



# G5<sup>®</sup> GAMES

**G5 ENTERTAINMENT AB**

REG.NR: 556680-8878

ANNUAL REPORT 2016



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 2016 – THE YEAR IN BRIEF

# 516,931

Revenue for the period  
(KSEK)

# 38,108

Operating profit for  
the period (KSEK)

# 43 %

Increase in revenue  
from free-to-play  
games

- ▶ Consolidated revenue was SEK 516.9 M (384.4), an increase of 34 per cent compared to 2015
- ▶ EBIT for the year was SEK 38.1 M (19.8)
- ▶ Net result was SEK 33.2 M (15.3)
- ▶ Earnings per share, before and after dilution, was SEK 3.77 (1.74)
- ▶ Cash flow before financing activities was 36.1 (0.7) KSEK
- ▶ Revenue from free-to-play-games increased by 43 per cent and accounted for 94 per cent (88) of the total revenue

## G5 IN NUMBERS

### FINANCIAL KEY RATIOS, KSEK

	2016	2015	Change %
Revenue	516,931	384,369	34%
Commission to distributors	-154,632	-115,469	34%
Royalty to external developers	-116,438	-85,625	36%
<b>Gross profit</b>	<b>245,861</b>	<b>183,274</b>	<b>34%</b>
Gross margin	48%	48%	
Operating costs excluding costs for user acquisition	-101,888	-88,917	15%
<b>EBIT excluding costs for user acquisition</b>	<b>143,973</b>	<b>94,358</b>	<b>53%</b>
EBIT margin before costs for user acquisition	28%	25%	
Costs for user acquisition	-105,865	-74,570	42%
<b>EBIT</b>	<b>38,108</b>	<b>19,788</b>	<b>93%</b>
EBIT margin (%)	7%	5%	
Cash flow before financing activities	36,058	689	
Cash and cash equivalents	70,584	33,870	

F2P	2016				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MAU (mn) <sup>1</sup>	3.1	3.4	3.8	5.1	2.8	2.9	3.2	2.9
MUP (thousands) <sup>1</sup>	109.0	113.8	120.7	175.4	102.5	106.6	110.6	103.8
MAGRPPU (USD) <sup>1</sup>	32.6	34.0	39.9	37.5	31.5	29.1	29.7	34.2

<sup>1</sup>For more information regarding the operational metrics, see the glossary on page 60.

## THIS IS G5 ENTERTAINMENT

G5 Entertainment AB ("G5") is a developer and publisher of free-to-play games that are played on smartphones and tablets.

The company, which is listed on Nasdaq OMX since June 2014, is headquartered in Stockholm but operates internationally with a total of approximately 300 employees, most of whom are located outside of Sweden. The division responsible for game intellectual property, creation and licensing is located in Malta, while development offices and studios are situated in Moscow and Kaliningrad in Russia and Kharkov in Ukraine. G5 also has a marketing office in San Francisco, USA. In 2016, G5 generated revenues of SEK 517 million and a net result of SEK 33 million.

There are 15 free-to-play games in G5's portfolio. In addition there are also numerous so-called unlockable games, which are a legacy from a previous business model. The difference between the two types are that the free-to-play games do not cost the player anything to download, but provide the possibilities to make in-game purchases of virtual goods, for example in the form of additional time, lives or tools. Unlockable games provide a limited free trial period, but players have to pay a one-time fee in order to play the full game. Free-to-play games are dominant in the market since a few years ago and the proportion of G5's revenues generated from these games is increasing very sharply. In 2016, free-to-play games accounted for almost 94 per cent of revenues.

The company's games are available for iOS, Android, Kindle Fire and Windows powered smartphones and tablets. Customers can find and download G5 games via online stores such as Apple's App Store, Google Play, Amazon Appstore and Microsoft's Windows Store. G5 offers proprietary games and also publishes games licensed from other developers. The most geographically important markets for the company are USA and Europe that combined account for more than 80 percent of revenues.

G5's games target the "casual player" segment, which is a rapidly growing market. Mobile games in turn is the fastest growing segment of the overall games market. The mobile games market is, according to the consulting firm Newzoo, expected to grow by about 12 per cent annually from USD 30.4 bn in 2014 to USD 52.5 bn in 2019.



WORD FROM THE CEO:

# GETTING BIGGER AND GROWING FASTER



“As a result of our increased focus on Asia, 15% of revenue came from Asia in Q4’16 compared to 10% a year before.”

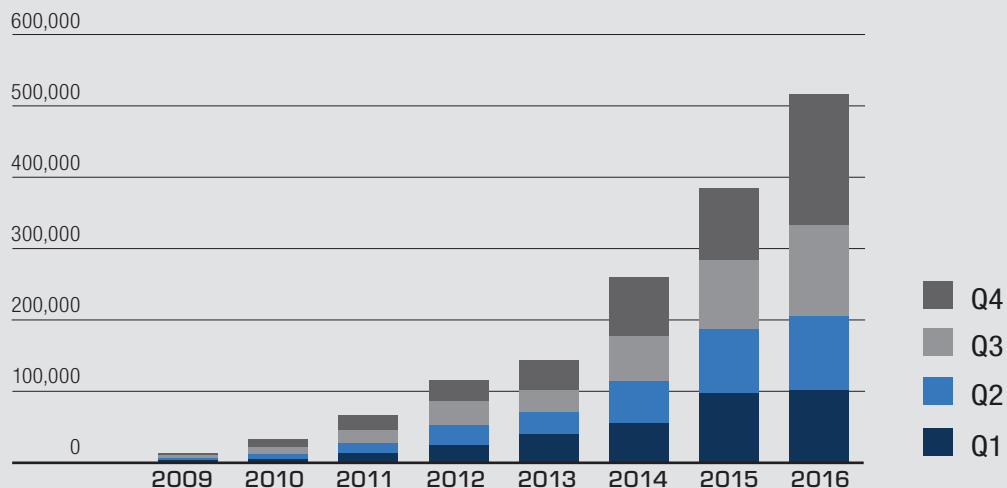
**REVENUE DEVELOPMENT IN 2016**

2016 started quite slow in terms of top-line growth, but this has changed in the second half of the year, and we have been gradually ramping up the pace of growth since then. Notably, we have delivered 82% year-on-year top-line growth in Q4, and this has been a sequential growth of 46% compared to Q3.

Virtually 100% of our revenue in 2016 came from mobile platforms, naturally. Our licensed game Hidden City remained the biggest growth driver during the year, and especially in the second half of the year. 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 second half of the year, 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 2015, The Secret Society, is now our number two or number three game by revenue, depending on the platform, substantially behind Hidden City, but continues to be a solid performer.

Compared to the previous year, a higher share of revenues came from smartphone users (iPhone and Android-powered phones). 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 2009 – 2016 (KSEK)



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 before.

Earnings during the year were 38.1 MSEK translating into earnings per share of 3.77 SEK. Earnings were affected by higher level of user acquisition spending in the fourth quarter, which was used to bring the company's revenue to the new platform, that is going to benefit our ability to produce earnings in 2017. Therefore, Q4, and 2016 as a whole, 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 2016, and the fourth quarter in particular, is that the high pace of growth and a high new revenue platform were achieved while the company stayed profitable and cash flow positive. By the fourth quarter, we have increased 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.

By the end of 2016, we've gotten to the point where capitalization and amortization during Q4 were very close, 12.3 MSEK and 12.1 MSEK, respectively. They almost "cancelled out" in the PnL statement for the quarter and did not affect the result of the quarter in substantial way. For the year our free cash flow amounted to 36.1 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 at the end of 2015.

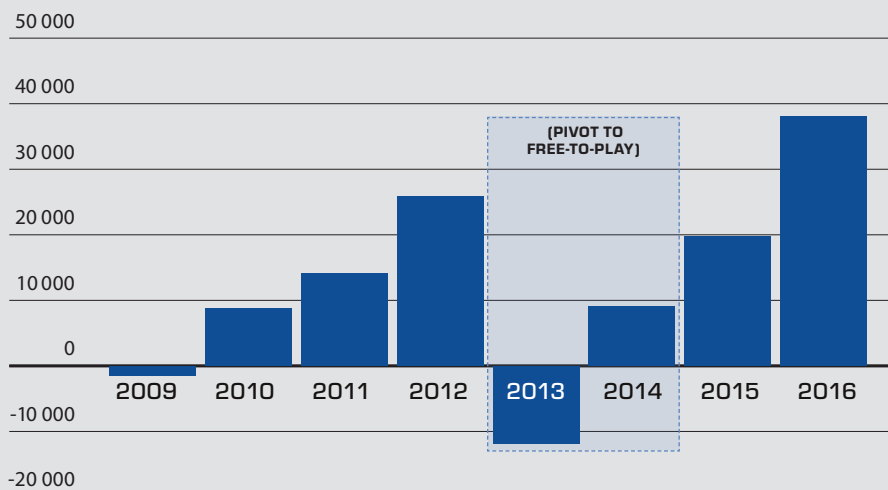
## 10TH ANNIVERSARY OF LISTING

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 funds 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 36.1 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 approx. 300 people in 6 countries. We have also gotten to the point where we can start to distribute money to the shareholders while continuing to finance our growth.

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.

## EBIT (KSEK)



The results of 2016 confirm this optimistic point of view: we’ve had some of the highest quarterly year-on-year growth pace ever during the year, despite all time high quarterly revenue and strong operating result figures. 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. 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 nor issued 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 without raising more funds or otherwise substantially dilute 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 very stable financially.

