



G5[®] GAMES

G5 ENTERTAINMENT AB
YEAR-END REPORT 2016

YEAR-END REPORT 2016

OCTOBER-DECEMBER

- Consolidated revenue for the period was SEK 184.8 M (101.3), an increase of 82 per cent compared to 2015
- EBIT for the period was SEK 7.3 M (8.4), a decrease of 12 per cent compared to 2015
- Net result for the period was SEK 7.8 M (9.6)
- Earnings per share for the period before and after dilution was SEK 0.89 (1.09)
- Cash flow before financing activities during the period was SEK 16.2 M (3.1)
- For the free-to-play games the average Monthly Active Users (MAU) was 5.1 million, an increase of 75 per cent compared to the same period in 2015. Average Monthly Unique Payers (MUP) was 175.4 thousand, an increase of 69 per cent and average Monthly Average Gross Revenue Per Paying User (MAGRPPU) was USD 37.5, an increase of 10 per cent compared to the same period in 2015
- Revenue from free-to-play games grew by 95 per cent compared to the same period in 2015 and accounted for 97 per cent (91) of the total revenue
- The Board proposes a dividend of SEK 0.75 (0.0) per share

FINANCIAL KEY RATIOS

KSEK	Oct-Dec 2016	Oct-Dec 2015	Change %	2016	2015	Change %
Revenue	184,767	101,277	82%	516,931	384,369	34%
Commission to distributors ¹	-55,725	-30,416	83%	-154,632	-115,469	34%
Royalty to external developers ²	-41,129	-21,621	90%	-116,438	-85,625	36%
Gross profit	87,913	49,240	79%	245,861	183,274	34%
Gross margin	48%	49%		48%	48%	
Operating costs excluding costs for user acquisition	-33,447	-24,390	37%	-101,888	-88,917	15%
EBIT excluding costs for user acquisition	54,467	24,850	119%	143,973	94,358	53%
EBIT margin before costs for user acquisition	29%	25%		28%	25%	
Costs for user acquisition ³	-47,143	-16,485	186%	-105,865	-74,570	42%
EBIT	7,323	8,365	-12%	38,108	19,788	93%
EBIT margin (%)	4%	8%		7%	5%	
Earnings per share	0.89	1.09	-18%	3.77	1.74	117%
Cash flow before financing activities	16,211	3,052		36,058	689	
Cash and cash equivalents	70,584	33,870		70,584	33,870	

¹Variable costs paid to distributors (Apple App Store, Google Play, Amazon Appstore etc.), which is almost exclusively 30 per cent of the revenue.

²Royalties to external developers are costs to third party developers when there is a contractual obligation to pay royalty.

³User acquisition is a marketing cost for acquiring new users. The costs are fully variable and are spent on advertising campaigns that are targeted at acquiring loyal players, but can be stopped at a very short notice.

COMMENT FROM THE CEO:

This year I have written a longer text for the year-end report. If you have followed the company for a while and/or you want a short version, you can read the very first section reflecting on the results of the quarter and then skip to the very last part that explains my thoughts on 2017. But if you want to learn more about G5, our team, business model, and my reflections on 10 years since our initial listing in Stockholm, the parts in between can provide a very good insight. I hope you can get to read all of it, even if not in the first day. I promise to make it shorter in our upcoming quarterly reports.



GREAT JOB IN Q4

During Q4, our team and our development partners made great efforts to release important end-of-the-year holiday updates on time and free of major issues. It's a great accomplishment considering how much more diversified our F2P game portfolio is than just one year ago. Our customers have received their holiday entertain-

ment on time, holiday updates had great value and quality, and both combined brought the desired result of high participation and monetization. This has added even more positive momentum on top of already positive dynamic we've seen in our game portfolio in Q3 and Q4, and translated into outstanding year-on-year growth of 82% in Q4 and also quarter-to-quarter growth Q4 to Q3 of 46%.

Revenues in the fourth quarter amounted to 185 MSEK, virtually 100% of which came from mobile platforms, naturally. Our licensed game Hidden City remained the biggest growth driver during the quarter. Other growth points in the portfolio were G5's wholly owned games Mahjong Journey and Survivors: The Quest. In addition, our more recent wholly owned games Twin Moons Society and Supermarket Mania Journey have also demonstrated promising results during the quarter, albeit starting from a smaller base. Overall, the revenue structure has changed considerably compared to a year ago. Hidden City is now the biggest revenue-generating game on a monthly basis, and the revenue generated by G5's wholly owned games have likewise increased. The leader of Q4'15, The Secret Society, is now our number two game by revenue, substantially behind Hidden City, but continues to be a solid performer.

A higher share of revenues came from smartphone users (iPhone and Android-powered phones) in Q4 compared to a year ago. This has been the result of G5's efforts to improve company's positions on the "small screen" devices, where the company's games did not enjoy the success they've had on tablets. There was also a larger share of revenue coming from Japan and China compared to a year ago, which reflects the company's efforts to improve positions in these two important markets. USA, Japan, and China are the largest App Store markets in the world, and historically USA is where most of G5's revenue has been generated. As a result of our increased focus on Asia, 15% of revenue came from Asia in Q4'16 compared to 10% a year ago.

Earnings during the quarter were 7.8 MSEK translating into earnings per share of 0.9 SEK. Earnings were affected by higher level of user acquisition spending which was used to bring the company's revenue to the new platform, which is going to benefit our earnings going forward. Therefore, this quarter is not indicative of the true earnings potential of the company, which is higher. I elaborate more on user acquisition spending and how it works below, but the basic idea is that the increase in UA spending precedes growth and increase in profitability in the following quarters. Here, however, I'd like to highlight that what is exciting about our Q4 is that the high pace of growth and a high new revenue platform were achieved while the company stayed profitable and cash flow positive. Our marketing team, in particular, gets to take their fair share of the credit for this Q4 result, as they did a great job in Q4 to strengthen our marketing both in paid user acquisition and cross selling within portfolio, and they pushed our monthly audience to new heights of 5.1 million average monthly active users, up 75% year on year and 175,400 average monthly paying users, up 69% year on year, which became the foundation for the top-line growth.

