEMENT BY THE BOARD OF DIRECTORS PURSUANT TO CHAPTER 18 SECTION 4 OF THE COMPANIES ACT**

The board of directors of G5 Entertainment AB (publ.), org. nr 556680-8878 has proposed that the annual general meeting to be held on June 8, 2020 shall decide on share dividend in an amount of SEK 2.50 for each share. The proposed record day for the share dividend is Wednesday June 9, 2020.

In accordance with chapter 18 section 4 of the Swedish Companies Act the board of director hereby leaves its statement regarding the proposed payment of dividends.

The profits and the financial position of the company are good, as indicated by the balance sheet and the profit and loss account in respect of the financial year 2019. The board of directors has assessed that the proposed payment of dividends would be sufficiently covered by the unrestricted shareholders' equity. The equity ratio and the liquidity will be sufficient, also subsequent to the proposed payment of dividends, and it is believed that the company will be in a position to perform its short term and long term obligations.

It is the opinion of the board of directors that the proposed payment of dividend is justifiable taking into account (i) the demands which the nature, scope and risks of the operations impose on the shareholders' equity of the company and (ii) the consolidation requirements, liquidity and financial position of the company in general. In the assessment has taken into account the requirements of the consolidated nature, scope and risks on the Group's equity and the consolidation requirements, liquidity and position in general.

Any fair value measurement of assets or liabilities of the parent company, in accordance with Chapter 4 Section 14 § Annual Accounts Act (1995: 1554), has not taken place.

The Board of director was given an authorization to issue ordinary shares at the annual general meeting on May 8, 2019. If the board of directors exercises the authorization prior to the annual general meeting 2020, the above statement shall be equivalent to the potential additional dividend.



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# GROUP FINANCIAL RESULTS

## INCOME STATEMENT – GROUP

KSEK	Note	2019	2018
Net turnover	C3	1,233,039	1,450,025
Cost of revenue		-533,044	-703,049
<b>Gross profit</b>		<b>699,995</b>	<b>746,976</b>
Research and Development expenses		-184,147	-140,514
Sales and Marketing expenses		-389,471	-399,780
General and administrative expenses		-74,108	-63,516
Other operating income		827	1,210
Other operating expenses		-1,280	-928
<b>Operating result</b>	C4, C5, C6, C7, C8, C17	<b>51,817</b>	<b>143,448</b>
Financial income		1,103	312
Financial expenses		-1,212	-152
<b>Operating result after financial items</b>	C9	<b>51,707</b>	<b>143,607</b>
Taxes	C10	-6,679	-14,797
<b>NET RESULT FOR THE YEAR</b>		<b>45,028</b>	<b>128,811</b>
<b>Attributed to:</b>			
Parent company's shareholders		45,028	128,811
<b>Earnings per share</b>			
	C14		
Weighted average number of shares (thousands)		8,993	8,914
Weighted average number of shares after dilution, (thousands)		9,062	9,044
Earnings per share (SEK) before dilution		5.01	14.45
Earnings per share (SEK) after dilution		4.97	14.24

## STATEMENT OF COMPREHENSIVE INCOME – GROUP

KSEK	2019	2018
<b>Net result for the year</b>	<b>45,028</b>	<b>128,811</b>
<b>Items that later can be reversed in profit</b>		
Foreign currency translation differences (net after tax)	15,551	8,780
<b>Total other comprehensive income for the year</b>	<b>15,551</b>	<b>8,780</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>60,579</b>	<b>137,591</b>
<b>Attributed to:</b>		
Parent company's shareholders	60,579	137,591

**BALANCE SHEET - GROUP**

KSEK	Note	Dec 31, 2019	Dec 31, 2018
<b>Fixed assets</b>			
<b>Intangible assets</b>			
Capitalized development costs	C11	211,419	198,083
		<b>211,419</b>	<b>198,083</b>
<b>Tangible fixed assets</b>			
Equipment	C12	31,412	11,268
		<b>31,412</b>	<b>11,268</b>
Deferred tax assets	C10	37,526	64,389
<b>Total fixed assets</b>		<b>280,357</b>	<b>273,741</b>
<b>Current assets</b>	C15, C21		
Accounts receivable		1,463	3,713
Tax receivable	C10	2,548	9,928
Other receivable		9,684	4,427
Prepaid expenses and accrued income	C17	101,983	103,079
Cash and cash equivalents		152,268	138,531
<b>Total current assets</b>		<b>267,946</b>	<b>259,677</b>
<b>TOTAL ASSETS</b>		<b>548,303</b>	<b>533,418</b>
<b>Equity</b>	C13		
Share capital		928	898
Other capital contribution		50,615	48,448
Other reserves		23,660	10,312
Profit brought forward		310,404	287,836
<b>Total shareholders' equity</b>		<b>385,607</b>	<b>347,494</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	C10	12	-
Non-current liabilities		4,150	-
<b>Total non-current liabilities</b>		<b>4,162</b>	<b>-</b>
<b>Current liabilities</b>	C21		
Short term		10,490	-
Accounts payable	C19	26,546	25,818
Other liabilities		1,026	5
Tax liabilities	C10	55,524	76,822
Accrued expenses	C17	64,947	83,279
<b>Total current liabilities</b>		<b>158,534</b>	<b>185,924</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>548,303</b>	<b>533,418</b>

## CHANGES IN SHAREHOLDERS' EQUITY – GROUP

KSEK	Share capital	Other capital contribution	Other reserves	Profit/loss brought forward	Shareholders' equity
<b>Shareholders' equity 2018-01-01</b>	<b>880</b>	<b>55,959</b>	<b>1,532</b>	<b>172,107</b>	<b>230,478</b>
Net result for the year				128,811	128,811
Correction from previous periods <sup>1</sup>				9,142	9,142
Total other comprehensive income			8,780		8,780
<b>Total comprehensive income for the year</b>			<b>8,780</b>	<b>137,953</b>	<b>146,733</b>
Dividend				-22,224	-22,224
Premiums paid on exercised/issued warrants	18	16,657			16,675
Repurchase of warrant		-24,168			-24,168
<b>Total transactions with the owners recognized directly in equity</b>	<b>18</b>	<b>-7,511</b>		<b>-22,224</b>	<b>-29,917</b>
<b>Shareholders' equity as of 2018-12-31</b>	<b>898</b>	<b>48,448</b>	<b>10,312</b>	<b>287,836</b>	<b>347,494</b>
<b>Shareholders' equity 2019-01-01</b>	<b>898</b>	<b>48,448</b>	<b>10,312</b>	<b>287,836</b>	<b>347,494</b>
Net result for the year				45,028	45,028
Total other comprehensive income			15,533		15,533
<b>Total comprehensive income for the year</b>			<b>15,533</b>	<b>45,028</b>	<b>60,561</b>
Transitional effect IFRS16			-466		-466
Dividend				-22,460	-22,460
Share issue - Class C	26				26
Share repurchase - Class C			-26		-26
Premiums paid on exercised/issued warrants	4	3,769			3,773
Repurchase of warrant		-1,602			-1,602
IFRS2 - Employee share schemes			-1,693		-1,693
<b>Total transactions with the owners recognized directly in equity</b>	<b>30</b>	<b>2,167</b>	<b>-2,185</b>	<b>-22,460</b>	<b>-22,448</b>
<b>Shareholders' equity as of 2019-12-31</b>	<b>928</b>	<b>50,615</b>	<b>23,660</b>	<b>310,404</b>	<b>385,607</b>

<sup>1</sup>Correction relates to deferred tax from previous periods in the groups subsidiary in Malta.



**CASH FLOW - GROUP**

KSEK	Note	2019	2018
<b>Cash flow from operating activities</b>			
Operating result after financial items		51,707	143,607
Adjusting items not included in cash flow	C22	125,911	96,161
Taxes received/paid		6,579	-12,556
<b>Cash flow before changes in working capital</b>		<b>184,197</b>	<b>227,212</b>
<b>Cash flow from changes in working capital</b>			
Decrease in operating receivables		-421	37,016
Increase in operating liabilities		-15,097	-46,722
<b>Cash flow from operating activities</b>		<b>168,679</b>	<b>217,506</b>
<b>Investing activities</b>			
Investing in equipment	C12	-8,410	-7,487
Investment in intangible assets	C11	-1,881	-19,325
Investing in capitalized development costs	C11	-114,166	-115,991
<b>Cash flow from investing activities</b>		<b>-124,457</b>	<b>-142,803</b>
<b>Financial activities</b>			
Lease payments, IFRS16		-10,460	-
Dividend		-22,460	-22,224
Share issuance - C class		26	-
Repurchase shares - C class		-26	-
Premiums warrant program		3,773	16,657
Repurchase of issued warrants		-1,602	-24,168
<b>Cash flow from financial activities</b>		<b>-30,749</b>	<b>-29,735</b>
<b>Cash Flow</b>		<b>13,473</b>	<b>44,968</b>
<b>Cash at the beginning of the year</b>			
Cash flow		13,473	44,968
Exchange rate difference		264	2,369
<b>Cash at the end of the year</b>		<b>152,268</b>	<b>138,531</b>

# GROUP NOTES

## Note C1 – Accounting principles

### General information

G5 Entertainment AB (publ) is the parent company for a group with the following active companies: G5 Holdings Ltd. (Malta), G5 Holding RUS LLC (Russia), G5 Entertainment Inc (USA), and G5 Holding UKR LLC (Ukraine).

G5 Entertainment AB (publ), reg nr 556680-8878 is listed on the Nasdaq Stockholm since June 10, 2014.

The Annual Report and consolidated financial statements were approved for publication by the Board of Directors on April 28, 2020. The group and parent company balance sheets and income statements are subject to approval by the Annual General Meeting of shareholders.

### Basis for preparation

The G5 group consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations committee (IFRIC) approved by the European Commission for application, the Swedish Annual Accounting Act and the Swedish Financial Reporting Board, RFR 1 for group has been applied.

The consolidated financial statements have been prepared under the historical cost convention. No assets or liabilities have been accounted at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the section "Judgments and estimates in the financial statements".

Accounting policy for the parent company, see Note P1.

### Fiscal year info

Fiscal year 2019 is from January 1, 2019 up to December 31, 2019.

### Functional currency and reporting currency

The parent company's functional currency is the Swedish krona, which is also the reporting currency of the parent company and group. Thus, the financial statements are published in Swedish kronor. All amounts are rounded to the nearest thousand Swedish kronor (KSEK) unless stated otherwise.

### Judgments and estimates in the financial statements

The company regularly reviews estimates and assumptions. Changes to estimates are recognized in the period when the change is made if the change only affected that period. If the change affects current and future periods, it is recognized in the period when the change is made and in future periods.

Assessments made by the management related to the application of the IFRS that may have a significant impact on the financial reports and estimates that may entail significant adjustments in the financial reports of subsequent years pertain can be read in the note C2 - Critical estimates and judgments.

### Changes in accounting policy and disclosures

#### New and amended standards approved by the European Commission

- G5 has adopted IFRS 16 Leases. IFRS 16, 'Leases' supersedes IAS 17 Leases. From the adoption almost all leases are being recognized on the balance sheet for G5 Entertainment as lessee, as the distinction between operating and finance leases has been removed. Short term leases and leases of low value are exempt. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are to be recognized. The transition method that the Group has elected to apply for application of IFRS 16 entails that comparative information has not been restated to reflect the new requirements. For more information on the accounting policies see note C1.

#### New standards and interpretations not yet adopted by the group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, which have not been applied in preparing these consolidated financial statements. None of these are expected to have a material impact on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Group.

#### Classification

Fixed assets and non-current liabilities in all material respects comprise amounts expected to be recovered or paid after more than 12 months from year-end. Current assets and current liabilities in all material respects comprise amounts expected to be recovered or paid within 12 months of year-end.

#### Consolidated principles

##### Subsidiaries

Subsidiaries are all entities over which the Group has control. The group controls a company when it is exposed to, or has the right to, variable returns from its holdings in the company and have the ability to affect yields through its influence in the company. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used by the group to account for business combinations. With this method, acquisition of a subsidiary is regarded as a transaction whereby the group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis establishes the fair value of acquired identifiable assets and assumed liabilities on the acquisition date, as well as any non-controlling interest. Transaction expenses, except for transaction fees attributable to issued equity or debt instruments are recognized directly in profit/loss for the year.