**STRATEGICALLY PLACED STUDIOS**

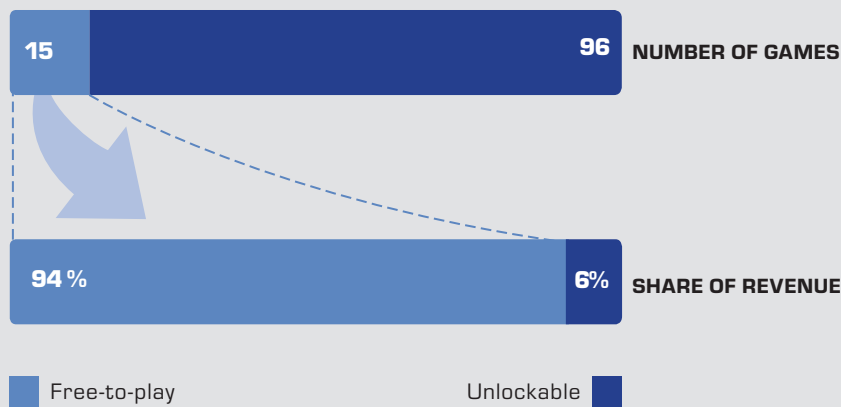
Our team is an important strategic asset, in addition to our intellectual property and know-how. It may sound like a cliché but our business doesn’t have any material assets to speak of, it is very dependent on intellectual property, the people

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

Number of games / Share of revenue by game type





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 as many games in our portfolio as possible. We also want to be the ones to come up with new games that make our old games obsolete, rather than allow our competitors 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 Twin Moons Society, Mahjong Journey, Survivors, 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.

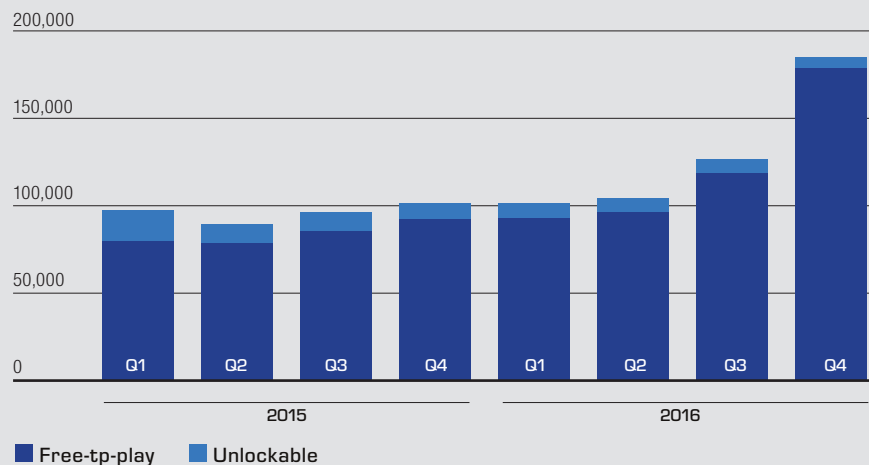
#### MANAGING GROWTH IN 2017

We have started 2017 on a higher revenue level than a year ago. If we just would manage to keep the quarterly revenues on exactly the same level as Q4’16 we will show a revenue that is growing faster than the market 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 profitable 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

Revenue breakdown by game type (KSEK)



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.

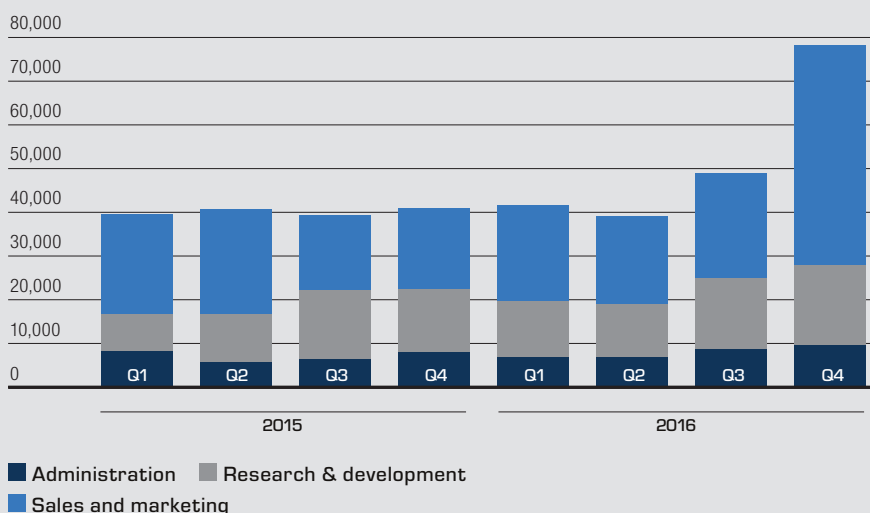
That's why we think of UA as a tool to push the revenue of the game and the portfolio from one platform to another over two or three quarters. If we keep pushing aggressively for several quarters, growth can be outstanding but the earnings margin will be under pressure. It's still good news as we eventually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

Our management team believes 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 for growth 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

### Costs (KSEK)



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 could 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 also 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 we aim to achieve in 2017:

- ◆ 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 when we take away capitalization and amortization effects on earnings. 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 16.2 MSEK, and we are looking forward to see what we can achieve in 2017 with our recent growth and improved revenue platform.

Vlad Suglobov  
CEO, co-founder





## VISION AND STRATEGY

# ONE OF THE LEADING DEVELOPERS AND PUBLISHERS OF MOBILE FREE-TO-PLAY GAMES

G5 aims to become one of the world's leading developers and publishers of free-to-play games for smartphones and tablets. The company will reach its goals by:

- ◆ Focusing on the needs of its target audience of women age 35 and over, maximizing the effect of the knowledge of its audience, the accumulated user base, and cross-marketing opportunities between its games.
- ◆ Offering its audience the continuous stream of new content (through updates to existing games), and new games, to keep players engaged with the company's products.
- ◆ Excelling in marketing, from cross-marketing between games and re-engagement of its existing audience to new user acquisition.
- ◆ In a safe way exploring the opportunities to expand the company's offering to other genres and target groups. This will be done through experimental projects with low financial risk, which may or may not succeed in the market, but will bring us experience and valuable insights.
- ◆ Achieving growth that exceeds market growth through the above means.

### GAME TYPES

G5 currently offers two types of games, free-to-play games and unlockable games. Free-to-play games have significantly greater earning capacity because of their ability to retain and apply monetization pressure to players over long time periods. Continuous expansion of the game content through updates also helps extend the lifetime and earnings of free-to-play games. The unlockable games in G5's portfolio are largely a legacy from an earlier business model and today only account for a minor share of the company's revenues.

### GENRES AND TARGET GROUPS

G5 Entertainment has a clear focus in relation to game genres and its target groups. The games offered are primarily in the genres "Hidden Object", "Puzzle" and "Time Management", in other words, adventure games where you progress by solving tasks and finding clues, puzzle games and games where the player acts as a manager and for example runs a supermarket.

G5's target group is women aged over 35, however, the largest part of the paying audience in some games are among women aged over 55. The competition for target groups is lower here than in other market segments, while the players are more loyal, play games for a long time and also prefer to play on tablets.

### GEOGRAPHICAL MARKETS

Through G5's distribution channels, the company reaches a global market immediately after the release of a new game. G5's main markets are North America and Europe. During 2016, North America accounted for 64 percent of revenues, Europe for 17 percent, while Asia and the rest of the world combined accounted for the remaining share.

There is still substantial growth potential in the markets that the company targets today, while the demographic trends mean that the company's target audience will continue to grow in its main markets.

### USER ACQUISITION

During the company's build-up phase, a large share of the revenue was utilized for user acquisition, in other words marketing. This has been a deliberate part of the strategy for reaching out and growing in terms of the number of downloads and active players. User acquisition is an important part of the business model for free-to-play games because the users play the game for a longer time and thus make a greater contribution to the game's revenues. Accordingly, the company's total user base is of great importance for the company's future earning capacity. Today G5 has grown and has reached a position as a well-established player with large volumes.

### COMPETITORS

Being a mobile games company, G5 operates in a highly competitive environment where the attention of its customers is targeted not only by mobile game developers but also by the broader games and entertainment industry. That said, it does not mean G5 competes with every single mobile games company on the market. For example, there is no real competition between G5 who targets women of age 35+, and companies targeting younger male audience of 13-34 age. G5 therefore does not compete, for example, with the makers of popular "war" games, although it operates in the same market space.

Within its specific niche, G5 has one of the largest offerings for the company's main target group on mobile. There are only few other established companies and products that consistently target the company's main target audience (women 35+), and create games similar in structure to the best selling games in G5's game portfolio. The success of the company will ultimately depend on its ability to continue offering its existing and new audience the best and most engaging experiences, which also monetize the audience well enough. In other words, the company needs to produce and/or license successful games and the overall results will depend on the company's ability to do this well. The management believes that, among direct competitors, G5 has one of the largest audiences in its narrow target segment of women 35+. The management therefore thinks that G5 has built a well-known brand with its core target audience and the company is well positioned to resist competition, continue strong growth, increase its market share, and possibly widen its target audience over time.

VALUE CHAIN

G5'S VALUE CHAIN

DEVELOPMENT

G5 develops and renews its portfolio of games in two different ways: through internal game development and through licensing of games from independent game developers. 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, although the company welcomes and fully supports outstanding successes among its game portfolio. The contractual agreements for the licensed games vary depending on numerous factors but the starting point of the negotiation is usually an even split of revenues between the developer and G5.