Capitalization and amortization during the period were very close, 12.3 MSEK and 12.1 MSEK, respectively. They almost "cancelled out" in the PnL statement and did not affect the result of the quarter in substantial way. Operational cash flow during Q4 was 29.7 MSEK and free cash flow was 16.5 MSEK. For the year our free cash flow amounted to 36.5 MSEK, very close to our EBIT for the full year which is an effect of getting close to balance between capitalization and amortization. Cash in the bank at the end of the year amounted to 70.6 MSEK compared to 33.9 MSEK one year ago.

The new higher level of revenue that we have achieved in Q4 2016 and December 2016 specifically has continued into January and February 2017. The information on preliminary revenue for Q1'2017 will be communicated during the first week of April.

GETTING BIGGER AND GROWING FASTER

2016 marked the 10th anniversary of G5's listing in Sweden. G5's shares were first listed on the exchange in Stockholm at the price of 3 kr per share on 2nd October 2006. At the end of 2006, the group reported revenue of 6.84 MSEK and operating result of 1.8 MSEK. Operating cash flow was minimal and we completed new issue to raise 3 MSEK for investing activities, including creating group's first own games. We had 37 employees back then, all of them in our Moscow office.

10 years later, we have closed 2016 with revenues of 517 MSEK, more than 70 times that of 2006, and operating result of 38 MSEK, more than 20 times the operating result of 2006. Our free cash flow in 2016 was 36.5 MSEK, and we had 70.6 MSEK cash on account at the end of the year and no debt, despite substantial investments in product development and marketing that were needed to achieve high pace of growth. I attribute this quite significant growth over the years to our focus, persistence, and the efforts of our highly professional team, which has grown in size more than 10-fold from 2006 to 2016, and is now almost 300 people in 6 countries.

Back in 2006, I wrote in the annual report that the market for mobile games will quickly develop and we want to focus on this market. Indeed, it has been growing by leaps and bounds since then. Since 2009, when we first published a game for iPhone, G5's business has been and is still growing faster than the market. We continue to have plenty of room to grow, however, as the market became so much bigger and keeps growing. In this sense, we are still only getting started.

The results of 2016 confirm this optimistic point of view: in Q4 we've had some of the highest quarterly year-on-year growth pace ever, combined with all time high quarterly revenue and the highest operating result we've ever had for the full year. In other words, we are getting bigger and growing faster at the same time.

FINANCIAL STRENGTH

Part of the reason we decided to go public 10 years ago in 2006 was to raise capital. We were relying on this capital in the early years after going public, and we made new share issues in 2006, 2008, 2011, and 2013, bringing in a total of 57 MSEK that were invested in licensing and product development. This brought the number of outstanding shares from 6,000,000 in 2006 to 8,800,000 in January 2013. However, we have not raised any funds and didn't issue any new shares since January 2013 – for more than 4 years now, while the company has increased its top-line by 4 times during this period. Since 2013, G5 has had the necessary capital to continue growing and funding all aspects of its operations organically, without raising more funds or otherwise substantially diluting the share. Our focus is to make sure that fast growth in recent years translates into shareholder value. We have no debt, we have enough cash in the bank and we have the flexibility to reduce marketing expenses if/when needed to further improve liquidity and profitability. We may also choose to continue pushing forward if we see the opportunity to continue fast organic growth, and we can finance marketing expenses from our cash flow. It is a very good situation to be in and we feel the company is stable financially.

STRATEGICALLY PLACED STUDIOS

Our team is an important strategic asset, in addition to our intellectual property and know-how. It may sound like a cliché but our business doesn't have any material assets to speak of, it is very dependent on intellectual property and the people who create it and make it successful in the market. We have put substantial effort over the years to build up our team and our "studios" – this is how we call our offices that are focused primarily on building new games as opposed to other functions within the group. G5's studios are in Moscow, Russia and Kharkov, Ukraine, where they have been historically established years ago, and we also have a new office in Kaliningrad, Russia, since about a year ago. Both countries have well-developed game development industry and have produced or contributed "behind the scenes" to numerous companies and games that performed very well in the international markets. Russia and Ukraine have large populations, many technical universities, and generally lower cost of labor than in the West, yet the same prevailing video game tastes. This provides substantial resource pool into which G5 can tap directly, thanks to its roots. Despite efforts of their politicians, people of Ukraine and Russia continue to get along very well and collaboration between our offices

and partners has continued all these years without any interruption. The company and its management is very comfortable working in these countries and benefits by having access to world-class talent and by saving substantially on the development costs, which reduces risks and allows G5 games to have low break-even points. G5's best-selling games, including those that have generated sales of tens of millions of dollars, have all been developed either in Ukraine or Russia. G5 also collaborates with independent development studios from Eastern and Central Europe, where talent is also plentiful and the cost of development is reasonable.