In business combinations in which the transferred payment, any non-controlling interest, and fair value of previously held interest (for incremental acquisitions) exceeds the fair value of acquired assets and assumed liabilities that are recognized separately, the difference is recognized as goodwill. When the difference is negative, it is recognized directly in profit/loss for the year. Contingent considerations are recognized at fair value on the date of acquisition. In cases where contingent considerations are presented as equity instruments, no revaluation is done and adjustments are made in equity. Other contingent considerations are revalued

at each reporting date and the change is recognized in profit/loss for the year.

For incremental acquisitions, goodwill is determined on the date control is taken. Previous holdings are assessed at fair value and changes in value are recognized in profit/loss for the year. Disposals leading to loss of controlling interest but where holdings are retained are assessed at fair value, and the change in value is recognized in profit/loss for the year.

Subsidiaries' financial statements are included in the consolidated accounts from the acquisition date until the date on which the controlling influence ceases.

#### Transactions eliminated in consolidation

Intra-group receivables and liabilities, income or expenses, and unrealized gains or losses that arise from intra-group transactions between group companies are entirely eliminated in preparation of the consolidated accounts.

#### Foreign currency translation

##### Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognized in the income statement. Exchange rate differences on trading and liabilities are included in operating profit and loss as other operating gains or other operating losses. Difference in financial receivables and liabilities are accounted in financial items.

#### Group companies

The result and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expenses for each income statement are translated at average exchange rates
- All resulting exchange differences are recognized as a separate component of equity

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are translated as assets and liabilities of the foreign entity and translated at the closing date.

#### Revenue recognition

The main part of revenues (Note C3) in the G5 group comes from agreements with distributors (application stores), such as Apple App Store, Google Play, and Amazon Appstore.

The Group's revenue is made up by the sell of virtual goods that are offered in the game. These are considered to be consumables and that no further performance obligation is present after the good has been delivered to the customer.

For the G5 group this means that revenue is recognized at the time of in-game purchases are made by the smartphone/tablet users.

Revenue is reported including commission to distributors, which usually is 30% of the price for the end-user

Interest income is recognized using the effective interest method and dividends received are reported after the right to the dividend is deemed secure.

In the consolidated accounts, intra-group sales are eliminated.

#### Cost of revenue

Consists of expenses to generate revenue from the company's games. This includes mainly fees to distributors, as well as royalties to external developers.

#### Research and Development expenses

Consists mainly of salaries, bonuses and other benefits for the company's developers. It also includes external services, premises, software and hardware and other indirect costs attributable to the company's research and development. Development expenses that are directly attributable to the development and testing of the company's games are capitalized as intangible assets and amortized over a 24-month period. Amortization and write-downs of the games portfolio is included in Research and Development.

#### Sales and Marketing expenses

Composed primarily of the acquisition costs for users. It also includes salaries, bonuses and other benefits for staff in sales and marketing, as well as certain consulting costs. In addition, sales and marketing expenses include general marketing, brand operations, advertising and promotional costs.

#### General and administrative expenses

Composed primarily of salaries, bonuses and other benefits for management, finance department, IT, human resources and other administrative staff, as well as the support department. It also includes external consultants, legal services, certain accounting, insurance and office expenses and other indirect costs that are not allocated to other functions. In addition, all included depreciation and amortization not attributable to the company's games.

#### Leasing

The group leases offices. Rental contracts are typically made for fixed periods of 1 year to 5 years, but may have extension options. Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the lessee's incremental borrowing rate.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Extension and termination options are included in a number of property leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The extension and termination options held are exercisable only by the group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Most extension options in offices leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

### Financial revenue and expenses

Financial revenue and expenses comprise interest income on bank balances and receivables, interest expenses on liabilities and exchange rate differences.

### Intangible assets

#### Capitalized development expenses

Development expenses are only capitalized if the expenses are expected to result in identifiable future financial benefits that are under the control of the group, and it is technologically and financially possible to complete the asset. The costs that can be capitalized are costs that are invoiced externally, direct costs for labor and a reasonable portion of indirect costs. Other development costs are expensed in the income statement as they arise. Capitalized development costs are accounted at acquisition value, less deductions for accumulated amortization.

Amortization of capitalized development costs occurs when the asset has been active for six months. The first six months are used to prepare and calibrate the product, no depreciation is therefore immediately after launch. Ongoing capitalized development costs, that is, where the depreciation has not yet commenced, is regularly tested for impairment in accordance with the principle described in the section "Impairment of Assets".

Supplementary expenditure for capitalized intangible assets is accounted as an asset only if it increases the future financial benefits for the specific asset to which they are attributable. The carrying amount of the asset is removed from the balance sheet upon disposal, or when no future financial benefits are expected from the use or disposal of the asset. The gain or loss resulting when an intangible fixed asset is removed from the balance sheet is accounted in the income statement. The gain or loss is calculated as the difference between the potential net revenue from the divestment and the asset's carrying amount.

### Tangible fixed assets

Expenditure for tangible fixed assets is accounted in the balance sheet when it is likely that the future financial benefits associated with the asset will arise for the group and the asset's acquisition value can be reliably calculated. Tangible fixed assets are accounted at acquisition value less accumulated depreciation according to plan and potential write-downs. The acquisition value comprises the purchase price directly attributable to the asset. The carrying amount of the asset is removed from the balance sheet upon disposal or divestment, or when no future financial benefits are expected from the use or disposal/ divestment of the asset.

The gain or loss that results when a tangible fixed asset is removed from the balance sheet is accounted in the income statement. The gain or loss is calculated as the difference between the potential net revenue from the divestment and the asset's carrying amount.

### Depreciation and amortization

#### Intangible fixed assets

For intangible fixed assets with finite useful lives, amortization is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Intangible fixed assets with indeterminable useful lives are not amortized. Instead, an impairment test is applied pursuant to IAS 36 by comparing the asset's recoverable value and its carrying amount. This test is conducted annually, or at any time there are indications of value impairment of the intangible asset. Evaluations of amortization methods and useful lives are conducted annually.

The following depreciation periods are applied:

Subject of amortization	Amortization period,
Capitalized development costs	2 years

#### Tangible fixed assets

After first-time accounting, tangible fixed assets are accounted in the balance sheet at acquisition value less accumulated depreciation and potential accumulated write-downs. The depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Evaluations of depreciation methods and useful lives are conducted annually.

The following depreciation periods are applied:

Subject of depreciation	Depreciation period
Office furniture	10 years
Computer equipment	5 years

### Write-downs of tangible and intangible assets

Carrying amounts for the group's assets are verified at each year-end to determine whether there is any indication that the asset's value may have decreased. If so, the asset's recoverable value is calculated, defined as the greater of fair value less selling expenses and value in use. Intangible assets with indeterminable useful life, goodwill and ongoing capitalized development cost are tested for impairment at least annually. When calculating value in use, future payments surpluses the asset is expected to generate are discounted at a rate corresponding to risk-free interest and the risk associated with the specific asset. The recoverable value of the cash-generating unit to which the asset belongs is calculated for assets that do not generate cash flow that is essentially independent of other assets. If the recoverable value of the asset is less than the carrying amount, a write-down is affected. Write-downs are posted to the income statement.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax is also affected by adjustment of current tax of prior periods

Deferred taxes are estimated in accordance with the liability method, based on temporary differences between the tax bases of assets and liabilities and their carrying amounts. The following temporary differences are not taken into consideration; temporary differences arising on the initial recognition of goodwill, the initial recognition of assets and liabilities that are not business combinations and, which on the transaction date did not affect the recognized or taxable result. Furthermore, temporary differences are not taken into consideration that are attributable to investments in subsidiaries and associated companies and, which are not expected to be reversed within the foreseeable future. The measurement of deferred tax is based on how the carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is measured using the tax rates and tax regulations which, have been enacted or which in practice were enacted on the balance sheet date.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets in respect of deductible temporary differences and loss carry-forwards are only recognized to the extent that it is probable that they can be utilized. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilized.

### Employee benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

The pension benefits are only defined contribution plans. The group has no defined benefit plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

### Financial instruments

#### Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Financial liabilities within the G5 group are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The effective interest method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liabilities.

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis.

#### Classification

The G5 group classifies its financial assets and liabilities for the financial year 2018 and 2019 in the following categories:

Loans and receivables and financial liabilities measured at amortized costs.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The group's loans and receivables comprise account receivables, other receivables, accrued income and cash and bank in the balance sheet.

Accounts receivable and other receivables are reported in the amounts that are expected to be received after deductions for bad debts, which are assessed on an individual basis. The expected term of accounts receivable and other receivables in the group is short, which is why the amount is reported at nominal value without discounting. Any impairment is reported in operating expenses.

#### Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### Financial liabilities measured at amortized costs

The group's financial liabilities measured at amortized costs comprise account payable, other liabilities and main part of accrued expenses.

The liabilities are recognized initially at fair value, net of transaction costs and subsequently measured at amortized costs.

The expected term of the liabilities in the group is short, which is why the amount is reported at nominal value without discounting.

#### Impairment of financial assets

##### Loans and receivables

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments.

#### Earnings per share

Earnings per share have been calculated pursuant to IAS 33. Earnings per share are calculated by earnings attributable to holders of ordinary shares of the parent company are divided by the weighted average number of ordinary shares at the end of the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by assuming conversion of all dilutive potential ordinary shares. For the warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (based on the days the share price has exceeded the strike price for each warrant program) based on the monetary value of the subscription rights attached to outstanding warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants.

#### Contingent liabilities

Contingent liabilities are potential commitments sourced from events that have occurred and whose incidence may be confirmed only by one or more uncertain future events occurring or not occurring, which do not lie entirely within the group's control. Contingent liabilities may also be existing commitments sourced from events that have occurred but that are not accounted as a liability or provision because it is unlikely that an outflow of resources will be necessary to settle the commitment, or the size of the commitment cannot be estimated with sufficient reliability.

#### Cash flow statement

The cash flow statement has been prepared pursuant to the indirect method. Cash flow from operating activities is calculated proceeding from net profit/loss. The profit-loss is adjusted for transactions not involving payments made or received changes in trade-related receivables and liabilities, and for items attributable to investing or financing activities.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. At present, the group has no short-term investments.

#### Segment reporting

G5's business, development and sales of casual games for mobile platforms, is global, and both games and sales channels are the same regardless of where the players are. The company measures revenue for each game, but does not divide all costs, assets and liabilities by game. The operations and the Group's financial performance and position cannot be divided into different segments in such a way that it improves the ability to analyze and manage the company. The CEO is the Chief operating decision maker and for this reason, the CEO analyzes the consolidated financial position of the Group as a whole, i.e. as one segment.

#### Note C2 – Critical estimates and judgments

The preparation of accounts and the application of accounting policies is often based on the management's judgments and on estimates and assumptions that are deemed to be reasonable at the time the judgment was made. However, the result may be different using different judgments, assumptions and estimates and events can occur which can require an adjustment of the carrying amount of the asset or liability in question.

The accounting policies whose application is based on such judgments are described below and the most important sources of uncertainty in the estimates that the company believes may have the most important impact on the group's reported results and financial position.

The information in this note refers to those areas, where risk of future adjustments of carrying amounts is greatest.

#### Capitalized development expenditure

The basis for calculating the future value of capitalized development expenses is based on future revenues. For capitalized development expenses that have not yet been taken into use, historical data for comparable games is used.

Capitalized development expenses are tested quarterly for impairment by a calculation of future income which, in some cases, include estimates and judgments about future events that may affect the value. For more information, see Note C11.

#### Deferred tax assets

To determine the current tax liabilities and current tax assets as well as the provisions for deferred tax liabilities and deferred tax assets management needs to make estimates and judgments, especially in the valuation of deferred tax assets. In this process the tax result of each of the countries in which the group conducts its business needs to be evaluated. The process includes assessing the actual current tax exposure together with assessing that temporary differences resulting from certain assets and liabilities are valued differently in the accounts and tax returns. Management must also assess the likelihood that deferred tax assets can be realized in future periods through the generation of taxable profits. For more information regarding deferred tax assets and liabilities, see note C10.

**Note C3 – Classification of revenue and fixed assets**

Revenue split by countries	2019	2018
Sweden	1,233,039	1,450,025
Other countries	0	0
<b>Total</b>	<b>1,233,039</b>	<b>1,450,025</b>

The revenue from end customers is administrated and managed through the distributors. The Company has no customer who generates more than 10% of the company's revenue.