DISTRIBUTION AND PLATFORMS

G5 distributes its own games and the licensed games through a number of strong and established application stores such as Apple App Store, Google Play, Amazon Appstore and Microsoft Windows Store. Through these stores the company instantly reaches a global market. In addition to distribution the stores are also taking care of hosting and payment processing from the end users. The stores usually charge 30 per cent of the revenues from each game which should be compared to

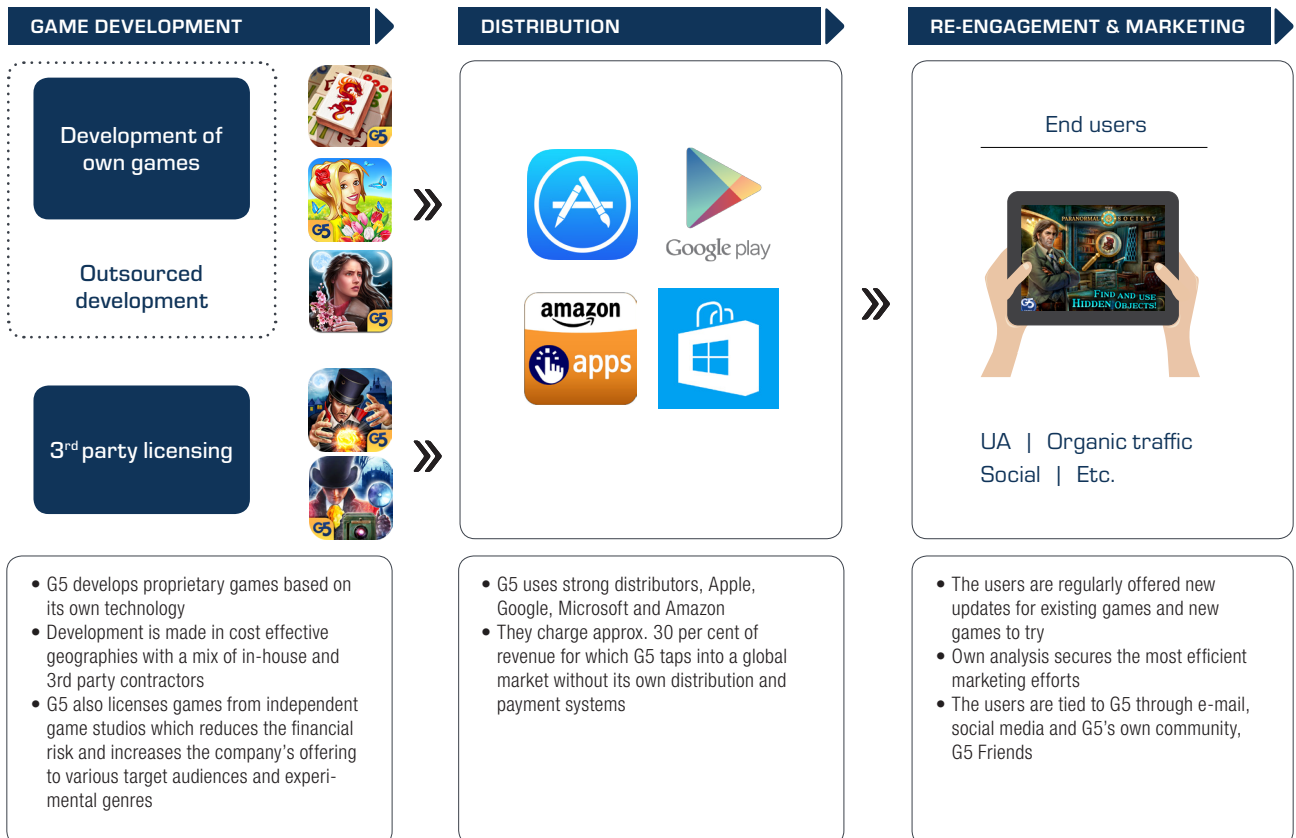
the cost of running and maintaining global distribution and payments services. In addition the stores are also providing a source for organic traffic through the exposure of the games to the top charts, search tools and occasional promotion of the best games.

G5's games support both phones and tablets with any screen sizes, but for most of G5's games, the gaming experience is optimized for tablets, i.e. devices with larger screens. The fast growth in both the number of devices and users, and the time users spend playing, makes the mobile games market the only fast growing segment of the games market.

ENGAGEMENT AND ANALYSIS

G5 performs a thorough analysis of the customers' behavior in the company's games with the G5's own analytics platform. The insights obtained are used to improve the existing games in the portfolio through regular updates, with the goal to secure the return on the user acquisition investment, maximize the engagement, optimize monetization and improve the effect of cross-selling and in-game marketing. G5 is using various channels to increase the loyalty of its customer base, from in-app, to e-mail, social media as well as through its own community G5 Friends, that is available from within the company's games.

VALUE CHAIN



OPERATIONS

# G5 IS GROWING FASTER THAN THE MARKET

**OPERATIONS**

G5 is one of the leading developers and publishers of free-to-play games for tablets and mobile phones. G5, like the company's market, has grown strongly in recent years. The largest driver of this growth has been the rapid shift from the classic mobile phone and PC to smartphones and tablets.

The rapid developments in both software and hardware have also enabled the use of advanced graphics and processing of large quantities of information on mobile devices, which has made games increasingly advanced and high quality. In line with the increasing use of smartphones and tablets, the user base is constantly increasing and becoming more diverse. Today, games are the most popular activity on smartphones and tablets, and mobile games are the only fast-growing segment in the overall games market.

**TIME FOR GAMES**

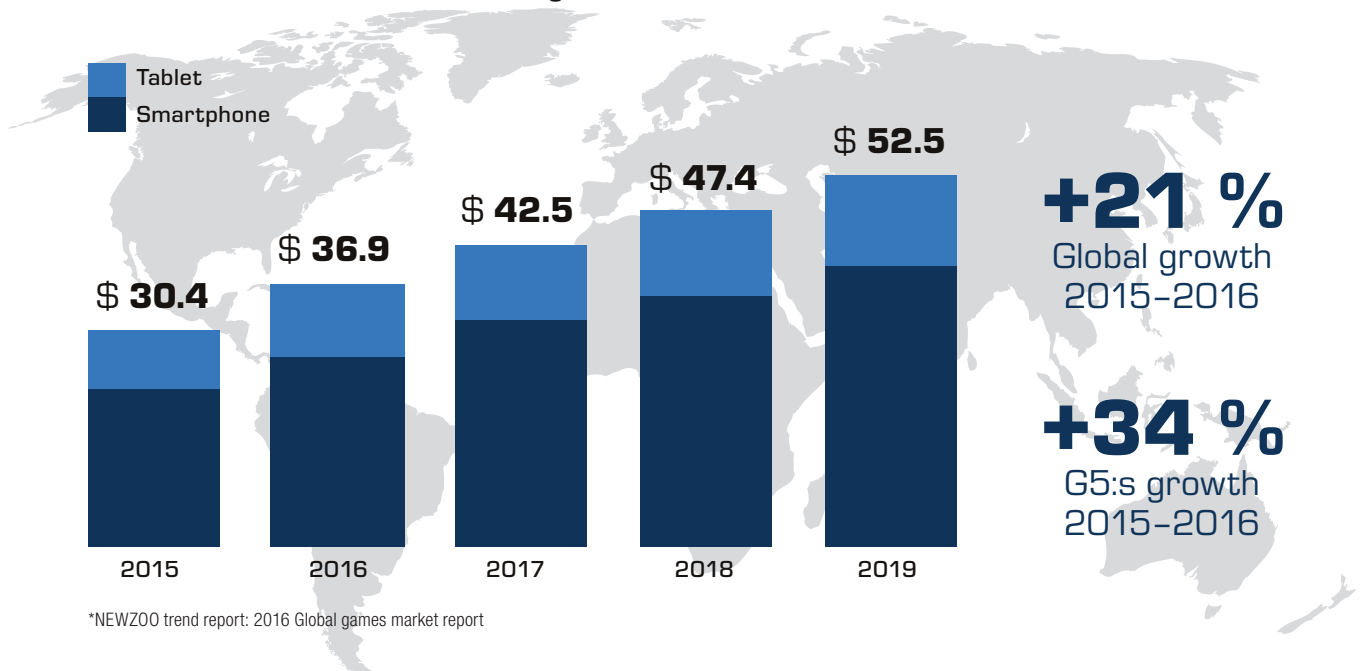
The widespread adoption of smartphones and tablets, the quality of the mobile experience and the convenience of playing anywhere is what makes game users leave their traditional games platforms at a rapid rate and become mobile. And when they do so, tablets and smartphones become the game platforms, which are growing fastest in terms of the number of devices. "Casual games" of the type G5 offers also help to increase the user base, as these games are easy to start playing and suit a broader target group, both in terms of gender and age.

The average time that mobile players devote to playing games is constantly increasing. Roughly one third of the total amount of time that users of iOS and Android devices spend on their mobiles or tablets is devoted to games. Revenues from different types of mobile games are expected, according to the consultancy Newzoo, to increase from USD 30.4 billion in 2015 to USD 52.5 billion in 2019.

**ATTRACTIVE TARGET GROUP**

G5's games are addressed towards a broad spectrum of players, but the company has chosen to focus specifically on female players over 35 years of age. Back in 2009, G5 identified that this segment of mobile players was underserved by the games industry. The company developed and published games aimed specifically at this audience and the company had early success with this audience, which it has continued to cultivate over the years since. The competition in this segment of the market is relatively lower, and requires deep understanding of the needs of the audience, which is untypical for the traditional game developers. The company's target group has proven to be loyal players that can stay in the company's games for a year or more, and are unlikely to try to circumvent the game's monetization. They also prefer to use tablets for their gaming needs, which favors G5 games that are optimized for larger screens and provide large amounts of high quality and high definition content.