PORTFOLIO STRATEGY

For many years G5 has relied on a portfolio approach to game development and publishing, whether or not it was trendy in the industry at a particular point in time. Portfolio approach allows distributing risks and not relying too much on the success or the lifecycle of a single game. I believe it is important in the extremely competitive market we are working in. There are many game developers in the world, it was widely reported that Apple App Store alone publishes about 1000 apps every day, half of which are games. Inevitably, just because of the sheer volume of games being made and the demand in the application stores, some of these developers get successful with one or two of their games. This does not necessarily make them great businesses, as "one hit wonder" creative teams are not rare in game development, just like in other areas of entertainment. With G5, we have always aspired to build a long-lasting business that does not depend on a success of a single game, or even a single genre trend. This means we build a portfolio of games and we also act systematically to improve our position in the market and develop our brand with the players. Our portfolio approach allows us to "recycle" users from one game to another, properly manage the lifetime of games, minimize user churn, and maximize opportunities for new game discovery. For example, we can acquire users into one game and then maximize the return on investment by making sure acquired users are exposed to other games in our

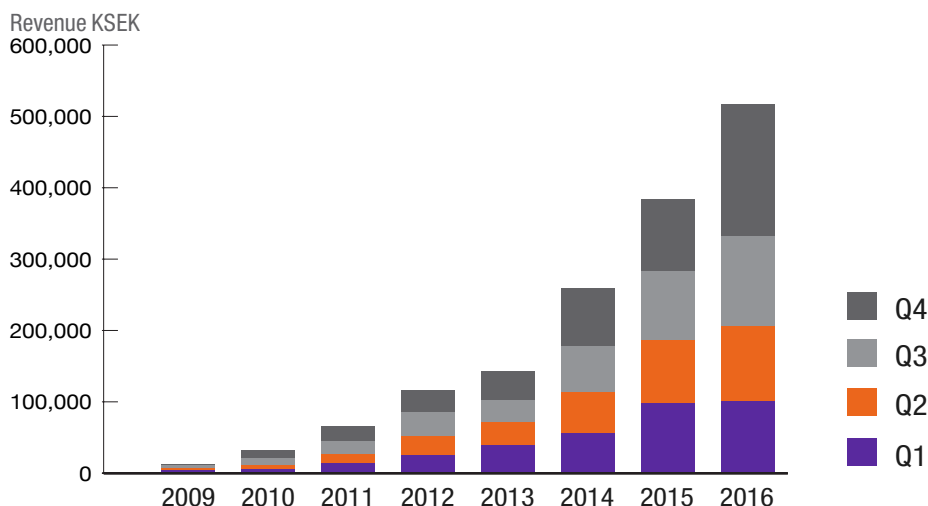
portfolio. We also want to be the ones to come up with new games that make our old games obsolete, rather than allow our competitors to do it.

I attribute it to our portfolio approach and overall our business attitude to game development that we have maintained steady growth while growth leaders in our portfolio and the composition of our revenue has changed dramatically over the years. Up to 2012 most of our revenue came from unlockable games, but now it's virtually all free-to-play. Virtual City Playground was our first F2P success that for a long time was the biggest of our F2P games. It was replaced by The Secret Society, which took #1 spot, and now Hidden City is the biggest game by monthly revenue with The Secret Society being a distant 2nd. We have a number of games that show great potential, like Mahjong Journey, Survivors, Twin Moons Society, and now The Supermarket Mania Journey, which can become leaders in the future. It is only natural that the structure of our portfolio will continue to change with time, as every game has a lifecycle, even if it's a number of years.

MANAGING GROWTH IN 2017

We are starting 2017 on a substantially higher revenue level than a year ago, thanks to the monthly revenue growth we've had during Q3'16 and Q4'16. If we just would manage to keep the revenues on similar levels our growth would be very healthy in 2017. Our aim is of course to continue growing quarter-to-quarter during 2017, and thereby further increase the pace of growth.

Exactly how much quarter-to-quarter revenue growth we are going to be able to achieve in 2017 will depend on the performance of the games in our portfolio, our ability to improve this performance over time, and our ability to effectively and profitably market these games. Currently we have several games that have grown either extraordinarily or substantially during 2016: Hidden City, Mahjong Journey, Survivors: The Quest; as well as some newer games that are showing very good early signs of profit-



able growth: Twin Moons Society and Supermarket Mania Journey. These are the games we expect to drive monthly revenue growth in 2017. We also have a number of own games in development for release in 2017 that can further contribute to the growth during the year.

To better understand how our earnings can develop in 2017, it is important to look at the dynamics of two major expense items in our PnL: user acquisition expenses and royalty. The latter is proportional to the revenue generated by the part of the portfolio that is licensed from other developers. The bigger this part becomes, for example if a licensed game becomes very successful, the bigger royalty becomes as percentage of revenue. Therefore, success of licensed games contributes positively to absolute earnings, but puts pressure on profit margins. On the other hand, if G5's own game is to become very successful and a large part of the company's revenue, royalty will go down as percentage of revenue and this will have positive effect on both absolute earnings and the profit margin.

The connection between earnings and user acquisition (UA) expenses is a bit more complex. When we spend money on UA in a given month, we expect to earn the investment back in full after a few months and then start making profit. Few months can mean a quarter or two or sometimes even three, depending on the game. The lifetime of loyal paying players in the game is usually much longer than 3 months, and even UA expense break-even period can be longer than 3 months, quite often. Therefore, while we can track players' spending to make sure our UA expenses make sense in the long run, in the short term UA can distort the results in quarterly reports, like this:

Let's say for example we have established from observing players in a game that a substantial increase in UA on this game can lead to high growth in the game's revenue. We believe that UA break-even period will be 5 months and then we will make very healthy profit in the next year. Fundamentally, it's a strong case to increase UA expenses on the game. However, such increase in UA expenses will be visible in one quarter, while the biggest revenue effect from this will likely fall on the next quarter. As a result, UA as percentage of revenue will go up in the first quarter and then go down again in the next quarter. Earnings margin, and possibly even absolute earnings may be depressed in the first quarter, but then will recover in the next quarter, with absolute earnings achieving new higher-than-before level.

That's why we think of UA as a tool to push the revenue of the game and the portfolio from one platform to another over two or three quarters. If we keep pushing aggressively for several quarters, growth can be outstanding but the earnings margin will be under pressure. It's still

good news because eventually we will stabilize on a higher platform, and with much higher absolute earnings. The earnings margin is also going to increase with the scale because of the inherent leverage of the business model: our fixed expenses don't need to be scaled as the game's revenue increases.