Of the company's revenue 99% (99%) is related to free-to-play games.

Fixed assets (tangible and intangible asset) split by countries	2019	2018
Malta	212,384	197,790
Other countries	30,447	11,562
<b>Total</b>	<b>242,831</b>	<b>209,352</b>

The split of revenues and fixed assets are attributed to the entity's domicile.

**Note C4 – Expenses by nature**

	2019	2018
Fees to distributors	375,304	440,378
Royalty to developers and license fees	157,740	262,671
Research and development	70,457	63,029
Sales and marketing	369,540	386,244
Staff costs	179,149	127,911
Amortization and write-downs of capitalized development costs	110,417	92,354
Capitalized costs	-116,047	-115,992
Other costs	34,663	46,457
<b>Total</b>	<b>1,181,223</b>	<b>1,303,053</b>

**Note C5 – Audit fees**

	2019	2018
Auditing within the audit assignment		
PwC	912	877
Other auditing tasks		
PwC	155	247
<b>Total</b>	<b>1,066</b>	<b>1,124</b>

"Audit assignment" refers to the auditing of the annual report and accounting, including the Board's and CEO's administration, as well as other duties that the company's auditor are required to perform and advice on, or other support brought about by observations from auditing or conducting similar task. Everything else is considered to be audit business beyond the audit assignment. Of the total fee for audit assignments of 1,066 KSEK, 767 KSEK is invoiced by PricewaterhouseCoopers (PwC) in Sweden for the statutory audit. Other auditing tasks are invoiced from PwC in Sweden, PwC Malta and PwC Japan and related to tax advice (including VAT treatment) and accounting-related advice.

**Note C6 – Employees**

The staff consists of employees in the active subsidiaries.

Gender distribution	2019	2018
Men	350	285
Women	244	205
<b>Total</b>	<b>594</b>	<b>490</b>

Average number of employees by country (of which women)	2019	2018
Sweden	3 (2)	3 (1)
Malta	7 (4)	8 (4)
Russia	199 (70)	135 (48)
Ukraine	378 (165)	339 (150)
USA	7 (3)	5 (2)
<b>Total</b>	<b>594 (244)</b>	<b>490 (205)</b>

Executive management team	2019	2018
Men	3	3
Women	-	-
<b>Total</b>	<b>3</b>	<b>3</b>

Board of directors	2019	2018
Men	5	5
Women	1	1
<b>Total</b>	<b>6</b>	<b>6</b>

**Note C7 – Remuneration to staff including CEO, members of the executive management team, and board of directors**

Total staff remuneration	2019	2018
Salaries and variable remuneration	149,208	107,177
- of which CEO and senior executives	7,218	10,537
Social security*	29,941	20,139
- of which CEO and senior executives	1,061	1,031
<b>Total</b>	<b>179,149</b>	<b>127,316</b>

\*of which pension costs 773 (595) KSEK. of which to CEO and executive management 266 (397) KSEK

The CEO and other senior executives are remunerated partly by a fixed monthly salary and partly through variable compensation based on the groups profitability.

The CEO's variable compensation during the year may not exceed 80 percent of the fixed salary, divided so that 60 percent is based on the Company's financial development and 20 percent is based on targets determined by the board of directors. The COO's variable compensation may not exceed 70 per cent of the fixed salary, divided so that 55% shall be based on the Company's financial development and 15 per cent shall be based on targets determined by the board of directors. The variable compensation to the other executive management may not exceed 60 percent of the fixed salary and shall be based on the Company's financial development.

Variable compensation based on the Company's financial development shall be calculated quarterly on the basis of the Company's revenue growth and operating margin. A target range and a sum of normalized results are defined for both parameters. This in turn defines the result. The variable compensation is paid in the form of salary not conferring pension rights.

The pension plan is to be at a market level and alike for senior executives as for other employees. The pension premium shall be defined contribution. Similarly, other benefits for senior executives shall be at a market level, competitive and in substance alike as for other employees. Senior executives, including the CEO, shall be offered to participate in long-term incentive programs, if established by the Company.

The employment agreements with senior executives shall contain a notice period of at least 3 months for the employees and a maximum of 12 months from the Company. Upon termination by the Company a severance pay may at most be equal to the fixed monthly salary for 12 months. The contracts of the CEO and the members of the executive management team include certain non-compete provisions for the period of employment and six months after the termination of employment.

The annual general meeting 2019 resolved that the remuneration to the chairman of the Board should amount to SEK 450,000 and SEK 250,000 each to the other members. In addition an annual fee is paid to the members of the audit committee, SEK 80,000 to the chairman and SEK 50,000 to the other members and an annual fee is paid to the members of the remuneration committee, SEK 50,000 to the chairman and SEK 30,000 to the other members.

The tables below summarizes remuneration to the board and managers:

Remuneration to the board and managers 2019	Salary/ board fee	Pension	Variable compensation	Other benefits/ compensation
Petter Nylander (chairman)	560			
Christopher Carvalho (director)	204			229
Johanna Fagrell Köhler (director)	300			
Stefan Lundborg (director)	301			
Jeffrey Rose (director)	250			747
Vlad Suglobov (CEO, director)	4,249	131	-	255
Executive management team (2 persons)	3,075	135	-	2
<b>Total</b>	<b>8,953</b>	<b>266</b>	<b>0</b>	<b>1,233</b>

Remuneration to the board and managers 2018	Salary/ board fee	Pension	Variable compensation	Other benefits/ compensation
Petter Nylander (chairman)	539			
Christopher Carvalho (director)	342			368
Johanna Fagrell Köhler (director)	272			
Stefan Lundborg (director)	242			
Jeffrey Rose (director)	292			955
Vlad Suglobov (CEO, director)	3,551	277	2,368	230
Executive management team (2 persons)	2,934	120	1,684	1
<b>Total</b>	<b>8,172</b>	<b>397</b>	<b>4,052</b>	<b>1,554</b>



**Note C8 – Other operating gains and losses**

	2019	2018
Currency exchange gains	827	1 210
<b>Other operating gains</b>	<b>827</b>	<b>1 210</b>
Currency exchange losses	-1,280	-928
<b>Other operating losses</b>	<b>-1,280</b>	<b>-928</b>
<b>Total other operating gains and losses</b>	<b>-453</b>	<b>282</b>

**Note C9 – Financial income and expenses**

	2019	2018
Interest	1,103	312
<b>Financial income</b>	<b>1,103</b>	<b>312</b>
Other	-1,212	-152
<b>Financial expenses</b>	<b>-1,212</b>	<b>-152</b>
<b>Financial income and expenses</b>	<b>-109</b>	<b>160</b>

**Note C10 – Taxes**

Income tax expenses	2019	2018
Current tax	-9,031	-50,951
Deferred tax	2,352	36,154
<b>Total tax expenses</b>	<b>-6,679</b>	<b>-14,797</b>

The tax on the group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applied to profit of the consolidated entities as follows:

Actual tax charge	2019	2018
Profit / loss before tax	51,707	143,607
Tax according to current tax rate 21,4% (22%)	-11,065	-31,594
Tax effect from income exempted from tax	319	122
Tax effect from non-deductible expenses	-918	-1,987
Taxes recoverable*	10,767	40,850
Adjustment for tax rates in foreign subsidiaries	-4,388	-16,789
Tax effect of deferred tax asset not accounted for	-	-
Tax effect of previous deferred tax assets not accounted for	-	-
Other	-1,394	-5,399
<b>Tax charge</b>	<b>-6,679</b>	<b>-14,797</b>

\*Taxes recoverable are related to the subsidiaries on Malta. In Malta the company is taxed with 35% on profit before tax. When dividend is distributed from the Maltese entities, taxes are recovered which means that the long-term tax rate is 5%. A deferred tax asset is accounted for based on the distributable profits in the maltese subsidiaries.

**Non-recognised deferred tax assets**

The group has no deductible temporary differences and losses carry-forwards for tax purposes for which deferred tax assets have not been recognised in the income statement and balance sheet:

Deferred tax reconciliation	2019		2018	
	Deferred tax assets	Deferred tax liability	Deferred tax assets	Deferred tax liability
Intangible assets	-	-6,783	1,324	-
Taxes recoverable	44,309	-	63,064	-
Accrued expenses	-	-	-	-
Other	-	-12	1	-
<b>Total</b>	<b>44,309</b>	<b>-6,795</b>	<b>64,389</b>	<b>-</b>
Offsetting	-6,783	6,783	-	-
<b>Net deferred tax asset</b>	<b>37,526</b>	<b>-12</b>	<b>64,389</b>	<b>-</b>

	Amount at the beginning of the year	Income statement	Reclassification over balance sheet	Recalculation differences	Amount at the end of the year
Intangible assets	1,323	-8,213	-	107	-6,783
Taxes recoverable	63,064	10,565	-29,535	215	44,309
Other	1	-	-13	-	-12
<b>Total</b>	<b>64,389</b>	<b>2,352</b>	<b>-29,548</b>	<b>322</b>	<b>37,514</b>

**Note C11 – Intangible fixed assets**

Change of intangible fixed assets	2019	2018
<b>Beginning of the year</b>	<b>198,084</b>	<b>115,432</b>
Investments	116,047	153,527
Write-downs	-7,455	-4,499
Amortization	-102,962	-87,855
Currency exchange difference	7,705	21,479
<b>End of the year</b>	<b>211,419</b>	<b>198,084</b>

**Accumulated capitalized development costs**

	2019	2018
Accumulated costs	628,821	505,069
Accumulated amortization	-371,079	-268,117
Accumulated write-downs	-46,322	-38,867
<b>Net amount</b>	<b>211,419</b>	<b>198,084</b>

Capitalized development expenses are distributed according to the below table. The company separates released and not released games where not released games include games that have been active in the app stores for less than 6 months as this initial period is needed for optimization of the game. During the initial 6 month period after launch the company does not amortize the games. The development time is normally 6-12 months, meaning that the amortization of these games will probably begin in 2020 or 2021.

	2019	2018
Released games	134,134	160,080
Not released games	77,285	38,004
<b>Net value of games portfolio</b>	<b>211,419</b>	<b>198,084</b>

**Impairment testing of capitalized development costs**

An impairment test of the entire gaming portfolio is performed regularly, both published games and games that are still under development. Every game is considered a cash-generating unit. For games that are still not launched the revenues are projected for a period of 36 months after the launch of the game. The forecast is usually based on historic sales patterns for comparable games. For launched games that are demonstrating a potential write-down, a discounted cash flow model is used which is then compared to the book value of the game. The model is calculating a free cash flow during, at the most, 48 months. In the model a discounting factor (WACC) of 13%(13%) is used.

Based on management's assessment of the revenue potential in mainly the unlockable game and development portfolio, write-downs of capitalized development costs was done during the year. Of the write-down amount, nothing was attributable to games still under development.

**Note C12 – Tangible fixed assets**

Change of tangible fixed assets	2019	2018
<b>Beginning of the year</b>	<b>11,268</b>	<b>8,176</b>
Investments	11,690	7,487
Leased assets	24,479	-
Depreciation	-5,165	-3,806
Amortization leased assets	-10,328	-
Currency exchange difference	-533	-588
<b>End of the year</b>	<b>31,412</b>	<b>11,268</b>

**Accumulated equipment**

	2019	2018
Accumulated costs	60,849	25,213
Accumulated depreciation / write-downs	-29,436	-13,943
<b>Net amount</b>	<b>31,412</b>	<b>11,268</b>

**Note C13 – Equity**

G5 Entertainment AB has two share classes, ordinary shares and c-shares. The company has during the year issued 260,000 c-shares which were all repurchased by the company. By the end of 2019 there were 9,021,350 ordinary shares and 260,000 c-shares, each with a par value of 0.1 SEK.

Outstanding shares	2019	2018
Ordinary shares at the end of the year*	9,021,350	8,983,850
Weighted average number of ordinary shares	9,062,374	9,044,372

\*There are also 260,000 c-shares that are held by the company.

From 2012 the group had a long-term warrant program as a long-term incentive program which was extended and increased at the 2017 annual general meeting.

At the annual general meeting 2018 no new program was suggested, a new program was instead decided at an extraordinary general meeting in November 2018. The new program was a performance share program which at most could comprise of 120,000 performance shares. An identical performance share program was decided at the annual general meeting 2019 with a maximum of 140,000 performance shares. Target for the programs is total shareholder return, which in the suggestion to the general meeting is stated as an increase in share price. The program can at most give the holder one ordinary share per performance share and the allocation is made on a sliding scale as can be seen in the table below, corresponding to an increase of 95 and 205 percent respectively from the measurement period after the extraordinary general meeting.