Worldwide revenue from mobile games, USD bn



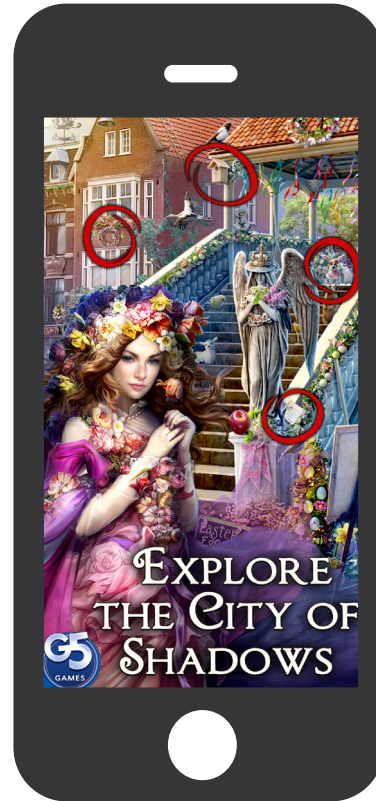


The company's main markets, North America and Europe, align perfectly with the strategy of the company, as the target audiences are large and able to pay and the demographic trends ensure that the company's audience will keep growing for many years.

Although the focus lies on the Western world and the games to some extent are adapted to this, the company's games are generally published in at least eleven different language editions and are available all over the world. A growing part of the company's revenue comes from Asia, as it seems that the company's target audience and the taste for company's games are gradually developing.

**G5'S DEVELOPMENT**

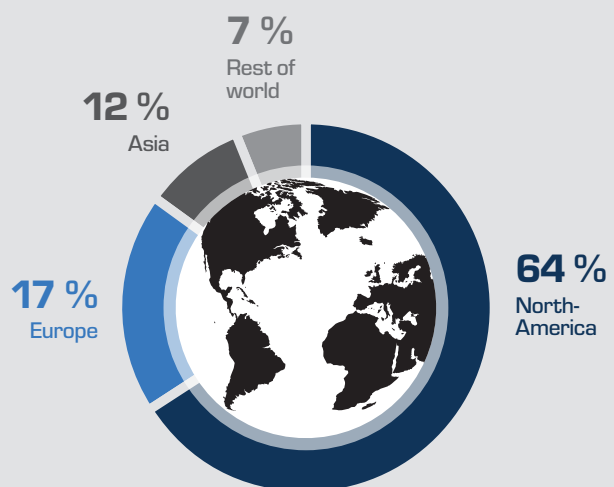
G5 has displayed strong growth in recent years, more than 62 percent per year on average over the past five years. This means that the company has grown faster than the overall market. In 2016, growth was 34 per cent and G5 has grown to a size where the company can take full advantage of its base, both in the form of increased revenues from the more than five million unique users that each month play one of the company's games, and in its ability to release updates to the existing games as well as completely new games in the market and place them on various top charts.



**Target audience**

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

**Revenue share by region**



SUCCESS FACTORS

IMPROVED AND FOCUSED OPERATIONS

► An attractive games portfolio

Nowadays the international mobile games market is dominated by free-to-play games. These games are more accessible for the audience as they do not require upfront payment, and provide a long lasting experience due to the fact that developers continue to update the games adding new content and challenges.

This allows players to get into the game easily and get deeply engaged, which stimulates monetization and keeps players involved for a long period of time. Free-to-play games are free to download and play, but the player can make in-game purchases of virtual goods in the form of lives or tools that enable faster progress in the game, and the games are structured in such a way as to make purchasing virtual goods very rewarding for the player.

G5 has a games portfolio featuring a number of high-ranked casual free-to-play games, which are attractive for a large group of players. The casual games market consists of games of many genres, but G5 has chosen to focus on hidden object puzzle adventure games, and it also has strategy games and “time management” games – the types of games that work well with the company’s audience. Of the fifteen free-to-play games in G5’s portfolio today, nine are proprietary and six are licensed from other developers. Combined, these games account for about 94 per cent of revenues. Since the start, G5 has released a total of 19 free-to-play games in the market, and has removed three out of 19 from the market as those three did not meet performance expectations.

In addition to this, G5 also has a large portfolio of so-called unlockable games, which can be said to be a legacy from an earlier business model. In this model, revenue per user is limited to the price of the unlock and there is no point in providing updates to the game as they don’t bring in additional revenue. The rapid development and high earning capacity of free-to-play games that led to their prevalence in the marketplace means that G5 will not continue to invest in unlockable games.

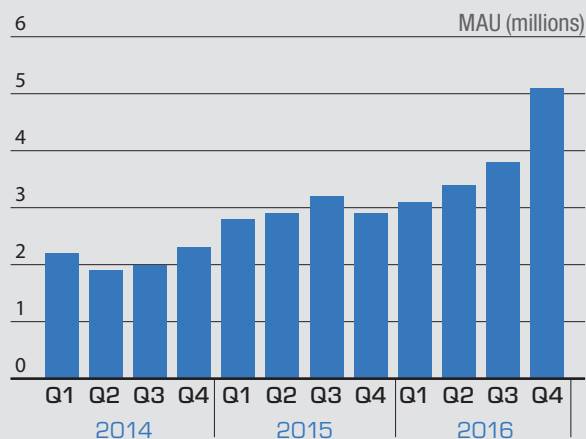
► Proprietary games and licensing

G5’s games portfolio is a mix of proprietary and licensed games. Historically, publishing games licensed from third party developers has provided G5 with the advantage of quickly growing the portfolio under its brand through licensing deals. The profit margins are lower on the licensed games, though, but the risks are lower as well, as the company does not bear the full development cost. Now that the company is a more established player in the market with more resources and established audience, the higher margins of proprietary games are more attractive, and the company is striving to boost the share of proprietary free-to-play games in its product portfolio. The licensing model still remains attractive for another reason. Through licensing deals, G5 can test new types of games and address new target groups at a lower cost, while learning from the games published through the company’s analytics platform. Licensing efforts are led from the office in Malta where the company’s Director of Licensing is based.

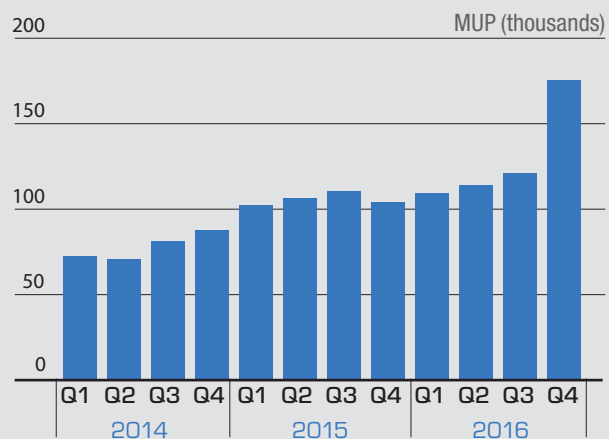
The internal game development is also led by G5’s Malta office with 6 employees where the company’s senior game producers, COO, and Development Director are also based, and the development studio in Moscow, with 17 senior development employees. The company’s largest development office is located in Kharkov, Ukraine, where most of the programming and testing of the company’s games occurs. G5 also uses a large number of third partner studios to outsource parts of game development, as is customary in the game development industry.

Since 2009, when G5 started publishing its own and partner games, G5 has built up comprehensive industry expertise and experience of game development by producing and publishing numerous proprietary games and publishing and overseeing the production of a large number of external development projects. The proprietary games in the company’s portfolio include “Mahjong Journey”, “Supermarket Mania Journey”, “Homicide Squad”, “Paranormal Society” and “Twin Moons Society”. Examples of licensed games are “Hidden City” and “The Secret Society”.

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



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



<sup>1</sup>For more information regarding the operational metrics, see the glossary on page 60.

#### ► Advanced publishing platform for free-to-play games

In addition to having a proprietary development platform (engine) for its proprietary games, G5 has over the years established an extensive publishing platform that provides substantial advantages to games published by G5 and is very attractive to third party developers who want to bring their games to the market. G5 has built the capacity for quality assurance, customer support, sales and marketing and user acquisition across multiple channels, including marketing within games. G5's own cross-selling network between the portfolio games and its own G5 Friends community provide additional means of cost efficient introduction of existing players to new games. The company has also developed a proprietary system for game analytics, which processes big data of how players use the games in real time to mine insights into how the game's retention and monetization can be improved. Another important function of the company's analytics platform is to track the relation between the cost of acquiring the user and the lifetime value of the user, to ensure effective investment of the company's marketing budget.

#### ► Efficient distribution and marketing channels

G5's games reach their end users, in other words individual players, through a few very strong and global distributors such as Apple's App Store, Google Play, Amazon Appstore and Microsoft's Windows Store. For a fee these stores are responsible for global hosting of game files, delivery to end users and operation of payment systems. The fee is normally 30 per cent of revenues generated by the games. Even though access to these distribution channels involves a cost for G5, the solution means that the company, instead of building up its own worldwide high performance payment and distribution channels, can focus on its core business, which is game development and marketing to end users. In addition to mentioned services provided by the distribution stores, they also bring substantial organic (free) traffic through the exposure in the store top ranks, which are often used by end users for the discovery of new games. Sometimes the company is able to secure store promotions from these stores, which brings in further benefit. The combination of services provided, the global reach, and marketing support provided by these stores makes the cost very reasonable for G5.