We believe that G5 still has substantial room to grow, as we're much smaller than the biggest companies in the market, both in revenue and audience size. We will therefore choose to push the accelerator and grow faster, as long as we see the opportunity for profitable organic growth. It doesn't necessarily mean, however, that if revenue growth slows down in a quarter or two, it won't return later. Our ability to grow is a function of the quality of our portfolio, and it can be improved over time with updates and new game releases. As happened several times in our history already, over time we come up with new and better performing games that eclipse everything we've done before. We did it several times, there's a good chance we will keep doing it. One successful game can change the growth situation, as 2016 have shown: the year started slow but then accelerated substantially.

MORE FOCUS ON G5'S WHOLLY OWNED GAMES

Our first successful free-to-play game that generated millions of dollars of revenue was Virtual City Playground, released in August 2011. This game was made internally by G5 and is G5's intellectual property. This game was the reason we decided to focus on free-to-play games. After VCP, our biggest hits were licensed games. We are glad that these licensing deals worked out so well for both G5 and the talented developers we cooperate with, but we also want to focus more on wholly owned games to have more internally made success stories.

In 2016, we have made certain progress, improving performance and achieving higher growth of already released wholly owned games Mahjong Journey and Survivors: The Quest, as well as releasing another own game Twin Moons Society which has shown great performance from the start. Twin Moons Society is particularly promising as it's in the same genre as two of our biggest licensed successes so far. If we will be successful in growing this game to the levels of its peers in our portfolio, making it the next big hit, it can have a profound effect on our profitability as well as top-line growth.

We believe that we also have a strong lineup of own games for release in 2017. These are the games in the genres where we are already strong, but also in adjacent genres, which we know appeal to our core audience, and potentially open up larger genre niches for the company.

EXCITING OUTLOOK FOR 2017

All of G5's revenue comes from in-app purchases, i.e. the payments that players choose to make in our games. We do not have any advertising revenue, it remains an opportunity for the future. While the sales of smartphones and tablets may be slowing down, especially in the developed countries, the amount of time people are spending using apps and games is growing, as well as their familiarity and comfort with in-app payments. This is what is driving the continued growth in the mobile games market, which is still the fastest-growing segment of the video games market. Our focus on older demographic of casual players means we are focusing on a demographic that is set to grow in the years to come, especially in developed countries, where revenue per player is higher. With this solid market base for our growth, there are specific things that can happen in 2017 depending on how well we perform as a team:

- Continued investment in updates and marketing of games that are growth points in our portfolio can lead to further growth in monthly and quarterly revenue and earnings;
- Achieving another success, this time with G5's own game, can have profound effect on profit margins as well as top-line growth;
- Entering new game genre niches can open the doors for further expansion over time;
- Further improving our positions in Asia, where we are still a small player, can contribute to growth and earnings and create more balanced revenue structure.
- Financial strength of the company and our ability to self-finance all these initiatives will mean that growth can be achieved organically and no substantial dilution will happen to the shareholders.

We remain committed to our goal to deliver growth in both revenue and earnings year-on-year. Furthermore, we want to deliver growth in "Net" EBIT, which is EBIT with capitalization and amortization effects taken out. As we communicated before, sometimes we would go all in and boost our UA expenses if we see the opportunity for high growth, like it happened in Q4'16. Even so, we have achieved 129 % growth in "Net" EBIT year-on-year and delivered free cash flow of 16.5 MSEK, and we are looking forward to see what we can achieve in 2017 with our recent growth and improved revenue platform.

San Francisco, February 22, 2017

Vlad Suglobov
CEO, co-founder

OCTOBER-DECEMBER

REVENUE AND GROSS PROFIT

Revenue amounted to SEK 184.8 M (101.3). Revenue increased by 82 per cent compared to the same period in 2015. The growth for free-to-play games was 95 per cent where Hidden City was the main driver of the growth in the quarter but G5’s own games also grew substantially. The portfolio of unlockable games is still providing a contribution to the group, but its absolute and relative size is shrinking.

Cost of revenue increased with 86 per cent to SEK 96.9 M (52.0). Cost of revenue includes commission to the distributors (Apple App Store, Google Play, Amazon Appstore, etc.). All relevant parties charge up to 30 per cent of gross revenue. Cost of revenue also includes royalties payable to external developers which increased by 90 per cent compared to the same period in 2015. The increase in royalty is due to the success of Hidden City.

Gross margin for the period was 48 per cent (49). Gross profit for the quarter increased by 79 per cent and was SEK 87.9 M (49.2).

OPERATIONAL COSTS

Costs for research and development were SEK 18.1 M (14.5) during the period. The increase in costs for research and development is primarily driven by higher amortization and write-downs. Excluding amortization and write-downs the costs increased with 39 per cent which is mainly explained by development on non-capitalizable projects, increased server capacity for hosting as well as high capacity servers for algorithms to enhance the game experience and monetization.

Sales and marketing increased to SEK 50.4 M (18.5). Sales and marketing is primarily affected by the costs for user acquisition. During the quarter the cost for user acquisition was SEK 47.1 M (16.5). Cost for user acquisition as a percentage of sales increased from 16 per cent in the fourth quarter 2015 to 26 per cent in the same period in 2016. Sales and marketing, excluding user acquisition, increased to SEK 3.3 M (2.0).

General and administrative costs amounted to SEK 9.7 M (7.9). Other operating income amounted to SEK 1.3 M (0.8) and other operating expenses amounted to SEK -3.7 M (-0.7). Together they amounted to SEK -2.4 M (0.1), primarily driven by currency effects on operational assets and liabilities.

EBIT

Depreciation and amortization have increased due to the increased size of the game portfolio and amounted to SEK 12.7 M (8.5). Write-downs during the quarter amounted to SEK 0.8 M (2.7).