If a participant of the program ends the position at G5, the performance shares are terminated.

Date of issue	Number of performance shares	Weighted share price at issuance	Price for minimum allocation	Price for maximum allocation	Exercise period
November 15, 2018	106,350	179.7	350.4	548.0	May 2021
May 15, 2019	135,550	95.4	186.0	291.0	May 2022

Outstanding warrants from previous years can be seen in the below table.

Date of issue	Number of warrants	Warrant price	Strike price	Exercise period
June 9, 2017	294,750	5.56	648.00	Juni 10, 2020 – september 10, 2020

### Dividend

The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 2.50 (2.50) per share to the shareholders.

### Other reserves

Other reserves consist of exchange differences on net investment from reported entity's (subsidiaries) and exchange differences on receivables that forms part of a reporting entity's net investment.

### Note C14 – Earnings per share

	2019	2018
Net profit for the year (SEK M)	45,028	128,811
Weighted average number of share used as denominator		
Issued shares	8,993,225	8,983,850
Adjustment for calculation of diluted earnings per share		
Warrants	69,149	130,000
Weighted average number of shares after dilution	9,062,374	9,044,372
Earnings per share before dilution	5.01	14.34
Earnings per share after dilution	4.97	14.24

### Note C15 – Account receivables and other receivables

#### Account receivables

In 2019, there was no (0) write-downs for account receivables. As of December 31, 2019, there were no significant account receivables or other receivables that were due for payment. All the group's accounts receivables have a maturity of less than three months.

Maturity of account receivables	2019	2018
0-3 months	1,463	3,713
More than 3 months	-	-

#### Other receivables

For development projects (development of the games), G5 partly use external developers. Agreed consideration is a combination of upfront and royalty-based payments. Prior to the development of new games there are sometimes agreements to pay advances to the developers. These advances are included in other receivables. As of December 31, 2019, the total advances to external developers amounted to SEK 468,000 (1,617,000).

Maturity of other receivables	2019	2018
0-3 months	9,684	4,427
More than 3 months	0	0

All development projects are continuously evaluated in order to ensure their profit potential, by comparing forecasted revenue with total development costs.

The agreements with external developers normally includes an opportunity for G5 to recover the advances if a development project does not go as planned. These development companies are however often small, and lacks the financial resources to repay the advances. G5's primary credit management mechanism is therefore to carefully evaluate the potential of all development projects before they begin.

During 2019 there was no write-downs (0 KSEK) advances to external developers.

**Note C16 – Related parties**

Transactions with related parties consist of transactions between group companies, fees to the board, CEO and other managers, the performance share program, fees paid to the board member Jeffrey Rose for legal advice in the USA and consultancy fees paid to board member Chris Carvalho for strategic counseling (see note C7). CEO Vlad Suglobovs wife has been an independent contractor to the Group during the year and received remuneration amounting to 378 (351) KSEK, all remuneration is approved by the Board.

**Note C17 – Accrued receivables and expenses**

	2019	2018
Accrued income	96,118	99,043
Other	5,865	4,036
<b>Prepaid expenses and accrued income</b>	<b>101,983</b>	<b>103,079</b>
Royalty	-49,682	-71,487
Marketing expense	-6,855	-4,719
Other	-8,410	-7,073
<b>Accrued expenses</b>	<b>-64,947</b>	<b>-83,279</b>
<b>Total</b>	<b>37,036</b>	<b>19,800</b>

**Note C18 – Leasing**

The effect of application of IFRS 16 for the Group's leases is described in Note C1, Significant accounting policies. The transition method that the Group has elected to apply for application of IFRS 16 entails that comparative information has not been restated to reflect the new requirements.

**Leases of premises**

The Group only leases premises. G5 Entertainment leases premises for offices. The leases normally have a term of between one and five years.

**Extension and termination options**

Certain leases include extension options and termination options that the Group may or may not exercise up until one year before the expiration of the non-cancellable lease term. Whether or not it is reasonably certain that an option will be exercised is determined on the commencement date of the lease. The Group reconsiders whether or not it is reasonably certain that an option will be exercised if an important event or significant changes in circumstances take place that are within the Group's control. At the latest, an extension of a lease is made in connection with the option's expiration.

Amounts reported in the Statement of profit or loss	2019
Depreciation of right-of-use assets	-10,328
Interest on lease liabilities	-1,212
Costs for short term leases	-360

The group has a short term lease contract where the contract can be terminated within three months.

Amounts reported in the Statement of cash flows	2019
Total outgoing cash flow attributable to leases	-10,820

The outgoing cash flow above includes amounts for leases recognized as a lease liability.

Movement of leased premises	2019
Opening balance	19,233
Investments	2,385
Currency exchange difference	2,861
<b>Closing accumulated cost</b>	<b>24,479</b>
Opening depreciation	-467
Depreciation for the year	-10,328
Currency exchange difference	121
<b>Closing accumulated depreciation</b>	<b>-10,675</b>
<b>Closing planned residual value</b>	<b>13,804</b>

Maturity analysis financial liabilities	2019
Within one year	10,490
Between 1 and 5 years	4,150
More than 5 years	-
Total	14,640

Minimum lease payments under non-cancellable operating leases not recognised in the financial statements:	2018
Within one year	9,687
Between 1 and 5 years	11,642
More than 5 years	0
Total	21,329

Transitional effect to IFRS 16	2019
Operating lease commitments as 31 December 2018	21,329
Discounting impact using the IBR at the date of initial application	-2,006
<b>Discounted operating lease commitments at December 31, 2018</b>	<b>19,323</b>
Short term leases not recognized as liability	-90
<b>Lease liability recognized as at January 1, 2019</b>	<b>19,233</b>

See also note C12 for further information.

**Note C19 – Accounts payable**

Accounts payable consists primarily of invoices related to User acquisition and rent.

**Note C20 – Pledged assets**

The company has no pledged assets (0 KSEK).

**Note C21 – Financial instruments and risk management**

Through its business operations, G5 is exposed to a number of financial risks, including fluctuations in earnings, balance sheet, and cash flow resulting from changes in exchange rates, rates of interest, and risks related to refinancing and credit. Group financial policy for risk management, determined by the board, is a framework of guidelines and regulations in the form of risk mandates and limits for financial operations.

The board of directors has the overall responsibility for the management of financial risks. The daily management is delegated to the chief executive office, and the chief financial officer.

G5 has centralized financial management, which means that the chief responsibility for financial management resides with the parent company.

Risk is managed by the finance department according to principles approved by the board.

The group's financial risks primarily comprise currency risk, credit risk, and liquidity risk. Interest risk is considered marginal as G5, at present, does not have any external funding.

**Currency risk**

Exposure to exchange rate fluctuation arises when the group carries out a large number of business transactions in foreign currency in connection with its business operations (transaction risk). Such exposure derives among others from business transactions between operational units within the group that have different currencies as their functional currency as well as from sales in currencies other than the individual companies' functional currency. G5 is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, the Euro, the Russian Ruble, and the Ukrainian Hryvna. In addition to transaction risk the Group is exposed to translation risk, i.e. the translation of subsidiaries net assets, including its income statement to SEK.

The company does not hedge these risks at present.

**Foreign currency sensitivity analysis**

The Group's currency risk is primarily related to USD and EUR. If the USD had strengthened with 10% at closing date, all other variables constant, the annual earnings per December 31, 2019 would be positively affected by SEK 10.6 M. If the Euro had strengthened with 10% at closing date compared to the Swedish krona, all other vari-

ables constant, the annual earnings per December 31, 2019 would be positively affected by SEK 1.4 M. If the Euro had strengthened by 10% on the closing date in relation to the USD, all other variables constant, the annual earnings per December 31, 2019 would only be marginally impacted.

Amounts recognized in profit and loss	2019	2018
Net foreign exchange profit/loss included in other income/expense	0.5	0.3

**Credit risk****Accounts receivable**

Credit risk related to accounts receivable are considered immaterial, since almost all sales are generated through the largest internet companies, with consistently high credit ratings. These distributors pay the company monthly based on sales to the end users. Payments to G5 are made 1-2 months after the sale to the end user. The distributors take full responsibility for tracking and accounting of end user sales, and send G5 monthly royalty reports that show amounts to be paid.

G5 does not have any material overdue or impaired accounts receivable, and the credit risk associated with the accounts receivable that are neither due nor impaired is deemed to be small.

**Banks**

G5 strives to keep the company's cash and cash equivalents at banks with good creditworthiness. The majority of the company's cash and cash equivalents are held in Sweden and the United States, where the company primarily works with Handelsbanken and Swedbank.

**Advances to external developers**

For development projects (development of the games), G5 partly uses external developers. Agreed consideration is a combination of upfront and royalty-based payments. Prior to the development of new games there are sometimes agreements to pay advances to the developers. These are recognized as other receivables on the balance sheet. As sales of a game starts, the advances are recouped from royalties to the developer.

The maturity of the advances depends on the publication dates of the games to which the advances belong. This means that it varies from zero (for games that are ready for publication) up to 6-12 months (for games where development has just started).

If a project does not develop as expected, the advances associated with the project in certain cases might have to be written-off. All development projects are continuously evaluated in order to ensure their profit potential, by comparing forecasted revenue with total development costs.

**Liquidity risk**

The group manages liquidity risks by retaining sufficient liquidity to provide for the needs of the business. The process is monitored via the group's cash flow forecasts.

The group's exposure to foreign currency risk	2019-12-31		2018-12-31	
	USD	EUR	USD	EUR
Trade receivables	157,072	-	-	321,326
Other current assets	8,608,375	405,279	5,371,528	402,872
Cash and cash equivalents	12,038,586	1,056,722	8,222,460	721,825
Accounts payable	2,826,527	-	420,320	750
Other current liabilities	6,188,533	48,158	10,029,739	-

### Concentration of risk

The company depends on continuing co-operation with its distributors. Apple, Google, Amazon, and Microsoft operate primary distribution platforms for G5's games, with Apple and Google being the most important. G5 generates substantially all of its revenue and a majority of its users leads through these distribution channels and expects to continue to do so for the foreseeable future. Deterioration in G5's relationship with these companies can harm G5's business. Competition among these distributors is intense, and all of them try to attract the most attractive games to their electronic store. Based on a strong game, G5 does not consider the risk inherent in these business relationships to be high.

### Fair value

The group has no financial instruments measured at fair value. The carrying values of the financial instruments (as reported in the table below) are consistent with the fair values.

#### Financial instruments split into categories

Financial assets	2019	2018
Accrued income	96,118	99,043
Account receivable	1,463	3,713
Other receivables	9,684	4,427
Cash and cash equivalents	152,268	138,531
<b>Total</b>	<b>259,533</b>	<b>245,714</b>

Financial liabilities	2019	2018
Account payable	26,546	25,818
Other liabilities	1,026	5
Accrued expenses	64,947	83,279
<b>Financial liabilities measured at amortized costs</b>	<b>92,519</b>	<b>109,102</b>

Maturity of financial liabilities	2019	2018
0-3 months	92,519	109,102
More than 3 months	-	-

Result from the financial categories above; i.e Loans and receivables and Financial liabilities measured at amortized costs consist mainly of interest, exchange differences and credit losses, if any. Those results are reported for the categories together, in Note C8, C9 and C15.

### Capital risk management

The group's objectives when managing capital are to safeguard the Group's abilities to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Capital in G5 group is by definition Equity. There are no external restrictions. For dividend policy; see page 25 in the Directors report. G5 does not have any loan financing.

#### Note C22 – Adjustments for items not included in cash flow

	2019	2018
Depreciation/amortization	118,455	91,662
Write-down of intangible assets	7,455	4,499
Other	-	-
<b>Total</b>	<b>125,910</b>	<b>96,161</b>

Interest received and interest paid are equivalent to recognized amounts in accordance with note K9.

#### Note C23 – Significant events after the balance sheet date

During the first quarter of 2020 there was an outbreak of COVID-19 which became classified as a global pandemic. The virus spread quickly and in the beginning of the second quarter all relevant countries for the company's operations were impacted. The full economic implications of the virus is not known when this report is released but it is obvious that the economic consequences will be severe. Even though the operations of G5 is not insulated from the global economy, gaming in general, and gaming with electronic distribution in particular, can see increased engagement as people have more time to play games. Also gaming is a cheap form of entertainment relative to other forms of entertainment and games are free to download and play, as payments are strictly optional.