In recent years, G5 has built up comprehensive knowledge of user acquisition process, in other words the performance marketing that is deployed to attract new players to company's games, primarily through advertising in other popular mobile applications that choose to monetize their audience through advertising. During the repositioning process from unlockable games to free-to-play games, the company

invested a significant share of its revenues in user acquisition with the intention to achieve high growth and create a substantial user base to scale the company to the level where earnings can be generated sustainably. The broad user base that has been created is also an asset in connection with future game releases, as the company can effectively direct existing players into new games.

#### 2017

G5 operates in a rapidly growing market, where revenues of mobile games are expected to show a strong growth the coming years, through the growth of the number of devices, the amount of time users spend playing on their devices, and the users' growing comfort with spending money in the games. The company has, within its niche of casual free-to-play games, a broad games portfolio with a growing number of proprietary, higher-margin games. G5 has focused on a financially strong and loyal target group, and has extensive understanding of its audience and experience of developing attractive games for its target group in several genres within free-to-play business model. The company's business model is simple, scalable, and has substantial inherent leverage. The number of players and the company's revenue can be increased without the need for a larger organization in place, and the company has already displayed very high growth over 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. The company has a number of new free-to-play games for release during 2017, most of them 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.





# 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, 2016 – December 31, 2016. All amounts are reported in SEK thousands (KSEK), unless otherwise specified. Information in parentheses refers to the previous accounting year, that is to say 2015. 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

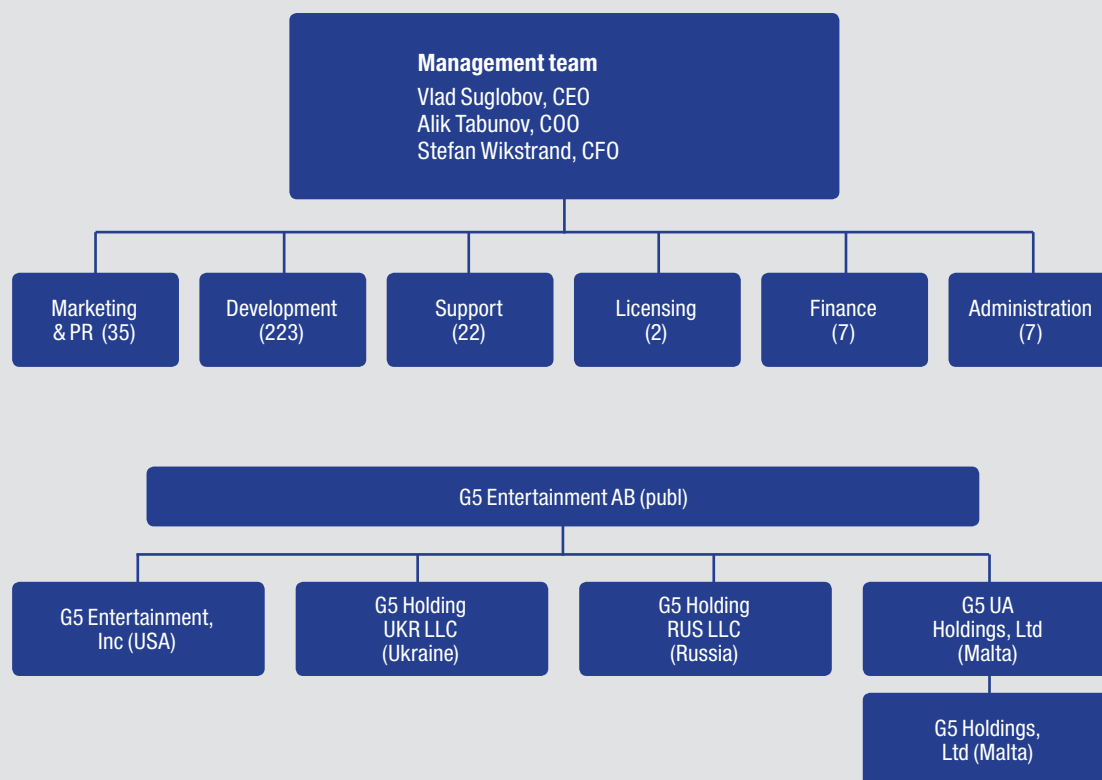
G5 is a developer and publisher of free-to-play games for smart phones and tablets. G5 is active in a market that has grown sharply with the wide spread adoption of smart phones and tablets. For a long time the biggest driving factor in this market and G5's growth has been the rapid transition from the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

Thanks to the rapid technological progress and the development of the hardware, games that are designed for mobile devices have become more and more advanced and high qual-

ity both in the content and game play, as well as the possibility to process large amounts of information to produce advanced graphics. In line with technological development and market penetration the user base has increased significantly but also broadened. With ever improving experience on mobile, many users choose to leave their traditional gaming platforms and become mobile. Casual games that are well adapted for mobile platforms and are becoming more popular also helps broaden the user base. This is because casual games are games that are easy to start playing for inexperienced gamer, and therefore they appeal to a broader audience, both in terms of gender and age. 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 only fast-growing segment of the entire games market. About a third 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 analysis company Newzoo, to increase from \$ 30.4 billion 2015 to 52.5 billion by 2018.

## Organizational chart



**G5 2017 and onwards**

G5 operates in a fast growing market, where revenues from 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, not least in terms of the dominant free-to-play games. 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. The company has a number of new free-to-play games for release during 2017, most of them 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 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, 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. Game licensing and management of the group's IPRs (Intellectual Property Rights) is done from Malta where also 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 is the largest in terms of the number of employees, and is where most of the game development and quality assurance takes place. The group also has a development office in Kaliningrad.

**ACTIVITIES DURING 2016**

During 2016 the company has continued to show strong growth. During the first quarter the growth was slower but has since increased from quarter to quarter, and the company reached, with margin, its goal to grow faster than the market. Free-to-play games grew by 43 per cent compared with 2015, and accounted for 94 per cent of revenue.

As in previous years, the company's investment in user acquisition increased during the year to support the company's growth. User acquisition expenses in relation to revenue increased from 19,4% in 2015 to 20,5% during 2016.

Three new games were launched during the year. Two proprietary games were released; The Paranormal Society® and Twin Moons®, both were released on Apple Appstore, Google Play and Amazon App store. Nightmares From The Deep, which is a licensed free-to-play game, was also launched in 2016.

In addition the following launches were made in the year; Hidden City® was released on Windows Store and for Mac, Farm Clan on Facebook, Mahjong Journey on Windows Store and for Mac, Survivors: The Quest™ was released for Mac and Supermarket Mania was released for Google Play and Amazon App store.

Management has, in addition to game development, focused on continuous improvements to the development process to be able to update, enhance and analyze the portfolio of free-to-play games more efficiently.

The Board believes that G5 is positioned for continued strong 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**

On January 10, G5 filed a complaint stating claims for breach of contract against MyTona LLC relating to the license agreement between the parties regarding the game "The Secret Society" signed on May 2, 2012. G5 seeks substantial damages for past and future lost profits, declaratory relief and other remedies against MyTona for these violations. In the suit, G5 contends that MyTona has failed to perform certain obligations under the May 2, 2012 license agreement with regard to "The Secret Society", and has improperly refused to extend the license agreement beyond its initial 5-year term. G5's action also seeks to enforce rights claimed by G5 in relation to MyTona's game "Seeker's Notes", in which G5 claims a contractual right under the license agreement to participate financially, and seeks substantial damages, declaratory relief and other remedies against MyTona.

On March 23, G5 received a formal answer and cross-complaint from MyTona in which MyTona generally denies G5's claims and asserts cross-claims for breach of contract, breach of the implied warranty of good faith and fair dealing, declaratory relief, and unfair competition. MyTona also seeks damages in an unspecified sum, an injunction and other equitable relief, including a ruling that MyTona need not renew the agreement, from G5 based upon these alleged violations.

The matter is pending in the Orange County Superior Court in Santa Ana, California.

**REVENUE AND EARNINGS****Revenue and gross profit**

Revenue grew by 34 per cent during the year, driven by the strong growth of the group's free-to-play-games which grew 43 per cent. Revenue amounted to SEK 516.9 M (384.4).

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****Research and development**

Costs for research and development increased by 19 per cent compared to 2015. Research and development costs are impacted by amortization and write-downs which amounted to SEK 38.7 M (28.0) and SEK 5.7 M (8.2) respectively. Adjusted for amortization and write-downs of the company's game portfolio the costs were SEK 14.8 M (13.6), an increase of 9 per cent. During the year the company has increased its expenditure for research and development, the largest part is capitalized. The increase in costs, excluding amortization and write-downs, is in large explained by a lower capitalization factor during the latter part of the year. This as 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. In line with the increase in costs for user acquisition the sales and marketing costs have increased by 41 per cent. User acquisition in relation to revenue has increased to 20 per cent (19). During the fourth quarter, the costs for user acquisition in relation to revenue was 26 per cent as the company saw the potential to further increase revenue.

### Administration

Costs for administration has increase to SEK 32.0 M (28.1), an increase of 14 per cent which is a consequence of a larger and improved organisation. Within administration there are also costs related to training 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 positively compared to 2015.

### Operating profit

Operating profit was SEK 38.1 M (19.8) and the operating margin was 7 per cent (5). The increase was achieved despite increased amortization, write-downs and marketing expenses compared to 2015.

### Net profit

Net profit was marginally affected by financial items. Tax affected the result with SEK -4.8 M (-4.4) corresponding to a tax rate of 13 per cent (22). The tax rate varies between the jurisdictions where G5 has its operations and local legislation can have an impact on the tax rate for the group. With the increasing profitability the distribution of profits between the subsidiaries is more balanced. By that, the groups transfer pricing policy works in full effect. This impacted the tax rate positively for 2016.