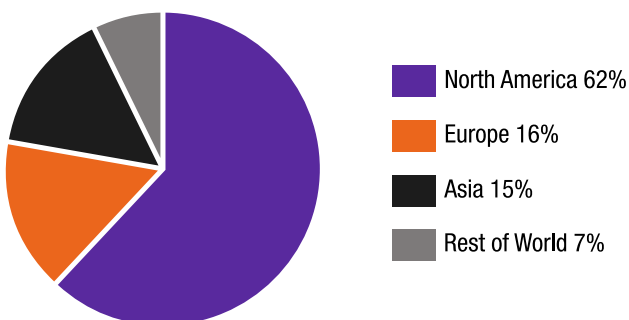
Earnings before interest and taxes (EBIT) were SEK 7.3 M (8.4), corresponding to an EBIT margin of 4 per cent (8).

NET PROFIT

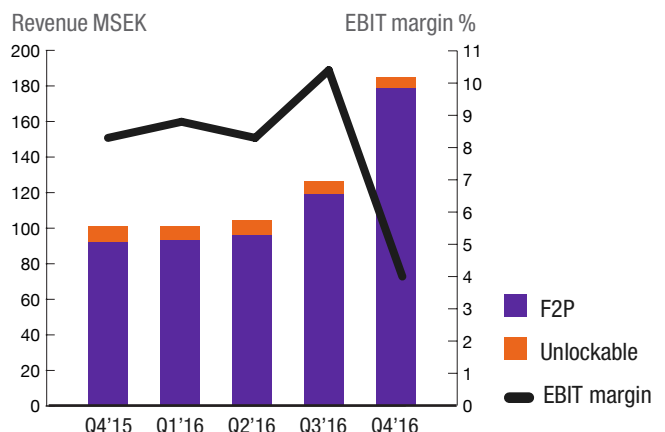
Net profit was marginally affected by financial items. Tax affected the result with SEK 0.5 M (1.2).

Net profit amounted to SEK 7.8 M (9.6) which is corresponding to earnings per share of SEK 0.89 (1.09).

**REVENUE BREAKDOWN BY GEOGRAPHY
FOURTH QUARTER 2016**



**REVENUE BREAKDOWN BY GAME TYPE
EBIT MARGIN**



OPERATIONAL METRICS

In the quarter the average Monthly Active Users (MAU) increased with 75 per cent compared to 2015.

Average Monthly Unique Payers (MUP) increased with 69 per cent compared to 2015 and their average monthly spend, Monthly Average Gross Revenue Per Paying User (MAGRPPU) increased with 10 per cent.

F2P	Q4 '16	Q4 '15	CHANGE
Average MAU (mn)	5.1	2.9	75%
Average MUP (thousands)	175.4	103.8	69%
Average MAGRPPU (USD)	37.5	34.2	10%

For detailed definitions of the operational metrics see the glossary on page 17 of the report.

RELEASES DURING THE QUARTER

Following the release of G5s own game Twin Moons Society in September on Apple AppStore, the game was released on Google Play and Amazon App Store.

JANUARY-DECEMBER

REVENUE AND GROSS PROFIT

Year-on-year revenue grew with 34 per cent, where Hidden City has been the main growth driver over the year but G5's own portfolio has also grown substantially over the year. Revenue amounted to SEK 516.9 M (384.4). Revenue from free-to-play-games increased with 43 per cent compared to the same period in 2015.

The group's cost of revenue was SEK 271.1 M (201.1). Gross profit amounted to SEK 245.9 M (183.3), an increase of 34 per cent compared to 2015. Gross margin was 48 per cent (48).

OPERATING COSTS

Operating costs increased with 29 per cent compared to 2015. User acquisition increased to SEK 105.9 M (74.6). Excluding costs for user acquisition the operating costs amounted to SEK 101.9 M (86.1). The operational costs were impacted by depreciation and amortization of SEK 40.7 M (29.6) and write-downs of SEK 5.7 M (8.2).

Other operating income and costs impacted the period with SEK 0.0 M (-2.8), these items are primarily related to exchange rate differences on operational assets and liabilities.

EBIT

EBIT was SEK 38.1 M (19.8) and the EBIT margin was 7 per cent (5) for the year.

NET PROFIT

Net profit was marginally affected by financial items. Tax affected the result with SEK -4.8 M (-4.4) corresponding to an effective tax rate of 13 per cent (22).

Net profit amounted to SEK 33.2 M (15.3) which is corresponding to earnings per share of SEK 3.77 (1.74).

CASH FLOW

During the fourth quarter, the group had an operating cash flow before changes in working capital of SEK 24.7 M (19.6). Changes in working capital impacted the cash flow positively with SEK 4.7 M (0.1). Capitalized development expenses impacted the cash flow negatively with SEK -12.3 M (-15.7).

Cash flow for the fourth quarter amounted to SEK 16.2 M (3.1).

For the full year 2016 cash flow before changes in working capital amounted to SEK 85.2 M (56.2). Cash flow amounted to SEK 36.1 M (0.9).

Available cash on December 31, 2016 amounted to SEK 70.6 M (33.9).

FINANCIAL POSITION

The company's publishing strategy is based on having a certain number of different games in the portfolio, in order to maximize potential and reduce risk. Some of these games become very successful and profitable, while a few other games may fail in the market. Capitalized development expenses for unsuccessful games will then have to be written down. Over time, the company expects such write-downs to be more than compensated for by the revenue and profits produced by successful games in the portfolio.

Capitalized development expenses amounted to SEK 109.1 M (94.3) of which SEK 107.0 M (87.1) is related to free-to-play games and SEK 2.1 M (7.2) is related to Unlockable games. 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.