G5 quickly took measures to protect its staff and in the timespan of a few days relocated the staff to work from home. Almost all travel was suspended, as well as the participation on larger internal and external events.

# Hidden City

Hidden Object Adventure



# PARENT COMPANY FINANCIAL RESULTS

## INCOME STATEMENT – PARENT COMPANY

KSEK	Note	2019	2018
Net turnover		1,233,039	1,450,025
Cost of revenue		-826,986	-1,023,392
<b>Gross profit</b>		<b>406,053</b>	<b>426,633</b>
Research and development expenses		-112	-371
Sales and marketing expenses		-54,796	-79,952
General and administrative expenses		-346,146	-339,000
Other operating income		1,010	7,020
Other operating expenses		-764	-6,369
<b>Operating result</b>	P2, P3, P4, P5	<b>5,246</b>	<b>7,961</b>
Interest income and similar items	P6	65,644	308
Interest expense and similar items	P6	0	-152
<b>Operating result after financial items</b>		<b>70,891</b>	<b>8,117</b>
Taxes	P7	-1,367	-2,109
<b>Net result for the year</b>		<b>69,524</b>	<b>6,008</b>

## STATEMENT OF COMPREHENSIVE INCOME – PARENT COMPANY

KSEK	2019	2018
<b>Net result for the year</b>	<b>69,524</b>	<b>6,008</b>
<b>Items that later can be reversed in profit</b>		
Foreign currency translation differences (net after tax)	-	-
<b>Total other comprehensive income for the year</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>69,524</b>	<b>6,008</b>



**BALANCE SHEET - PARENT COMPANY**

KSEK	Note	Dec 31, 2019	Dec 31, 2018
<b>Fixed assets</b>			
<b>Financial fixed assets</b>			
Shares in group companies	P9	70	70
Receivable from group companies		-	-
		<b>70</b>	<b>70</b>
<b>Current assets</b>	P10		
Account receivables		1,463	3,713
Receivables from group companies		76,647	9,175
Tax receivables		1,385	2,434
Other receivables		5,635	-1,257
Prepaid expenses and accrued income	P12	96,750	99,796
Cash and cash equivalents		98,203	128,311
		<b>280,083</b>	<b>242,172</b>
<b>TOTAL ASSETS</b>		<b>280,153</b>	<b>242,242</b>
<b>Restricted equity</b>			
Share capital		928	898
<b>Non-restricted equity</b>			
Share premium reserve		50,554	48,387
Profit carried forward		47,909	64,387
Net result for the year		69,524	6,008
<b>Total equity</b>	P11	<b>168,915</b>	<b>119,679</b>
<b>Liabilities</b>			
Accounts payable		211	6,366
Liability to group companies		102,295	107,865
Other liability		300	1,328
Accrued expenses and prepaid income	P12	8,432	7,004
<b>Total liabilities</b>		<b>111,238</b>	<b>122,563</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>280,153</b>	<b>242,242</b>

**CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY**

KSEK	Share capital	Share premium reserve	Profit/loss carried forward	Shareholders' equity
<b>Shareholders' equity as of 2018-01-01</b>	<b>880</b>	<b>55,916</b>	<b>86,610</b>	<b>143,369</b>
Net result for the year			6,008	6,008
<b>Total comprehensive income for the year</b>			<b>6,008</b>	<b>6,008</b>
Dividend			-22,224	-22,224
Premiums paid on exercised/issued warrants	18	16,639		<b>16,657</b>
Repurchase of issued warrants		-24,168		-24,168
<b>Total transaction with the owners recognized directly in equity</b>	<b>18</b>	<b>-7,529</b>	<b>-22,224</b>	<b>-29,735</b>
<b>Shareholders' equity as of 2018-12-31</b>	<b>898</b>	<b>48,387</b>	<b>70,394</b>	<b>119,679</b>
<b>Shareholders' equity as of 2019-01-01</b>	<b>898</b>	<b>48,387</b>	<b>70,394</b>	<b>119,679</b>
Net result for the year			69,524	69,524
<b>Total comprehensive income for the year</b>			<b>69,524</b>	<b>69,524</b>
Dividend			-22,460	-22,460
Share issue - Class C	26			<b>26</b>
Share repurchase - Class C			-26	-26
Premiums paid on exercised/issued warrants	4	3,769		<b>3,773</b>
Repurchase of issued warrants		-1,602		-1,602
<b>Total transaction with the owners recognized directly in equity</b>	<b>30</b>	<b>2,167</b>	<b>-22,486</b>	<b>-20,289</b>
<b>Shareholders' equity as of 2019-12-31</b>	<b>928</b>	<b>50,554</b>	<b>117,434</b>	<b>168,915</b>

**CASH FLOW - PARENT COMPANY**

KSEK	Note	2019	2018
<b>Operating activities</b>	P16		
Operating result after financial items		70,891	8,117
Adjusting for items not included in cash flow		-	-
Taxes paid		-3,001	-3,001
<b>Cash before changes in working capital</b>		<b>67,890</b>	<b>5,116</b>
<b>Cash flow from changes in working capital</b>			
Increase/decrease in operating receivables		-66,385	44,055
Increase/decrease in operating liabilities		-11,324	44,225
<b>Cash flow from operating activities</b>		<b>-9,818</b>	<b>93,397</b>
<b>Financial activities</b>			
Dividend		-22,460	-22,224
Premiums paid on exercised/issued warrants		3,773	16,657
Repurchase of issued warrants		-1,602	-24,168
<b>Cash flow from financial activities</b>		<b>-20,289</b>	<b>-29,735</b>
<b>CASH FLOW</b>		<b>-30,107</b>	<b>63,662</b>
<b>Cash and bank at the beginning of year</b>		<b>128,311</b>	<b>64,650</b>
Cash flow		-30,107	63,662
<b>Cash and bank at the end of the year</b>		<b>98,203</b>	<b>128,311</b>

# PARENT COMPANY NOTES

## Note P1 – Accounting principles

The parent company prepares its Annual Report pursuant to the Swedish Annual Accounts Act (1995:1554) and Swedish Financial Reporting Board; RFR 2. RFR 2 is based on legal entities whose securities are quoted on a Swedish stock market or recognized marketplace, whose general rule is to apply the IFRS/IAS applied in the consolidated financial statements. Accordingly, in its Annual Report for the legal entity, the parent company applies those IFRS/IAS and statements endorsed by the EU where this is possible within the auspices of the Swedish Annual Accounts Act and with consideration to the relationship between accounting and taxation in Sweden. RFR 2 states the exceptions and supplements to be made from and to IFRS. The difference between the group's and the parent company's accounting principles are stated below. The stated accounting principles of the parent company have been applied consistently for all periods published in the parent company's financial statements.

## Participations in subsidiaries

Participations in subsidiaries are reported in the parent company according to the acquisition value method after deduction for any write-downs. The acquisition value includes acquisition related expenses and any considerations.

## Classification and presentation

The parent company's income statement and balance sheet are presented in the format stipulated by the Swedish Annual Accounts Act. The primary discrepancy from IAS 1 relates to the accounting of equity and the incidence of provisions as an independent title in the balance sheet.

## Note P2 – Expenses by nature

	2019	2018
Fees to distributors	375,304	440,378
Royalty to developers and license fees	451,682	585,900
Marketing	54,796	79,953
Personnel costs	3,485	4,551
Other costs <sup>1</sup>	342,527	331,282
<b>Total</b>	<b>1,227,794</b>	<b>1,442,064</b>

<sup>1</sup>Other costs are primarily related to costs for user acquisition that are invoiced to the parent company from the subsidiaries. These costs are classified as General and administration costs in the financial statement.

## Note P3 – Employees

The parent company had 3 (3) employees during the year. Compensation to parent company employees amounted to 2,396 KSEK (3,588), social costs 733 KSEK (1,128) and pension costs 355 KSEK (309).

## Note P4 – Audit fees

	2019	2018
Auditing within the audit assignment		
PWC	767	717
Other auditing tasks		
PWC	140	169
<b>Total</b>	<b>907</b>	<b>886</b>

## Note P5 – Other operating gains and losses

	2019	2018
Currency exchange gains	1,010	7,020
<b>Other operating gains</b>	<b>1,010</b>	<b>7,020</b>
Currency exchange losses	-764	-6,369
<b>Other operating losses</b>	<b>-764</b>	<b>-6,369</b>
<b>Total other operating gains and losses</b>	<b>246</b>	<b>651</b>

**Note P6 – Financial income, expense and other similar items**

	2019	2018
Interest income	905	308
Interest income from group companies	0	0
Dividend	64,739	-
<b>Financial income</b>	<b>65,644</b>	<b>308</b>
Interest costs	0	-2
Other	0	-150
<b>Financial expense</b>	<b>0</b>	<b>-151</b>
<b>Financial income and expense</b>	<b>65,644</b>	<b>157</b>

**Note P7 – Taxes**

Income tax expenses	2019	2018
Current tax	-1,367	-2,109
Deferred tax	-	-
<b>Total tax expenses</b>	<b>-1,367</b>	<b>-2,109</b>
<b>Actual tax charge</b>	<b>2019</b>	<b>2018</b>
Profit / Loss before tax	70,891	8,117
Tax according to current tax rate 21,4% (22%)	-15,171	-1,786
Tax effect of income exempted from tax	13,854	0
Tax effect from non-deductible expenses	-13	-9
Other	-37	-315
<b>Tax charge</b>	<b>-1,367</b>	<b>-2,109</b>

Company name	Domicile	Group ownership	Book value	Primary business
G5 UA Holdings Ltd	Malta	100%	11	Holding company
G5 Holdings Ltd*	Malta	100%		Game procurement and licensing
G5 Entertainment Inc	USA	100%	7	Marketing
G5 Holding UKR LLC	Ukraine	100%	50	Game development
G5 Holding RUS LLC	Russia	100%	2	Game development

\*G5 Holdings Ltd is a subsidiary to G5 UA Holdings Ltd

**Note P8 – Related parties**

Transactions between group companies are conducted either as royalty, or at cost plus a certain margin. As of December 31, 2019, the parent company had 76,647 (9,175) KSEK in receivables from group companies and 102,295 (107,685) KSEK in liabilities to group companies. Parent company sales to subsidiaries amounted to 0 (0) KSEK. Parent company purchases from subsidiaries amounted to 785,696 (908,607) KSEK.

Receivables and liabilities to group companies are according to commercial terms. For loans not planned to be repaid in the foreseeable future, see Note P10.

**Note P9 – Shares in subsidiaries**

Shares in subsidiaries	2019	2018
Accumulated value, opening balance	70	70
Liquidation of subsidiary	-	-
<b>Accumulated value, closing balance</b>	<b>70</b>	<b>70</b>

Below are the Group's principal subsidiaries as of December 31, 2019. Unless otherwise indicated, the subsidiaries' share capital consists solely of ordinary shares that are owned directly by the Group, and the proportion of ownership is equivalent to the Group's holdings of voting rights. The countries where the subsidiaries are registered are also those where they have their main activities.

**Note P10 – Accounts receivables and other receivables**

Maturity of account receivables	2019	2018
0-3 months	1,463	3,713
More than 3 months	-	-
Maturity of other receivables	2019	2018
0-3 months	7,020	1,176
More than 3 months	-	-

**Note P11 – Equity****Proposed distribution of earnings**

Earnings in the Parent Company at the disposal of the Annual General Meeting (KSEK):

	2019	2018
Share premium reserve	50,554	48,387
Profit carried forward	47,909	64,347
Net result for the year	69,524	6,008
<b>Total</b>	<b>167,986</b>	<b>118,744</b>

The Board of Directors proposes that dividends be paid in an amount of SEK 2.50 per share (2.50).

The Board of Directors proposes that the earnings be disposed of as follows:

	2019	2018
To be distributed to the shareholders	22,554	22,460
To be carried forward to new account	145,432	96,284
<b>Total</b>	<b>167,986</b>	<b>118,744</b>

**Note P12 – Accrued income and expenses**

	2019	2018
Accrued income	96,118	99,043
Other	632	753
<b>Accrued income</b>	<b>96,750</b>	<b>99,796</b>
Royalty	0	0
Marketing expenses	6,855	4,719
Other	1,577	2,285
<b>Accrued expenses</b>	<b>8,432</b>	<b>7,004</b>
<b>Total</b>	<b>88,318</b>	<b>92,792</b>

**Note P13 – Leasing**

The parent company does not have any financial leases. Short term operating leases consist of rent premises agreements.