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

### FINANCIAL POSITION

During the year the company has capitalized development expenses amounting to SEK 50.2 M (50.2), almost exclusively on the portfolio of free-to-play games. 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 38.7 M (28.0). Write-downs, which is a part of the ongoing business with a games portfolio, amounted to SEK 5.7 M (8.2). Capitalized development expenses are also impacted of currency exchange differences of SEK 9.0 M (8.6), 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 109.1 M (94.3).

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 and debts to external developers.

Equity amounted to SEK 161.2 M (123.3) corresponding to a equity/asset-ratio of 62 per cent (70).

FINANCIAL RATIOS	2016	2015	2014
Equity/asset-ratio	62%	70%	71%
Return on equity	21%	12%	7%
Return on total assets	15%	11%	7%
Current ratio	1.4	1.4	1.6

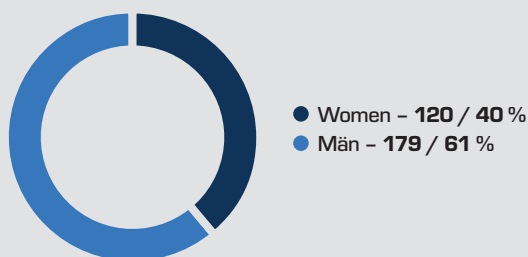
### CASH FLOW

During the year the group had an operating cash flow before changes in working capital of SEK 85.2 M (56.2). Cash flow before investing activities amounted to SEK 89.6 M (54.8). Investments have impacted the cash flow with SEK -53.5 M (-54.1). Investments are primarily constituted of capitalized development expenses that amounted to SEK -50.2 M (-50.2). During the year a large number of updates and game versions for new platforms have been released for the existing portfolio, the company has also released three new games that impact the investments during the year.

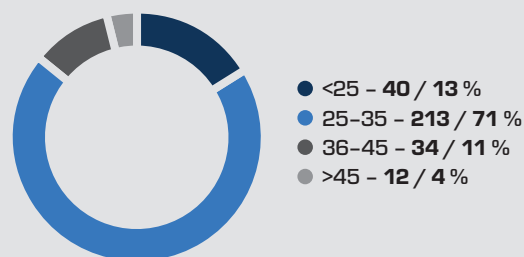
Cash flow amounted to SEK 36.2 M (0.9).

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

### Employee gender distribution



### Employee age distribution





## EMPLOYEES

As of December 31, 2016, G5 had 299 employees across six locations, Stockholm (2), San Francisco (4), Malta (6), Moscow (17), Kharkov (240) and Kaliningrad (30). The majority of the staff is employed locally, many of them being skilled engineers. G5 constantly strives to attract employees that are essential for the company to maintain a strong market position. The company's HR department in Kharkov, together with the HR Director based in Kaliningrad, cooperates with local universities to scout for candidates. G5 is working pro-actively 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. 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 unique 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 two technical platforms, one for free-to-play and one for unlockable games, the analytics platform and the publishing platform. The company also has some smaller development projects for which the expenses are not capitalized.

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, 2016, G5 Entertainment's share capital was 880,000 SEK divided between 8,800,000 shares, at quoted value of 0.10 SEK per share. The average number of outstanding shares during the year is 8,800,000 shares. Each share confers equal rights to participation in G5's assets and earnings and confers the holder with one vote. No shareholder owns more than 10 percent of the total number of outstanding shares.

The annual general meeting 2016 authorized the Board of Directors to issue 880,000 shares, with or without deviation from the shareholders' preferential right. No issue of share was made during 2016.

For more information regarding the share, see page 60.

## ENVIRONMENT

G5's core operations, software development, have a very limited environmental impact. G5 primarily affects the environment through travel and the dismantling of computer hardware. Although no formal policy or target is in place, the company aims to minimize that impact by, to the extent possible, replacing traveling with Internet-based communication, and using the means of travel that creates the least environmental footprint (such as train). The company also aims to send obsolete computer hardware for proper re-cycling.

## 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. Mobile gaming market, from which G5 derives substantially all of its revenue, is an immature market and a new and 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.

#### 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 240 people as of December, 2016. It is the group's policy to keep critical code and materials backed up outside Ukraine, 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 gets 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 games for mobile devices vary in size and include large international game publishers such as Electronic Arts, Zynga, Gameloft, as well as global game networks like DeNA and Gree, and smaller publishers like Gamevil and Glu Mobile, as well as more focused mobile casual game providers including Rovio and others. Free-to-play competitors include King.com (Activision Blizzard), Supercell and Pocket Gems. 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, with Apple and Google being the most important. 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 will propose that the 2017 Annual General Meeting approves the following guidelines for remuneration to senior executives. Senior executives include the CEO and other members of the executive management team. Compensation levels should be competitive and negotiated annually. The CEO and other senior executives are remunerated partly by a fixed monthly salary and partly through variable compensation based on the groups profitability. Variable compensation shall be calculated quarterly by 10 percent on the portion of operating income that exceeds an operating margin of 5 percent. This 5 percent operating margin reduction however does not apply when/while there is negative carried balance due to losses in previous periods. The variable compensation will be distributed such that 40 percent shall accrue to the Company's CEO and the remaining 60 percent can be allocated to the executive management team. A potential operating loss in a quarter reduces the calculation basis for variable compensation in subsequent quarters. The CEO's and the management's overall variable compensation for the year may not exceed 60 percent of each person's annual salary and is not included in the base for pension 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. Similarly, other benefits for senior executives shall be competitive and in substance the same as for other employees. 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 Chairman of the Board negotiates the yearly remuneration of the CEO and concludes agreements after approval from the board. The CEO negotiates compensation to senior executives and concludes agreements after approval by the Board. The Board may, if special reasons for doing so exist, make minor changes on an individual basis from the above guidelines.

For senior executive remuneration 2016, 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 a 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 54 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 2 (2) employees. The average number of employees during the year was 2 (2).

- ▶ Sales amounted to SEK 519.2 M (383.5)
- ▶ Operating result amounted to SEK 2.1 M (-1.2)
- ▶ Result after net financial items amounted to SEK 12.4 M (8.4)
- ▶ The parent company's cash and cash equivalents as of December 31, 2016 was SEK 56.7 M (25.6)

The parent company's revenue and profit increased due to the strong growth of free-to-play-games, while costs increased due to commissions to subsidiaries and user acquisition expenses.

**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	54,273
Profit carried forward	54,081
Net result for the year	9,682
<b>Total</b>	<b>118,036</b>

The Board of Directors proposes that dividends be paid in an amount of SEK 0.75 per share.

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

To be distributed to the shareholders	6,000
To be carried forward to new account	112,036
<b>Total</b>	<b>118,036</b>



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# GROUP FINANCIAL RESULTS

## INCOME STATEMENT – GROUP

KSEK	Note	2016	2015
Net turnover	C3	516,931	384,369
Cost of revenue		-271,070	-201,094
<b>Gross profit</b>		<b>245,861</b>	<b>183,274</b>
Research and Development expenses		-59,232	-49,840
Sales and Marketing expenses		-116,501	-82,737
General and administrative expenses		-31,996	-28,113
Other operating income		320	2,549
Other operating expenses		-344	-5,346
<b>Operating result</b>	C4, C5, C6, C7, C8, C17	<b>38,108</b>	<b>19,788</b>
Financial income		39	38
Financial expenses		-109	-48
<b>Operating result after financial items</b>	C9	<b>38,038</b>	<b>19,778</b>
Taxes	C10	-4,833	-4,448
<b>NET RESULT FOR THE YEAR</b>		<b>33,205</b>	<b>15,330</b>
<b>Attributed to:</b>			
Parent company's shareholders		33 205	15 330
Non-controlling interest		-	-
<b>Earnings per share</b>			
Weighted average number of shares (thousands)		8,800	8,800
Earnings per share (SEK) before dilution		3,77	1,74
Earnings per share (SEK) after dilution		3,76	1,74

## STATEMENT OF COMPREHENSIVE INCOME – GROUP

KSEK	2016	2015
<b>Net result for the year</b>	<b>33,205</b>	<b>15,330</b>
<b>Items that later can be reversed in profit</b>		
Foreign currency translation differences (net after tax)	4,506	3,486
<b>Total other comprehensive income for the year</b>	<b>4,506</b>	<b>3,486</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>37,711</b>	<b>18,816</b>
<b>Attributed to:</b>		
Parent company's shareholders	37,711	18,816
Non-controlling interest	-	-

**BALANCE SHEET - GROUP**

KSEK	Note	Dec 31, 2016	Dec 31, 2015
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>	C11		
Capitalized development costs		109,104	94,269
Goodwill		2,292	2,293
		<b>111,396</b>	<b>96,562</b>
<b>Tangible fixed assets</b>	C12		
Equipment		6,275	4,634
		<b>6,275</b>	<b>4,634</b>
Deferred tax assets	C10	8,565	2,310
<b>Total fixed assets</b>		<b>126,236</b>	<b>103,506</b>
<b>Current assets</b>	C14, C19		
Accounts receivable		0	9,881
Tax receivable		474	175
Other receivable		5,906	3,952
Prepaid expenses and accrued income	C16	57,030	25,198
Cash and cash equivalents		70,584	33,870
<b>Total current assets</b>		<b>133,994</b>	<b>73,076</b>
<b>TOTAL ASSETS</b>		<b>260,231</b>	<b>176,583</b>
<b>Equity</b>	C13		
Share capital		880	880
Other capital contribution		54,316	54,203
Other reserves		16,566	12,060
Profit brought forward		89,407	56,202
<b>Total shareholders' equity</b>		<b>161,169</b>	<b>123,345</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	C10	2,465	-
<b>Total non-current liabilities</b>		<b>2,465</b>	<b>-</b>
<b>Current liabilities</b>	C19		
Accounts payable		30,828	12,320
Other liabilities		2,840	1,227
Tax liabilities		13,276	6,438
Accrued expenses	C16	49,653	33,253
<b>Total current liabilities</b>		<b>96,597</b>	<b>53,238</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>260,231</b>	<b>176,583</b>