MSEK	DEC 31 2016	DEC 31 2015
Released games F2P	87.4	49.7
Released games Unlockable	2.0	4.6
Not released games F2P	19.6	37.4
Not released games Unlockable	0,2	2.6
Net value of games portfolio	109.1	94.3

Impairment need in the portfolio is tested on a quarterly basis. A thorough review of the input parameters is done on a yearly basis. During the quarter write-downs amounted to SEK 0.8 M (2.7) whereof SEK 0.6 M was related to cancellations of additional platforms for a number of free-to-play games and SEK 0.2 M was related to an unlockable game.

Consolidated equity amounted to SEK 161.2 M (123.3), which equals SEK 18.3 per share (14.0) and the equity/asset ratio is 63 per cent (70).

Cash on hand amounted to SEK 70.6 M (33.9).

The group has no interest bearing debt.

PARENT COMPANY

The parent company revenue increased in line with the group. The parent company is the counterpart for almost all application stores where G5 sells its products. The costs consist mainly of payments to one of the subsidiaries in Malta, that holds the rights for the games in the portfolio. Over time, the transactions should generate a surplus for the parent company, but during shorter periods some imbalances may occur.

As for the group, the financial position of the parent company is solid.

OTHER DISCLOSURES

PARENT COMPANY ACCOUNTING PRINCIPLES

Changes in RFR 2, with effect from the financial year 2016, impacts the financial statements and the comparative period for the parent company. Translation differences which are attributable to receivables from subsidiaries, which are not scheduled to be settled in the foreseeable future are recognized in the income statement from January 1, 2016. These translation differences have previously been recognized in other comprehensive income / fair value reserves. The change is implemented with retroactive effect, which means that the translation effect arising during the financial year 2015, 3,099 KSEK, will be transferred from fair value reserve to the income statement and the accumulated effect as of January 1, 2015, 8,420 KSEK, will be transferred from fair value reserve to retained earnings. The change does not affect the consolidated financial report where the effect will continue to be recognized through other comprehensive income to other reserves in equity.

OUTLOOK

G5 Entertainment does not publish forecasts.

RISK ASSESSMENT

G5 Entertainment is, like all companies, exposed to various kinds of risks in its operations. Among the most notable are risks related to the dependency on certain strategic partners, delays in the release of new games, currency exchange risks, changes in technology, dependency on key employees, and tax as well as political risks due to the multinational nature of the group's operations. Risk management is an integral part of G5 Entertainment's management. The risks are described in greater detail in the 2015 annual report.

The risks described for the group can also have an indirect effect on the parent company.

RELATED-PARTY TRANSACTIONS

During the period no significant related-party transactions have taken place.

COMPLAINT AGAINST MYTONA

On January 10, 2017 G5 Entertainment filed a complaint against MyTona LLC, the company that owns The Secret Society, for breach of contract. The action arises from disputes concerning a license agreement between the parties entered into on May 2, 2012, with regard to the game "The Secret Society." The full text of the complaint is available through the Clerk's Office of the Orange County Superior Court, case number 30-2017-00896250-CU-BC-CJC.

THE BOARD'S PROPOSED DIVIDEND

G5 Entertainment is active in a market that grows quickly, and in order to benefit from this growth, the company's main focus is to continue re-investing profits in activities that promote organic growth, such as product development and marketing. With this taken into account the Board nonetheless proposes a dividend of SEK 0.75 per share (0.0), corresponding to around 20 per cent (0) of net profit for the year.

UPCOMING REPORT DATES

Interim report Jan-Mar 2017	May 4, 2017
Annual General Meeting 2017	May 12, 2017
Interim report Jan-Jun 2017	July 27, 2017
Interim report Jan-Sep 2017	November 7, 2017
Year-end report 2017	February 16, 2018

TELECONFERENCE

On February 23, 2017 at 08.30 CET, CEO Vlad Suglobov and CFO Stefan Wikstrand will present the interim report in a conference call.

For dial-in details please visit:

<http://www.g5e.com/corporate/calendar>

FORWARD-LOOKING STATEMENTS

This report may contain statements concerning, among other things, G5 Entertainment's financial position and performance as well as statements on market conditions that may be forward-looking. G5 Entertainment believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions. However, forward-looking statements involve inherent risks and uncertainties and actual results or outcomes may differ materially from those expressed. Forward-looking statements relate only to the date they were made and, other than as required by applicable law, G5 Entertainment undertakes no obligation to update any of them in light of new information or future events.

INQUIRIES

Vlad Suglobov, CEO	investor@g5e.com
Stefan Wikstrand, CFO	+46 76 0011115

ASSURANCE

The Board of Directors and the CEO declare that the interim report provides a true and fair overview of the Parent Company's and the Group's operations, financial position and results of operations as well as describing the material risks and uncertainties facing the Parent Company and other companies in the Group.

Stockholm February 22, 2017

Petter Nylander
Chairman of the Board

Annika Andersson
Board member

Chris Carvalho
Board member

Jeffrey Rose
Board member

Pär Sundberg
Board member

Vlad Suglobov
CEO & Board member

Note: G5 Entertainment AB (publ) is required to make the information in this interim report public in compliance with the Swedish Securities Market Act. The information was submitted for publication on February 23, 2017 at 07.30.

This interim report has not been subject to review by the company's auditors.

This report is published in Swedish and English. In the event of any difference between the English version and the Swedish original, the Swedish version shall prevail.