Office rent	2019	2018
Rent paid	360	360

The future aggregate minimum lease payment under non-cancelable short term lease are all due within three months (2019) at a total amount of 90 KSEK.

**Note P14 – Pledged assets**

G5 has no pledged assets (0 KSEK)

**Note P15 – Financial risks and risk management**

G5's financial risk management is handled and monitored at Group level. For more information regarding the financial risks, see notes to the Consolidated statements, Note C21 Financial risks.

**Financial instruments split into categories**

Financial assets	2019	2018
Accrued income	96,750	99,796
Account receivable	1,463	3,713
Receivables group (short-term)	76,647	9,175
Other receivables	5,635	220
Cash and cash equivalents	98,203	128,311
<b>Loan and receivables</b>	<b>278,699</b>	<b>241,215</b>

Financial liabilities	2019	2018
Account payable	211	6,366
Liabilities group	102,295	107,865
Other liabilities	300	1,328
Accrued expenses	8,432	7,004
<b>Financial liabilities measured at amortized costs</b>	<b>111,238</b>	<b>122,563</b>

Maturity of financial liabilities	2019	2018
0-3 months	111,238	122,563
More than 3 months	-	-

**Note P16 – Adjustments for items not included in cash flow**

	2019	2018
Exchange difference on intercompany balances	764	6,369
Other	-	-
<b>Total</b>	<b>764</b>	<b>6,369</b>

**Note P17 – Events after the balance sheet date**

Note C23 describes the most important events that have impacted the group after the balance sheet date. No events have occurred that are considered to impact the parent company's financial position.

# ASSURANCE

The board and CEO assure that the annual accounts were prepared in accordance with generally accepted principles in Sweden, and the consolidated accounts were prepared in accordance with international accounting standards described in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards.

The annual accounts and consolidated accounts give a fair view of the parent company's and group's financial results and position. The directors' report for the parent company and group gives a fair view of the changes in the parent company's and group's business, position, and earnings and describes significant risks and uncertainties faced by the parent company and group companies.

Stockholm, Sweden, 2020-04-28

**Petter Nylander**  
Chairman of the Board

**Johanna Fagrell Köhler**  
Board member

**Stefan Lundborg**  
Board member

**Jeffrey Rose**  
Board member

**Vlad Suglov**  
CEO, Board member

Our audit report was issued on 2020-04-28  
PricewaterhouseCoopers AB

**Aleksander Lyckow**  
Authorized public accountant

# AUDITOR'S REPORT

## TO THE GENERAL MEETING OF THE SHAREHOLDERS OF G5 ENTERTAINMENT AB (PUBL), CORPORATE IDENTITY NUMBER 556680-8878

### Report on the annual accounts and consolidated accounts

#### OPINIONS

We have audited the annual accounts and consolidated accounts of G5 Entertainment AB (publ) for the year 2019 except for the statutory sustainability report on pages 21–23. The annual accounts and consolidated accounts of the company are included on pages 18–55 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the statutory sustainability report on pages 21–23. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

#### BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### OUR AUDIT APPROACH

##### Overview

G5 Entertainment is a developer and publisher of free to play games for smartphones and tablets. Sales are global with USA and Asia as the main markets. The company reaches their customers through digital

stores where apps are available. The ownership and creative processes relating to development reside on Malta, the technical development is primarily made in Ukraine and Russia, and the marketing in USA. The parent company is in Sweden and also have the contractual relationships with the digital stores.

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Main focus areas and risks identified are further detailed in the "Key Audit Matters" included below. Our audit of G5 Entertainment mainly consist of the following main parts; audit planning, procedures relating to internal control over financial reporting and related routines procedures, limited review procedures on the report for the third quarter closing, year and procedure and the final audit procedures required to issue this auditors report for the parent company and the group. In connection to this procedures needed to issue our statement on adherence to the guidelines for remuneration to senior management.

The scope and extent of our audit procedures for G5 Entertainment mean that we have covered all material units within the Group which together represent a significant part of revenues, earnings and assets. The outcome of our work is during the year continuously reported to the company, the Audit Committee and for the full year also to the Board of Directors.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



<b>GROUP OVERALL MATERIALITY</b>	2019: MSEK 12,0 (2018: MSEK 14,5)
<b>BENCHMARK</b>	Revenues
<b>RATIONAL FOR THE SELECTED BENCHMARK</b>	We defined our materiality to about 1% of revenue which is an acceptable range according to ISA.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above MSEK 1,0 as well as misstatements below that amount that if applicable, in our view, warranted reporting for qualitative reasons.

### KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p><b>Valuation of capitalized development costs</b></p> <p>As at 31 December 2019, the book value of capitalized development costs was MSEK 211.</p> <p>Management performs a review of the carrying amount of the capitalized development expenses for impairment. The impairment review is performed on a quarterly basis.</p> <p>For the purpose of performing the impairment assessment, management identifies each game as a single Cash Generating Unit (“CGU”). The impairment analysis starts with a calculation of impairment indications estimating the total revenue from the game during the remainder of the amortization period (based on actual sales during the three most recent months). If this initial calculation signals a possible impairment for a particular game, a more detailed test is performed with different scenarios of expected game performance and the probabilities of outcome of each scenario. Recoverable amount represents sum of the weighted average net present value of discounted future cash flows in each scenario multiplied by probability of occurrence of this scenario.</p> <p>The assessment contains a number of significant assumptions, both quantitative and qualitative, including revenue projection, cost structure, lifetime of the game, discount rate, probability of occurrence of different scenarios. Changes in these assumptions may lead to potential impairment charges on the carrying value of the capitalized development expenses. The use of assumptions in the assessment also requires estimates and judgment, which may be affected by unexpected future market, economic or legal restrictions in different countries.</p> <p>We focused on this area as these assets are significant to the Group’s operations and the assessment performed by management involved significant estimates and judgments</p>	<ul style="list-style-type: none"> <li>• We obtained the calculation of impairment indicators and impairment test for the games, which showed indicators of impairment.</li> <li>• We tested the mathematical accuracy of the underlying calculations in the model</li> <li>• We compared historical actual results to those budgeted to assess the quality of management’s forecast.</li> <li>• We assessed the key quantitative and qualitative assumptions made by management in the impairment model. Quantitative factors comprised forecasted revenue, user acquisition and other expenses, and the discount rate used.</li> <li>• When assessing these key assumptions, we discussed with management to understand and evaluate their basis for selecting the assumptions. Where applicable, the assumptions were compared to various external sources including independent research reports. We have analyzed the historical performance of games and outcome of assumptions applied in prior period.</li> <li>• We assessed the reasonableness of the discount rate used by checking its variables to independent research reports, economic growth forecasts and publicly available industry data.</li> <li>• We obtained and tested management’s sensitivity analysis around the quantitative key assumptions, to ascertain that the selected adverse changes to the key assumptions, both individually and in aggregate, would not cause the carrying amount of the game to exceed the recoverable amount.</li> </ul> <p>Based on the audit procedures performed, we found the Group’s estimates and judgment used in the impairment test of the capitalized development cost to be within a reasonable range</p>

## OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-17 and 60-70. This other information also comprises of the statutory sustainability report included on pages 21-23. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE BOARD OF DIRECTOR'S AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

Report on other legal and regulatory requirements

## OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of G5 Entertainment AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

## BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

## RESPONSIBILITIES OF THE BOARD OF DIRECTOR'S AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group' equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

## AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted

auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report

#### **THE AUDITOR'S OPINION REGARDING THE STATUTORY SUSTAINABILITY REPORT**

The Board of Directors is responsible for the statutory sustainability report on pages 21–23, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed auditor of G5 Entertainment AB (publ) by the general meeting of the shareholders on the May 8, 2019 and has been the company's auditor since the general meeting of the shareholders in 2017.

Stockholm April 28, 2020  
PricewaterhouseCoopers AB

Aleksander Lyckow  
Authorized Public Accountant

# CORPORATE GOVERNANCE REPORT

## INTRODUCTION

G5 Entertainment AB (publ) was incorporated in 2005. G5 Entertainment AB is the parent company of the G5 Entertainment group (“G5 Entertainment”). G5 Entertainment is a public company whose shares were admitted to trading on Nasdaq Stockholm in 2014. The board of directors of G5 Entertainment hereby presents the corporate governance report for 2019 as required by Chapter 6, Section 6 of the Swedish Annual Accounts Act and Point 10 of the Swedish Code of Corporate Governance.

This corporate governance report was adopted by the board in April 2020 and is an account of how corporate governance has been conducted at G5 Entertainment during the financial year 2019. This corporate governance report has been audited by the company’s auditors. The corporate governance report does not form part of the directors’ report.

## PRINCIPLES OF CORPORATE GOVERNANCE

In addition to the principles of corporate governance imposed by law or regulation, G5 Entertainment applies the Swedish Code of Corporate Governance (the “Code”), (see Swedish Corporate Governance Board website [www.bolagsstyrning.se](http://www.bolagsstyrning.se)). The internal regulations for the company’s governance consist of the articles of association, the board’s rules (including instructions for the board committees), CEO instructions, instructions for financial reporting and other policies and guidelines.

## SHAREHOLDERS

Per December 31, 2019 the company had approximately 8,900 shareholders.

### Major share holdings

No shareholder owns more than 10 percent of the total number of outstanding shares.

### Voting rights

G5 Entertainment’s articles of association do not contain any limitations regarding how many votes each shareholder may represent and cast at an annual general meeting.

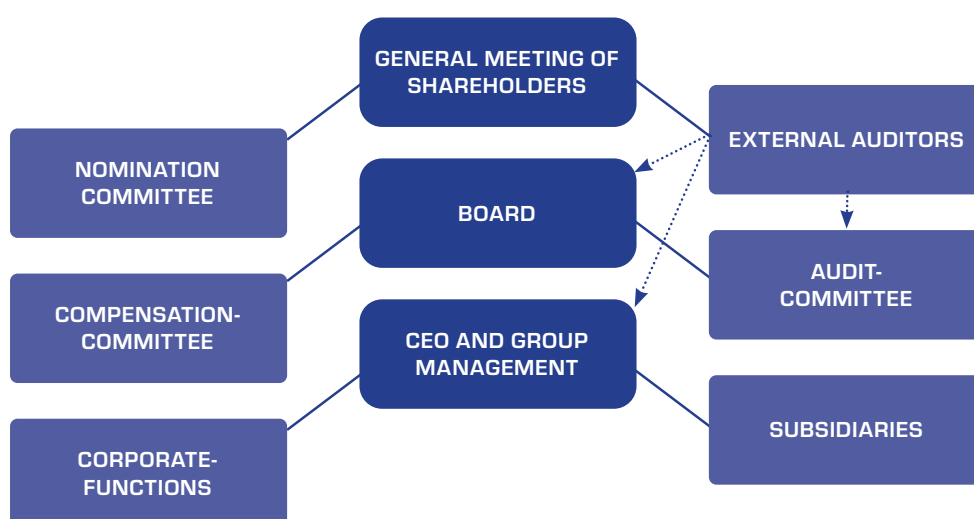
## ARTICLES OF ASSOCIATION

The current articles of association (see company’s website [www.g5e.com/corporate](http://www.g5e.com/corporate)) were adopted at the extraordinary general meeting of November 7, 2018. The articles of association do not contain any specific provisions on the appointment and dismissal of board members or on amendments to the articles.

## GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the company’s supreme governing body. It is at the meeting that shareholders have the opportunity to exercise their influence. A number of matters are reserved, in accordance with the Swedish Companies Act, for the general meeting to decide, such as adoption of the income statement and the balance

## G5’s corporate governance model



The figure shows G5 Entertainment’s corporate governance model and how the central bodies are appointed and interact.

sheet, distribution of profit, discharge of liability, election of board members and the appointment of auditors.

During the year the board may convene extraordinary general meetings. This happens for example if decisions must be taken in matters that can only be decided by a general meeting and it is not appropriate to wait until the next AGM.

Shareholders wishing to attend a general meeting must be registered as shareholders in the transcript or other copy of the entire share register, according to ownership status, one week before the meeting, and notify the company of their intent to participate not later than on the date specified in the notice to the general meeting. This day may not be a Sunday, public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and must not be earlier than the fifth weekday before the meeting.