**CHANGES IN SHAREHOLDERS' EQUITY – GROUP**

KSEK	Share capital	Other capital	Other reserves	Retained earnings	Shareholders' equity
Shareholders' equity as of 2015-01-01	880	54,032	8,575	40,872	104,359
Net result for the year				15,330	15,330
Total other comprehensive income			3,485		3,485
<b>Total comprehensive income for the year</b>			<b>3,485</b>	<b>15,330</b>	<b>18,815</b>
Premium for warrant program		171			171
<b>Total transactions with the owners recognized directly in equity</b>		<b>171</b>			<b>171</b>
Shareholders' equity as of 2015-12-31	880	54,203	12,060	56,202	123,345
<b>Eget kapital 2016-01-01</b>	<b>880</b>	<b>54,203</b>	<b>12,060</b>	<b>56,202</b>	<b>123,345</b>
Net result for the year				33,205	33,205
Total other comprehensive income			4,506		4,506
<b>Total comprehensive income for the year</b>			<b>4 506</b>	<b>33,205</b>	<b>37,711</b>
Premium for warrant program		113			113
<b>Total transactions with the owners recognized directly in equity</b>		<b>113</b>			<b>113</b>
Shareholders' equity as of 2016-12-31	880	54,316	16,566	89,407	161,169



**CASH FLOW - GROUP**

KSEK	Note	2016	2015
<b>Cash flow from operating activities</b>	C20		
Operating result after financial items		38,038	19,778
Adjusting items not included in cash flow		50,879	38,710
Taxes paid		-3,724	-2,273
<b>Cash flow before changes in working capital</b>		<b>85,193</b>	<b>56,215</b>
<b>Cash flow from changes in working capital</b>			
Decrease in operating receivables		-28,728	-6,064
Increase in operating liabilities		33,137	4,627
<b>Cash flow from operating activities</b>		<b>89,602</b>	<b>54,778</b>
<b>Investing activities</b>			
Investing in equipment		-3,331	-3,854
Investing in capitalized development costs		-50,212	-50,235
<b>Cash flow from investing activities</b>		<b>-53,544</b>	<b>-54,089</b>
<b>Financial activities</b>			
Premium for warrant program		113	171
<b>Cash flow from financial activities</b>		<b>113</b>	<b>171</b>
<b>Cash Flow</b>		<b>36,171</b>	<b>860</b>
<b>Cash at the beginning of the year</b>		<b>33,870</b>	<b>32,864</b>
Cash flow		36,171	860
Exchange rate difference		543	146
<b>Cash at the end of the year</b>		<b>70,584</b>	<b>33,870</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.

This Annual Report was approved for publication by the Board of Directors on April 20, 2017. The 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 2016 is from January 1, 2016 up to December 31, 2016.

### 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

New and amended standards that have entered into force from 2015 have not impacted the financial reporting of the group.

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

International Accounting Standard Board (IASB) has published a number of changes in standards that will be in force for fiscal years starting after January 1, 2016. None of these are expected to have any significant financial impact on the financial statements of the group. IASB has also issued a number of extensive standards that come into force in 2018 and 2019 respectively:

- ▶ IFRS 9 Financial Instruments. The standard will replace IAS 39 Financial Instruments Recognition and Measurement. It contains rules for the classification and measurement of financial assets and liabilities, impairment of financial instruments and hedge accounting. The standard will be applied for fiscal years starting January 1, 2018 or later with early adoption permitted. The Group is evaluating the new standard but estimates that it will not have any material impact on the financial statements.
- ▶ IFRS 15 Revenue from Contracts with Customers. The standard establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard will replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. The standard shall be applied from January 1, 2018 or later, with early adoption permitted. The Group has started an impact assessment which is focused primarily on a review of the contracts that are signed with each application store, and the potential impact on the revenue recognition through the new standard. In the assessment, a review of the company's IT-systems is also performed. The Group has yet to quantify the impact from the new standard on the groups financial statements.
- ▶ IFRS 16 Leases. The standard will replace IAS 17 Leases, and related interpretations IFRIC 4, SIC-15 and SIC-27. The standard shall be applied from January 1, 2019 or later, with early adoption permitted provided that also IFRS 15 Revenue from Contracts with Customers is applied. The standard requires that assets and liabilities relating to all leases, with some exceptions, are recognized in the balance sheet. An assessment of the standard is ongoing and the Group estimates that existing leases (Note C17) will be affected by this standard. These contracts are primarily related to the premises used by 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.

Subsidiaries are recognized using acquisition accounting. 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.

Revenue is recognized on an accruals basis in accordance with the substance of the relevant agreements.

For the G5 group this normally means that revenue is recognized at the time when apps are downloaded or 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 reported continuously 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

##### Leased assets

Leases are classified as finance leases or operating leases. Finance leases are when the economic risks and rewards of ownership have been substantially transferred to the lessee. All other leases are classified as operating leases.

Assets leased under operating leases are not recognized as an asset on the balance sheet. Operating leases do not give rise to a liability.

##### Operating leases

Costs pertaining to operating leases are recognized in the income statement on a straight-line basis over the lease term. Incentives received in conjunction with signing a lease agreement are recognized in the income statement as a reduction of the leasing payments on a

straight-line basis over the lease term. Variable charges are expensed in the periods when they arise.

### 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

#### Goodwill

Goodwill is the positive difference between the acquisition value of a business combination and the net fair value of acquired identifiable assets, liabilities and contingent liabilities. Goodwill can be viewed as a payment for future financial benefits that cannot be separately identified, nor accounted separately.

Goodwill is valued at acquisition value less potential accumulated write-downs. Goodwill is divided to cash-generating units and is not amortized but subject to impairment tests at least annually, see the "write-downs" heading below.

#### Capitalized development costs

Development costs 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. Mandatorily redeemable preference shares are classified as liabilities. 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 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.

### Benefits for employees

The employee 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.

Provisions are only accounted coincident with termination of employees if the group has demonstrably committed to conclude employment before the normal time, or when remuneration is paid to encourage voluntary redundancy. In those cases the group issues redundancy notices, a detailed plan, which as a minimum, includes information on workplaces, positions and the approximate number of people affected, and the remuneration for each employee category, or positions and the time for conducting the plan.

### 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 2015 and 2016 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.

### 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.

**Provisions**

Provisions are accounted in the balance sheet when a legal or informal commitment arises as a consequence of an event that has occurred and it is likely that an outflow of financial benefits will be necessary to settle the commitment and a reliable estimate of the amount is possible. The provision is accounted at an amount corresponding to the best estimate of the disbursement necessary to settle the commitment. Provisions are liabilities that are uncertain in terms of the amount or timing of when they will be settled.

**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. 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.

**Advances to external developers**

Advances to external developers are continuously evaluated and tested for impairment. Basis of calculation for valuation of the item is largely in line with the calculations for capitalized development expenses. For more information, see Note C14.

**Goodwill**

G5 tests annually whether there is an impairment need of goodwill. 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 C8.

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

Revenue split by countries	2016	2015
Sweden	516,931	383,353
Other countries	-	158
<b>Total</b>	<b>516,931</b>	<b>383,511</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 94% (88%) is related to free-to-play games.

Fixed assets (tangible and intangible asset) split by countries	2016	2015
Malta	113,394	97,402
Other countries	4,278	3,794
<b>Total</b>	<b>117,671</b>	<b>101,196</b>

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

**Note C4 – Expenses by nature**

	2016	2015
Fees to distributors	154,632	115,469
Royalty to developers and license fees	116,438	85,625
Research and development	28,674	25,041
Sales and marketing	109,573	77,439
Staff costs	57,879	50,415
Amortization and write-downs of capitalized development costs	44,403	36,221
Capitalized costs	-50,212	-50,235
Other costs	15,442	21,809
<b>Total</b>	<b>476,830</b>	<b>361,784</b>

**Note C5 – Audit fees**

	2016	2015
Auditing within the audit assignment		
Mazars	906	616
Other auditing firms	26	27
Other auditing tasks		
Mazars	116	335
<b>Total</b>	<b>1,049</b>	<b>978</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. This includes, for example, the review of G5's interim report.

**Note C6 – Employees**

The staff consists of employees in the active subsidiaries.

Gender distribution	2016	2015
Men	170	140
Women	114	87
<b>Total</b>	<b>284</b>	<b>227</b>

Average number of employees by country	2016	2015
Sweden	2	2
Malta	6	4
Russia	39	15
Ukraine	233	203
USA	4	4
<b>Total</b>	<b>284</b>	<b>227</b>

Executive management team	2016	2015
Men	3	3
Women	-	-
<b>Total</b>	<b>3</b>	<b>3</b>

Board of directors	2016	2015
Men	4	4
Women	1	1
<b>Total</b>	<b>5</b>	<b>5</b>

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

Total staff remuneration	2016	2015
Salaries	49,103	41,534
Social security*	8,097	8,566
<b>Total</b>	<b>57,199</b>	<b>50,100</b>

\*of which pension costs 928 (294) 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.