INCOME STATEMENT - GROUP

KSEK	Oct-Dec 2016	Oct-Dec 2015	2016	2015
Net turnover	184,767	101,277	516,931	384,369
Cost of revenue	-96,854	-52,037	-271,070	-201,094
Gross profit	87,913	49,240	245,861	183,274
Research and Development expenses	-18,092	-14,535	-59,232	-49,840
Sales and Marketing expenses	-50,449	-18,531	-116,501	-82,737
General and Administrative expenses	-9,664	-7,949	-31,996	-28,113
Other operating income	-2,380	798	320	2,549
Other operating expenses	-4	-659	-344	-5,346
Operating result	7,323	8,365	38,108	19,788
Financial income	33	21	39	38
Financial expenses	-55	0	-109	-48
Operating result after financial items	7,301	8,386	38,038	19,778
Taxes (Note 3)	541	1,174	-4,833	-4,448
Net result for the period	7,842	9,560	33,205	15,330
Attributed to:				
Parent company's shareholders	7,842	9,560	33,205	15,330
Non-controlling interest	-	-	-	-
Earnings per share				
Weighted average number of shares (thousands)	8,800	8,800	8,800	8,800
Earnings per share (SEK), before and after dilution	0.89	1.09	3.77	1.74

STATEMENT OF COMPREHENSIVE INCOME - GROUP

KSEK	Oct-Dec 2016	Oct-Dec 2015	2016	2015
Net result for the period	7,842	9,560	33,205	15,330
Items that later can be reversed in profit				
Foreign currency translation differences	4,947	-829	4,506	3,486
Total other comprehensive income for the period	4,947	-829	4,506	3,486
Total comprehensive income for the period	12,789	8,731	37,711	18,816
Attributed to:				
Parent company's shareholders	12,789	8,731	37,711	18,816
Non-controlling interest	-	-	-	-

BALANCE SHEET - GROUP

KSEK	Dec 31, 2016	Dec 31, 2015
Fixed assets		
Intangible fixed assets		
Capitalized development expenses (Note 2)	109,104	94,269
Goodwill	2,292	2,293
	111,396	96,562
Tangible fixed assets		
Equipment	6,275	4,634
	6,275	4,634
Deferred tax receivable (Note 3)	6,100	2,310
Total non-current assets	123,771	103,506
Current assets (Note 4, 6)		
Accounts receivable	0	9,881
Tax receivable	474	175
Other receivables	5,906	3,952
Prepaid expenses and accrued income	57,030	25,198
Cash and cash equivalents	70,584	33,870
Total current assets	133,994	73,076
TOTAL ASSETS	257,766	176,583
Equity	161,169	123,345
Current liabilities (Note 6)		
Accounts payable	30,828	12,320
Other liabilities	2,840	1,227
Tax liabilities	13,276	6,438
Accrued expenses	49,653	33,253
Total current liabilities	96,597	53,238
TOTAL EQUITY AND LIABILITIES	257,766	176,583

STATEMENT OF CHANGES IN SHAREHOLDER EQUITY - GROUP

KSEK	Share capital	Other capital contribution	Other reserves	Profit/ loss brought forward	Share- holders' equity
Shareholders' equity as of 2015-01-01	880	54,032	8,575	40,872	104,359
Net result for the period				15,330	15,330
Premium for warrant program		171			171
Total other comprehensive income			3,485		3,485
Total comprehensive income for the period			3,485	15,330	18,986
Shareholders' equity as of 2015-12-31	880	54,203	12,060	56,202	123,345
Shareholders' equity as of 2016-01-01	880	54,203	12,060	56,202	123,345
Net result for the period				33,205	33,205
Premium for warrant program		113			113
Total other comprehensive income			4,506		4,506
Total comprehensive income for the period			4,506	33,205	37,824
Shareholders' equity as of 2016-12-31	880	54,316	16,566	89,407	161,169

CASH FLOW STATEMENT - GROUP

KSEK	Oct-Dec 2016	Oct-Dec 2015	2016	2015
Cash flow from operating activities				
Profit after financial items	7,301	8,386	38,038	19,778
Adjusting items not included in cash flow	17,538	10,882	50,879	38,710
Taxes paid	-141	308	-3,724	-2,273
Cash flow before changes in working capital	24,698	19,576	85,193	56,215
Cash flow from changes in working capital				
Change in operating receivables	-24,290	69	-28,728	-6,064
Change in operating liabilities	29,010	17	33,137	4,627
Cash flow from operating activities	29,418	19,662	89,602	54,778
Investing activities				
Investment in fixed assets	-930	-919	-3,331	-3,854
Capitalized development expenses	-12,278	-15,691	-50,212	-50,235
Cash flow from investing activities	-13,208	-16,610	-53,544	-54,089
Financing activities				
Premium for issued warrants	-	-	113	171
Cash flow from financing activities	-	-	113	171
CASH FLOW	16,211	3,052	36,058	860
Cash at the beginning of the period	54,069	30,999	33,870	32,864
Cash flow	16,518	3,052	36,479	860
Exchange rate differences	304	-181	543	146
CASH AT THE END OF THE PERIOD	70,584	33,870	70,584	33,870

NOTE 1 – ACCOUNTING PRINCIPLES

G5 Entertainment's consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS). This report was prepared for the group in accordance with the IAS 34 Interim Financial Reporting and the Annual Accounts Act. Accounting and calculation principles used in the report for the group are identical to those used in the Annual Report 2015. None of the new and changed standards from IASB, applicable from 1st of January 2016, has had any material effect on the Financial Statements. For detailed information on the accounting principles, see Annual Report 2015.

Changes in RFR 2, with effect from the financial year 2016, impacts the financial statements and the comparative period for the parent company. Translation differences which are attributable to receivables from

subsidiaries, which are not scheduled to be settled in the foreseeable future are recognized in the income statement from January 1, 2016. These translation differences have so far been recognized in other comprehensive income / fair value reserves. The change is implemented with retroactive effect, which means that the translation effect arising during the financial year 2015, 3,099 KSEK, will be transferred from fair value reserve to the income statement and the accumulated effect as of January 1, 2015, 8,420 KSEK, will be transferred from fair value reserve to retained earnings. The change does not affect the consolidated financial report where the effect will continue to be recognized through other comprehensive income to other reserves in equity.