### Annual general meeting 2019

G5 Entertainment held its 2019 annual general meeting on May 8 at 7a conference center, Sveavägen 7a, Stockholm, Sweden. 50 shareholders, representing 33 per cent of votes and capital, attended the meeting. The majority of G5 Entertainment's executive team plus the board and the company's auditors were present as required by the Code. The annual general meeting resolved to adopt the income statement and balance sheet for 2018, profit distribution, and discharged the CEO and the board from liability for the financial year. The annual general meeting elected board members and resolved on the guidelines for the nomination committee and remuneration to senior executives. The general meeting also resolved on a share related long term incentive program for key employees.

### Annual general meeting 2020

The 2020 annual general meeting will be held at 7a conference center, Sveavägen 7a, Stockholm, Sweden on June 8.

### Authorizations

The Annual General Meeting 2019 authorized the board of directors to, until the next annual general meeting, with or without deviation from the shareholders' preferential right, on one or more occasions, to resolve on issuance of a maximum of 10 per cent of the share capital and voting right. The purpose of the authorization is to enable acquisitions and fundraising. It shall be possible to pay by kind, set-of or otherwise be subject to conditions. Deviation from the shareholders' preferential right shall be allowed to be made in a situation where a directed issue, because of time, business or similar considerations is more beneficial for the company. The issue price shall at all times be as close to market value as possible with the discount required to achieve full subscription. A valid resolution requires that shareholders at the meeting representing at least 2/3 of the numbers of shares and votes represented votes in favor of the proposal (Chapter 13 of the Companies Act).

The Annual General Meeting 2019 also authorized the board of directors to, until the next annual general meeting, to resolve to acquire and transfer the Company's own ordinary shares. Acquisitions may take place of at most the number of ordinary shares so that the Company's total shareholding of its own ordinary shares corresponds to a maximum of ten (10) per cent of all registered shares issued by the Company. Acquisitions may take place by trading on the regulated market place NASDAQ Stockholm. Payment for the shares acquired shall be made in cash.

### Nomination committee

The annual general meeting decides on principles for the formation of the nomination committee, and decides what tasks the committee will complete for the next annual general meeting. In its work, the Nomination Committee has applied Rule 4.1 of the Swedish Code of Corporate Governance as a policy of diversity for the Board. Diversity is an important factor in the nomination committee's nomination work. The Nomination Committee continuously strives for an even gender distribu-

## Board composition, independence, remuneration and presence 2019

Name	Elected	Independent	Position	Committees	Board attendance	Audit committee attendance	Compensation committee attendance	Fees kSEK	No. of shares/instruments in share based programs <sup>1</sup>
Petter Nylander	2013	Yes	Chairman of the Board and the audit committee	Audit-, compensation-committee	10 (10)	4 (4)	2 (2)	560	24,500/0
Chris Carvalho <sup>3</sup>	2016	Yes	Chairman in the compensation committee	Audit-, compensation-committee	7 (7)	3 (3)	1 (1)	318	E/T
Johanna Fagrell Köhler	2017	Yes	Member of the Board	Audit committee	10 (10)	4 (4)		300	250/0
Stefan Lundborg	2017	Yes	Member of the Board	Audit-, compensation-committee <sup>4</sup>	10 (10)	1 (1)	2 (2)	301	10,250/0
Jeffrey Rose	2011	No	Member of the Board		10 (10)	-		329	2,000/0
Vlad Suglobov <sup>2</sup>	2006	No	Member of the Board, CEO		8 (10)	-		-	650,000/50,000 <sup>2</sup>

<sup>1</sup> The information above is valid on March 31, 2020.

<sup>2</sup> Holdings: 10,000 shares, 30,000 warrants and 20,000 performance shares. Vlad Suglobov is also a deputy board member in Wide Development Ltd. that owns 640,000 shares.

<sup>3</sup> Chris Carvalho resigned from the Board during August.

<sup>4</sup> Stefan Lundborg joined the audit committee after the resignation of Chris Carvalho. Stefan also became chairman of the remuneration committee.

tion and versatility in terms of competence, experience and background in the Board, which is also reflected in the current composition.

The nomination committee for the 2020 annual general meeting consists of representatives of G5 Entertainment's five largest shareholders as per the last banking day in August:

- Marianne Flink (appointed by Swedbank Robur Fonder)
- Jeffrey Rose (appointed by Wide Development Limited)
- Sergey Shults (appointed by Proxima Limited)
- Petter Nylander (appointed by Purple Wolf Limited)
- Markus Lindqvist (appointed by Aktia Asset Management)

## BOARD OF DIRECTORS

### Board composition

At the annual general meeting 2019 all current members of the Board were re-elected. The Board then consisted of Petter Nylander, chairman, Chris Carvalho, Johanna Fagrell Köhler, Stefan Lundborg, Jeffrey Rose, and Vladislav Suglobov.

During August Chris Carvalho resigned from the Board of Directors.

### Board independence

The opinion of the nomination committee, which is shared by the board, with regard to the independence of the board members in relation to the company, the company's management and shareholders is shown in the table on the previous page. Accordingly, G5 Entertainment fulfills the applicable requirements regarding board members' independence of the company, the management and the company's major shareholders.

## BOARD WORK

The board's work is based on the requirements of the Swedish Companies Act, the Code and other rules and regulations applicable to the company. The board works according to annually adopted rules of procedure and an annual schedule.

The company's CEO and CFO participate in board meetings. The board secretary is normally the company's CFO. Other individuals from the executive team and group employees participate in board meetings to present specific issues as needed.

### Work during the year

In 2019 the board met on ten occasions in addition to the constituent meeting following the annual general meeting. During the year the board has focused primarily on the company's strategy, business plan and budget.

The board has met with the auditor without the presence of the CEO or other executive team members.

The board monitors management performance through monthly reports that include reports of financial results, key performance indicators, development of priority activities and so on.

### Board work

The board holds ordinary board meetings according to the schedule below.

- February – Year-end report
- April – Corporate governance meeting – Agenda and notice of AGM, corporate governance report, annual report, review of insurance and pensions
- May – Interim report first quarter.
- May – Statutory board meeting, decisions on the board's work schedule, instructions to the CEO, and instructions for financial reporting, board's annual plan, and signatories

- July-August – Interim report second quarter
- August-September – Strategy meeting, financial targets, instructions for budgeting
- October – Interim report third quarter
- December – Budget meeting, business plan

The CEO presents a business update at ordinary board meetings. The board holds briefings with the auditor to address reports from the auditor.

### Board work in committees

The board has had two committees: the audit committee and the compensation committee. The work of the committees is regulated in the annual plan for the board.

The board committees deal with the issues that fall within their respective area, and submit reports and recommendations that form the basis for the board's decisions. The committees have mandate to make some decisions within the framework of the board's directives. Minutes of meetings of the committees are made available to the board.

### Audit committee

The audit committee comprised of Petter Nylander, chairman, Chris Carvalho and Johanna Fagrell Köhler. After Chris Carvalho resigned Stefan Lundborg took his seat in the audit committee.

In 2019, the audit committee held four minuted meetings. Meetings are attended by the company's CFO, who also serves as the audit committee's secretary. The company's auditor attended three of the audit committee meetings.

The committee has reviewed all interim reports and all reports from the company's auditor and internal processes and controls.

### Compensation committee

The compensation committee includes Chris Carvalho, chairman, Petter Nylander and Stefan Lundborg. After Chris Carvalho resigned, Stefan Lundborg took over as chairman of the compensation committee.

In 2019, the compensation committee held two minuted meetings.

Attendance by board members and committee members during the year is shown in the table on page 61.

## AUDITORS

The auditing firm appointed by the 2019 annual general meeting for a period of one year is PWC. Authorized public accountant Aleksander Lyckow is the head auditor.

The auditors are responsible, on behalf of the shareholders, for auditing the company's annual report and accounting records, as well as the administration of the company by the board and CEO. The auditor reports regularly to the board. Auditing fees are presented in Note C5.

## WORK OF CEO AND SENIOR MANAGEMENT

The CEO has regular e-mail, Skype and telephone contacts with all members of the executive management team to have business reviews, receive reports, set goals, and make consultations. In addition to this, there are several in-person meetings with each member of the team every year for more in-depth discussions and planning. G5's core processes rely heavily on e-mail, and as a company G5 has well-developed e-mail communication culture and policies. E-mail is encouraged over other means of communication, as it allows automatic saving and tracking of everyday decision-making in the company's processes. Given prevalence of e-mail communication in the company, and taking into account the diverse locations of the executive team members and

substantial difference in time zones, CEO has made the decision not to have regular physical meetings with all members of the team present, as they would not provide more operational value.

The executive management team's control and monitoring is based on the board's established working procedures, instructions for the CEO and reporting instructions. The executive management team and the central corporate staff lead the daily operations primarily through policy instruments such as budgets, performance management and reward systems, regular reporting and monitoring and staff meetings, as well as a delegated decision-making structure within functional (development, marketing, support, finance, etc.) hierarchies, as well as within company hierarchy, from the parent company to the management in subsidiaries.

During the year, the focus has been on continued development of the company's portfolio of free-to-play games, as well as increasing revenue from released free-to-play-games. Processes and tools for acquiring new users in a profitable and cost efficient way have been introduced and continuously improved. Some new positions have been introduced, and all functional teams were strengthened to support new free-to-play games.

### INTERNAL CONTROL OF FINANCIAL REPORTING

The board of directors is responsible for internal control as regulated in the Swedish Companies Act and the Code. G5 Entertainment's corporate governance report contains a description of the most material aspects of the company's internal control and risk management systems, as stipulated by the Annual Accounts Act. Internal control of financial reporting aims to provide reasonable assurance of the reliability of external financial reporting and to ensure that this is prepared in accordance with legislation, applicable accounting standards, and other requirements for listed companies.

#### Control environment

The board bears overall responsibility for internal control of financial reporting. The control environment for financial reporting is based on a division of roles and responsibilities in the organisation, defined and communicated decision channels, instructions on powers and responsibilities as well as accounting and reporting policies. The board has appointed an audit committee that has the primary obligation of ensuring completion of the requirements set out by the Swedish Companies Act for this committee.

The internal control is integrated within the company's finance function. The board has considered the need to establish a special internal audit function. The board has found that so far internal controls can be performed in a required and satisfactory manner within the finance function and that there is no need for a special internal audit function in the company.

The board has adopted the board's instructions, the CEO's instructions and the reporting instructions, G5 Entertainment's Authorisation Principles, G5 Entertainment's Accounting Principles, G5 Entertainment's Financial Policy, G5 Entertainment's Fraud and Anti-Bribery Policy, and G5 Entertainment's IT Policy. In addition there are policies and guidelines in several areas of operational activity.

#### Risk assessment

As an integral aspect of their assignment, the board and executive team work with risk assessment in a broad perspective, including but not limited to financial risks and key business risks. Risks have been regularly reported to the board. The board and the audit committee have regularly discussed a variety of risks and the company's risk management procedures during the year.

#### Control activity

The group's control activities such as authorizations are based at the group level but are then handled primarily at the regional level in Sweden and in the subsidiaries in each country.

#### Information

Information about internal policy documents for financial reporting is accessible to all relevant employees on G5 Entertainment's wiki. Information and training regarding internal policy documents is also provided through activities addressed directly to those with financial responsibility and controllers within the group.

#### Monitoring

The board, the audit committee, the CEO, the executive team and the group companies regularly monitor the company's financial reporting to safeguard the effectiveness of its internal controls. Monitoring includes the follow-up of the company's monthly financial reports in relation to budgets and targets.

#### MAR

The company is subject to the EU Market Abuse Regulation No. 596/2014 (MAR) which places great demands on how the Company handles inside information. In MAR there are regulations on how insider information is to be published to the market, under which conditions the disclosure may be postponed and in what way the Company is obliged to keep a list of persons working for the company and who has access to inside information (a so-called logbook).

The company uses the digital tool InsiderLog to ensure that its handling of inside information meets the requirements of MAR and the company's insider policy; from the decision to postpone the disclosure of inside information all the way to the message to be submitted to the Swedish financial supervisory authority when the insider incident is over and the information has been published. Only authorized persons in the Company have access to InsiderLog.