NOTE 2 – CAPITALIZED DEVELOPMENT EXPENSES

KSEK	Oct-Dec 2016	Oct-Dec 2015	2016	2015
At the beginning of the period	103,919	89,820	94,269	71,680
Investments	12,278	15,691	50,212	50,235
Write-downs	-793	-2,701	-5,700	-8,177
Amortization	-12,076	-8,075	-38,702	-28,045
Currency exchange differences	5,776	-466	9,026	8,575
At the end of the period	109,104	94,269	109,104	94,269

NOTE 3 – TAX

G5 Entertainment is active in a number of different jurisdictions, with different tax rates. The group's effective tax rate consequently varies between periods depending on the distribution of revenues and costs, and the group's profit level.

NOTE 4 – OTHER RECEIVABLES

Other receivables include SEK 0.9 M (3.1) for prepaid royalties to third party developers. G5 publishes both proprietary games and games licensed from third-party developers. In connection with the conclusion of agreements with third party developers, G5 sometimes pays an advance on royalties to fund game development. These advances are usually offset against the third party developer's contractual share of the revenue that each game generates.

NOTE 5 – PLEDGED ASSETS AND CONTINGENT LIABILITIES

Floating charge SEK 3 M (3), pledged for cheque account with overdraft facility USD 0.4 M (0.4). The overdraft facility was unused as of December 31, 2016.

Bank account 50 (50) KSEK, pledged for bank guarantee.

NOTE 6 – FAIR VALUE

G5 group has no financial instruments that are accounted for at fair value. The carrying amount for financial instruments correspond to fair value.

INCOME STATEMENT - PARENT COMPANY

KSEK	Oct-Dec 2016	Oct-Dec 2015	2016	2015
Net turnover	187,095	100,364	519,241	383,496
Cost of revenue	-122,974	-68,270	-383,712	-286,691
Gross profit	64,121	32,094	135,528	96,805
Research and development expenses	-5	-90	-66	-351
Sales and Marketing expenses	-2,988	-1,706	-6,352	-2,100
General and administrative expenses	-50,836	-19,243	-122,199	-92,670
Other operating income	1,406	0	2,304	0
Other operating expenses	-4,071	-59	-7,124	-2,856
Operating result	7,627	10,996	2,092	-1,172
Financial income	4,093	1,318	10,429	9,588
Financial expenses	-55	0	-109	-48
Operating result after financial items	11,665	12,314	12,412	8,368
Taxes (Note 3)	-2,565	-2,709	-2,729	-1,526
Net result for the period	9,100	9,605	9,682	6,841

STATEMENT OF COMPREHENSIVE INCOME - PARENT COMPANY

KSEK	Oct-Dec 2016	Oct-Dec 2015	2016	2015
Net result for the period	9,100	9,605	9,682	6,841
Items that later can be reversed in profit				
Foreign currency translation differences	-	-	-	-
Total other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	9,100	9,605	9,682	6,841

BALANCE SHEET - PARENT COMPANY

KSEK	Dec 31, 2016	Dec 31, 2015
Fixed assets		
Financial fixed assets		
Shares in group companies	70	70
Deferred tax assets	0	0
Receivables from group companies	79,211	100,084
	78,306	100,154
Current assets		
Account receivables	0	9,874
Receivables from group companies	186	137
Other receivables	2,341	521
Prepaid expenses and accrued income	56,208	24,856
Cash and cash equivalents	56,665	25,605
Total current assets	115,399	60,993
TOTAL ASSETS	194,680	161,147
Restricted equity		
Share capital	880	880
Non-restricted equity		
Share premium reserve	54,283	54,160
Profit/Loss carried forward	54,081	47,239
Net result for the period	9,682	6,841
Total equity	118,926	109,120
Current liabilities		
Accounts payable	573	131
Liability to group companies	71,956	49,338
Other liability	392	150
Accrued expenses	2,832	2,408
Total current liabilities	75,753	52,026
TOTAL EQUITY AND LIABILITIES	194,680	161,147

GLOSSARY

FINANCIAL STATEMENT

Cost of revenue consists of direct expenses incurred in order to generate revenue from the company's games. This primarily includes commission to distributors and royalties to external developers.

Research and Development expenses primarily consist of salaries, bonuses and benefits for the company's developers. In addition, research and development expenses include outside services, as well as allocated facilities and other overhead costs. Costs associated with maintaining the company's computer software and associated infrastructure are expensed as incurred. Development costs that are directly attributable to the design and testing of the company's identifiable and unique games are recognized as intangible assets, and amortized within research and development expense over a 24-month period.

Sales and Marketing expenses primarily consist of user acquisition expenses and related software. Sales and marketing also includes salaries, bonuses, and benefits for the company's sales and marketing staff, as well as consulting fees. In addition, sales and marketing expenses include general marketing, branding, advertising and public relations costs.

General and Administrative expenses primarily consist of salaries, bonuses, and benefits for the company's executive, finance, legal, information technology, human resources and other administrative employees, as well as support staff. It also includes outside consulting, legal and accounting services, insurance as well as facilities and other overhead costs not allocated to other areas across the business. In addition, general and administrative expenses include all of the company's depreciation expenses.

OPERATIONAL TERMS

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.

ABOUT G5 ENTERTAINMENT

G5 Entertainment AB (publ) (G5) is a developer and publisher of high quality free-to-play mobile games for iOS, Android, Kindle Fire, and Windows-powered devices. G5 develops and publishes games that are family-friendly, easy to learn, and targeted at the widest audience of experienced and novice players. G5's portfolio includes a number of popular games like Mahjong Journey®, Survivors: the Quest®, Hidden City®, Twin Moons®, Supermarket Mania® and The Secret Society®. G5 Entertainment AB (publ) is listed on Nasdaq Stockholm since 2014.

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