## BOARD OF DIRECTORS

### **Petter Nylander (born 1964)**

Petter Nylander has Bachelor's Degree in Business Administration from University of Stockholm. In 1994, Petter Nylander joined MTG AB and made it to several senior positions including CEO of TV3 Sweden (Sweden's first commercially financed TV station), CEO TV3 Scandinavia and Vice President MTG Broadcasting Channels. During 2003-2005 he was CEO of OMD Sweden AB (Omnicom Media Group), a global communications services company. During 2005-2010 he served as CEO for Unibet Group Plc, one of Europe's leading online gambling sites. Other experience from gambling sector include: 2000-2003 Director of the Board, Cherry Företagen AB (Later split into Betsson, Net Entertainment and Cherry), 2004-2005 Director of the Board, Ogame e-Solutions AB (Acquired by Bwin), 2006-2011 Director of the Board, European Betting and Gaming Association (EGBA), 2010-2011 Director of the Board, Bingo.com. Currently, Petter Nylander is Chairman of the Board in GiG (Gaming Innovation Group), member of the Board of Directors in Talent Inc, and Universum communications and also Global CEO of Besedo Services AB, .

Holdings: 24,500 shares, 0 warrants.

### **Johanna Fagrell Köhler (born 1966)**

Johanna has a Master's Degree in Business Administration from the University of Lund. She started out as Business Unit Director at Icon Medialab, one of the leading digital agencies in Scandinavia around the millennial. In 2002 she founded and became CEO over her own design agency, Summer and further the CEO of the marketing group ONE Media, listed at the Swedish equities market place Aktietorget. As shareholder and former CEO of the Mobiento Group, the leading mobile marketing group in Scandinavia she has played a key role in the company's success and winning the Cannes Lions, MMA, Red Herring top 100 to name a few. Today, Johanna is the CEO of Creuna, the leading digital agency in Sweden with offices in Stockholm and Gothenburg. She also has board assignments in companies such as S-Group and FSport AB among others.

Holdings: 250 shares, 0 warrants

### **Stefan Lundborg (born 1965)**

Stefan started as an entrepreneur and built an in-depth knowledge in running and managing companies which continued into his advisory roles. Stefan is currently Director of the Board of Kindred Group plc and LOX Container Technology AB. Stefan is also Chairman of the Board of Note Design Studio AB.

Holdings: 10,250 shares, 0 warrants

### **Jeffrey W. Rose (born 1962)**

Jeffrey is an attorney specializing in intellectual property licensing, development, publishing, and strategy. For more than twenty-five years, Jeffrey has served clients in the interactive entertainment, film, television, new media, and technology industries, providing counsel on a wide spectrum of successful projects. His practice is based in Southern California and serves clients worldwide. Jeffrey served from 2011 to 2013 on the board of Web Wise Kids, a non-profit organization that seeks to educate kids, parents and the community on how to make safe and wise choices in a technologically evolving world. He received an A.B., magna cum laude, from Duke University in 1984 and a J.D. from the UCLA School of Law in 1987.

Holdings: 2,000 shares, 0 warrants

### **Vlad Suglobov (CEO, co-founder) (born 1977)**

Vlad is a games industry veteran of more than 24 years. In 1995 during his freshman year, he started his career as employee #14 at Nikita Ltd. (now Nikita Online), one of Russia's first game development companies. In 2000, Vlad graduated from Moscow State University with the M.Sc. in Mathematics and Programming, and spent the next year working as a software engineer on the Moscow team of the US-funded "Voxster". In 2001 Vlad and colleagues co-founded G5 to develop PC and mobile games. While being CEO from the company's inception, Vlad continued to write game engine code until 2003 after which he focused entirely on the business. In 2008 the iPhone was released, and it created a new opportunity for the company. Finishing up large publisher contracts, G5 wanted to bring its own games to the promising platform and in February 2009, the company's first iPhone game "Supermarket Mania" was launched, quickly becoming the company's biggest financial success to date. Anticipating the revolution that the iPhone was bringing to the industry, Vlad started G5's publishing operation and set out to license popular PC hidden object games to bring them to the new generation of mobile devices. In 2011 Vlad moved from Moscow to San Francisco to establish G5's marketing operations in the USA, the company's largest market. Since 2013, when free-to-play (F2P) games started quickly gaining prominence on mobile, Vlad has steered G5 to focus on this business model with an emphasis on quality and a smaller number of new releases. Today, Vlad continues to be deeply involved in the company's strategy, marketing and product development.

Holdings: 10,000 shares and 30,000 warrants and 20,000 performance shares. Vlad is also a deputy board member in Wide Development Ltd. that owns 640,000 shares.



## EXECUTIVE MANAGEMENT TEAM

The board appoints the CEO. The CEO appoints and leads the work of the executive team and makes decisions in consultation with the rest of the executive team. On December 31, 2019 the executive team consisted of the CEO, the group's CFO and the group's COO.

### **Vlad Suglobov** **(CEO, co-founder) (born 1977)**

Vlad is a games industry veteran of more than 24 years. In 1995 during his freshman year, he started his career as employee #14 at Nikita Ltd. (now Nikita Online), one of Russia's first game development companies. In 2000, Vlad graduated from Moscow State University with the M.Sc. in Mathematics and Programming, and spent the next year working as a software engineer on the Moscow team of the US-funded "Voxster". In 2001 Vlad and colleagues co-founded G5 to develop PC and mobile games. While being CEO from the company's inception, Vlad continued to write game engine code until 2003 after which he focused entirely on the business. In 2008 the iPhone was released, and it created a new opportunity for the company. Finishing up large publisher contracts, G5 wanted to bring its own games to the promising platform and in February 2009, the company's first iPhone game "Supermarket Mania" was launched, quickly becoming the company's biggest financial success to date. Anticipating the revolution that the iPhone was bringing to the industry, Vlad started G5's publishing operation and set out to license popular PC hidden object games to bring them to the new generation of mobile devices. In 2011 Vlad moved from Moscow to San Francisco to establish G5's marketing operations in the USA, the company's largest market. Since 2013, when free-to-play (F2P) games started quickly gaining prominence on mobile, Vlad has steered G5 to focus on this business model with an emphasis on quality and a smaller number of new releases. Today, Vlad continues to be deeply involved in the company's strategy, marketing and product development. Holdings: 10,000 shares and 30,000 warrants and 20,000 performance shares. Vlad is also a deputy board member in Wide Development Ltd. that owns 640,000 shares.

### **Alexander Tabunov** **(COO, co-founder) (born 1974)**

Alexander Tabunov, born in 1974, is an experienced IT manager with background in software engineering. Since co-founding G5 in 2001, Alexander is responsible for G5's day-to-day operations and processes in COO position, including building G5's development team on multiple platforms and technologies. Alexander received his MS degree in computer science from Moscow State Institute of Electronics and Mathematics. Holdings: 532,000 shares through the company Purple Wolf Ltd, 12,700 shares on own account, 30,000 warrants and 20,000 performance shares.

### **Stefan Wikstrand** **(CFO, deputy CEO) (born 1980)**

After studies at Jönköping International Business School he worked five years within audit at MGI Revidco AB and KPMG. Since 2010 Stefan Wikstrand has worked at TradeDoubler AB as Group Financial & Business Controller. During his time at TradeDoubler, Stefan has worked with all aspects of running the finance function at an international listed company. Stefan has held the position as CFO and deputy CEO since June, 1 2015. Holdings: 13,200 shares, 12,500 warrants and 3,300 performance shares.

Stockholm, April 28, 2020  
The Board of G5 Entertainment AB

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## AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the annual meeting of the shareholders in G5 Entertainment AB (publ), corporate identity number 556680-8878.

### **Engagement and responsibility**

It is the board of directors who is responsible for the corporate governance statement for the the financial year 2019-01-01—2019-12-31 on pages 60-63 and that it has been prepared in accordance with the Annual Accounts Act.

### **The scope of the audit**

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

### **Opinions**

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 2020-04-28  
PricewaterhouseCoopers AB

Aleksander Lyckow  
Authorized Public Accountant

## THE SHARE

As of December 31, 2019, G5 Entertainment's share capital was 928,125 SEK divided between 9,021,350 ordinary shares and 260 000 c-shares, at quoted value of 0.10 SEK per share. The average number of outstanding shares during the year is 8,993,225 shares. Each share confers equal rights to participation in G5's assets and earnings and confers the holder with one vote per ordinary share and 1/10 of a vote per c-share.

The G5 share was quoted on the NGM Nordic MTF exchange in Stockholm since October 2, 2006 under symbol G5EN. The introduction rate was 3 SEK per share. Since June 10, 2014, G5's share is quoted on Nasdaq Stockholm. At year-end 2019, the share price was 125.5 SEK and total market capitalization was 912.1 MSEK.

### Warrant program

At an extraordinary general meeting held in October 2012, it was decided to implement a multi-year share warrant program, as part of a long-term incentive program. Two programs within the warrant program are still open. At an extraordinary general meeting held in November 2019 it was decided to switch the share-based programs to a performance share program. The first performance share program amount to at most 120,000 performance shares.

Board members with exception of the CEO were not entitled to subscribe.

For more information regarding the warrant program see the corporate web page [www.g5e.com/corporate](http://www.g5e.com/corporate)

### Share capital history

The trading of G5's shares on NGM Nordic MTF exchange in Stockholm started on October 2, 2006. Before that, in 2006, the company completed an issue of 1,000,000 shares and placement of 1,000,000 of owner shares at 3 SEK per share, attracting new shareholders. In July 2008, G5 completed a new issue of 375,000 shares in order to acquire 51 per cent of Shape Games Inc. In October 2008, G5 completed preferential rights issue and placement of 1,044,574 shares in order to raise funds to finance the development of company's original games. In November 2008, trading in G5's shares was moved to Aktietorget exchange in Stockholm. In August 2012, G5 completed a direct issue of 580,426 shares at 21.50 SEK per share to investment company AB Traction in order to raise funds to finance the expansion of the group's product development. On February 7, 2013, G5 completed a directed issue of 800,000 shares at the price of 47 SEK per share. On June 10, 2014, trading in G5's share started on Nasdaq Stockholm.

Since trading started on Nasdaq Stockholm the share capital has been increased with 98,385 shares with the exercise of two warrant programs.

### Largest shareholders as of December 31, 2019

Shareholder	No. of shares	Holding / votes
Wide Development Limited*	615,000	6.80%
Purple Wolf Limited**	532,000	5.88%
Försäkringsbolaget Avanza Pension	476,895	5.26%
Swedbank Robur	471,879	5.21%
Proxima Ltd	451,000	5.01%
Aktia Asset Management	413,000	4.56%
Tommy Svensk	403,290	4.45%
Nordnet Pensionsförsäkring AB	341,262	3.77%
Conensus Asset Management	150,000	1.66%
Daniel Eriksson	140,085	1.55%
<b>Total</b>	<b>3,994,441</b>	<b>44.14%</b>

\*Vlad Suglobov is a deputy board member of the company.

\*\*Company controlled by Alexander Tabunov (Chief Operating Officer).

# UPCOMING REPORT DATES AND IR INFORMATION

Interim report, January-March 2020	May 5, 2020
Annual general meeting 2020	June 08, 2020
Interim report, January-June 2020	August 13, 2020
Interim report, January-September 2020	November 5, 2020
Year-end report 2020	February 11, 2021

For questions regarding this report, please contact

**Stefan Wikstrand, CFO.**

**Mail:** investors@g5e.se

**Phone:** +46 84 11111 5

## GLOSSARY

**Equity/asset ratio:** Equity divided by total assets

**Return on equity:** Net result divided by average equity.

**Return on total assets:** Operating result before financial items with addition of interest income divided by average total assets.

**Current ratio:** Current assets divided by current liabilities.

**Monthly Active Users (MAU)** is the number of individuals who played a G5 game in a calendar month. An individual who plays two different games in the same month is counted as two MAUs. Numbers presented in the report are the average of the three months in any given quarter.

**Monthly Unique Payers (MUP)** is the number of individuals who made a payment in a G5 game at least once during a calendar month. An individual who pays in two G5 games is counted as one MUP. Numbers presented in the report are the average of the three months in any given quarter.

**Monthly Average Gross Revenue Per Paying User (MAGRPPU)** is the average gross revenue received from a Monthly Unique Payer during a calendar month. MAGRPPU is calculated by dividing the gross revenue during the calendar month by the number of Monthly Unique Payers in the same calendar month. The numbers presented in the report are the average of the three months in any given quarter.





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