Variable compensation shall be calculated quarterly by 10 per cent on the portion of operating income that exceeds an operating margin of 5 per cent. This 5 percent operating margin reduction however does not apply when/while there is negative carried balance due to losses in previous periods. The variable compensation will be distributed such that 40 per cent shall accrue to the Company's CEO and the remaining 60 percent can be allocated to the executive management team. A potential operating loss in a quarter reduces the calculation basis for variable compensation in subsequent quarters. The CEO's and the management's overall variable compensation for the year may not exceed 60 per cent of each person's annual salary and is not included in the base for pension 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 for senior executives shall be competitive and in substance the same as for other employees. Other benefits/compensation includes compensation to Jeffrey Rose for legal advice, consulting fees for Chris Carvalho, healthcare insurance for managers, etc.

The CEO and the members of the executive management team are also given the opportunity to participate in the group's warrant program, see Note C13.

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 2016 resolved that the remuneration to the chairman of the Board should amount to SEK 300,000 and SEK 150,000 each to the other members. In addition an annual fee is paid to the members of the audit committee, SEK 30,000 to the chairman and SEK 15,000 to the other members.

The tables below summarizes remuneration to the board and managers:

Remuneration to the board and managers 2016	Salary/board fee	Pension	Variable compensation	Other benefits/compensation
Petter Nylander (chairman)	330	-	-	-
Christopher Carvalho (director)	63	-	-	345
Jeffrey Rose (director)	150	-	-	697
Pär Sundberg (director)	165	-	-	-
Annika Andersson (director)	165	-	-	-
Vlad Suglobov (CEO, director)	2,275	315	725	200
Executive management team (2 persons)	2,451	120	684	5
<b>Total</b>	<b>5,600</b>	<b>435</b>	<b>1,409</b>	<b>1,247</b>

Remuneration to the board and managers 2015	Salary/board fee	Pension	Variable compensation	Other benefits/compensation
Petter Nylander (chairman)	305	-	-	-
Jeffrey Rose (director)	150	-	-	604
Pär Sundberg (director)	165	-	-	-
Annika Andersson (director)	96	-	-	-
Vlad Suglobov (CEO, director)	2,219	129	-	192
Executive management team (2 persons)	2,639	100	-	8
<b>Total</b>	<b>5,530</b>	<b>229</b>	<b>-</b>	<b>804</b>

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

	2016	2015
Currency exchange gains	320	2,549
<b>Other operating gains</b>	<b>320</b>	<b>2,549</b>
Currency exchange losses	-344	-5,346
<b>Other operating losses</b>	<b>-344</b>	<b>-5,346</b>
<b>Total other operating gains and losses</b>	<b>-24</b>	<b>-2,797</b>

**Note C9 – Financial income and expenses**

	2016	2015
Interest	39	38
<b>Financial income</b>	<b>39</b>	<b>38</b>
Other	-109	48
<b>Financial expenses</b>	<b>-109</b>	<b>48</b>
<b>Financial income and expenses</b>	<b>-70</b>	<b>-10</b>



**Note C10 - Taxes**

Income tax expenses	2016	2015
Current tax	-9,150	-6,488
Deferred tax	4,317	2,040
<b>Total tax expenses</b>	<b>-4,833</b>	<b>-4,448</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	2016	2015
Profit / loss before tax	38,038	19,778
Tax according to current tax rate 22%	-8,368	-4,351
Tax effect from income exempted from tax	-12	5
Tax effect from non-deductible expenses	-791	-70
Taxes recoverable*	7,136	1,251
Adjustment for tax rates in foreign subsidiaries	-2,838	-1,477
Tax effect of deferred tax asset not accounted for	-	-
Tax effect of previous deferred tax assets not accounted for	-	130
Other	40	63
<b>Tax charge</b>	<b>-4,833</b>	<b>-4,448</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	2016		2015	
	Deferred tax assets	Deferred tax liability	Deferred tax assets	Deferred tax liability
Intangible assets		-379	2,332	
Taxes recoverable	8,387		1,251	
Accrued expenses				
Other	178	-2,086	242	-1,518
<b>Total</b>	<b>8,565</b>	<b>-2,465</b>	<b>3,825</b>	<b>-1,518</b>
Offsetting	-	-	-1,518	1,518
<b>Net deferred tax asset</b>	<b>8,565</b>	<b>-2,465</b>	<b>2,308</b>	

	Amount at the beginning of the year	Income statement	Other comprehensive income	Recalculation differences	Amount at the end of the year
Intangible assets	2,332	-2,473	-	-238	-379
Taxes recoverable	1,251	7,136	-	-	8,387
Other	-1,276	-346	-282	-4	-1,908
<b>Total</b>	<b>2,308</b>	<b>4,317</b>	<b>-282</b>	<b>-242</b>	<b>6,100</b>

**Note C11 – Intangible fixed assets**

Change of intangible fixed assets	2016	2015
<b>Beginning of the year</b>	<b>94,269</b>	<b>71,680</b>
Investments	50,212	50,235
Write-downs	-5,700	-8,177
Amortization	-38,702	-28,045
Currency exchange difference	9,026	8,575
<b>End of the year</b>	<b>109,104</b>	<b>94,269</b>

Accumulated capitalized development costs	2016	2015
Accumulated costs	270,556	211 318
Accumulated amortization	-131,264	-92,562
Accumulated write-downs	-30,187	-24,487
<b>Net amount</b>	<b>109,104</b>	<b>94,269</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 2017 or 2018.

	2016	2015
Released games, free-to-play	87,387	49,648
Released games, unlockable	1,993	4,615
Not released games, free-to-play	19,573	37,427
Not released games, unlockable	151	2,577
<b>Net value of games portfolio</b>	<b>109,104</b>	<b>94,269</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% 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.

Goodwill	2016	2015
<b>At the beginning of the year</b>	<b>2,293</b>	<b>2,318</b>
Currency exchange effects	-1	-25
<b>At the end of the year</b>	<b>2,292</b>	<b>2,293</b>

**Impairment testing of goodwill**

Impairment testing of goodwill is done annually. It is based on forecasted cash flows from the cash-generating units to which the goodwill belongs, in this case brands and intellectual rights associated with a number of games in the company's portfolio. These cash flows are forecasted with the same methodology used for impairment testing of capitalized development costs. Revenue and cash flow is forecasted, and is then compared to the goodwill associated with each game. Due to the short time period, no discounting is done.

The most material part of the goodwill, 2,292 KSEK, is related to the former subsidiary Shape Games Inc. Through the acquisition of Shape Games the group got original source code and trademark rights for a number of attractive games. Based on this source code, these games have subsequently been developed further, and have become a successful part of G5's portfolio. Development work is continuing on a number of the games, creating new versions of the games, on various platforms. The company expects these games to generate substantial revenue during the foreseeable future. The games have been transferred from Shape Games to the group, and are being valued separately from the rest of the game portfolio.

The goodwill impairment testing has not indicated any need for a write-down during the year.

**Note C12 – Tangible fixed assets**

Change of tangible fixed assets	2016	2015
<b>Beginning of the year</b>	<b>4,634</b>	<b>2,892</b>
Investments	3,331	3,854
Depreciation	-1,970	-1,565
Currency exchange difference	280	-547
<b>End of the year</b>	<b>6,275</b>	<b>4,634</b>

Accumulated equipment	2016	2015
Accumulated costs	13,937	10,171
Accumulated depreciation / write-downs	-7,661	-5,537
<b>Net amount</b>	<b>6,275</b>	<b>4,634</b>

**Note C13 – Equity**

G5 Entertainment AB has only one share class, with all shares having equal voting rights. No treasury shares were repurchased or sold. By the end of 2016 there were 8,800,000 ordinary shares, each with a par value of 0.1 SEK.

Outstanding shares	2016	2015
Shares at the end of the year	8,800,000	8,800,000
Weighted average number of shares	8,800,000	8,800,000

Since 2012 the group has had a long-term warrant program as a long-term incentive program.

At the annual general meeting 2015 it was resolved that the program would be prolonged (2015-2017). The annual general meeting 2016 decided in accordance with this framework to issue 176,000 warrant for 2016. Managers and senior executives was offered to participate in the program and 130,000 warrants were subscribed. Each warrant gives the holder a right to subscribe for one (1) share in the Company to a strike price amounting to 100.61 kronor. The warrants were purchased at fair value calculated with the Black-Scholes formula, the price was 1.05 SEK per warrant. The warrants may be exercised after 3 years. In case all warrants are exercised 130,000 shares are issued, which corresponds to approximately 1.5 per cent of the total number of outstanding shares and votes. If a participant of the program ends the position at G5 there is a pre-emption right for the company to repurchase the warrants at fair value.

Outstanding warrants can be seen in the below table.

Date of issue	Number of warrants	Warrant price	Strike price	Exercise period
January 17, 2015	127,500	0,40	83.33	January 17, 2018 – April 16, 2018
June 13, 2015	125,000	1,00	97.53	June 12, 2018 – September 12, 2018
June 12, 2016	130,000	1,05	100.61	June 10, 2019 – September 10, 2019

During 2016, two programs, with a total of 260,000 warrants, expired without reaching the strike price.

During the year, the company repurchased 30,000 warrants for a total of 23,408 kronor. The warrants were repurchased at market price.

**Dividend**

The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 0.75 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 – Account receivables and other receivables****Account receivables**

In 2016, there was no (0) write-downs for account receivables. As of December 31, 2016, 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	2016	2015
0-3 months	0	9,881
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, 2016, the total advances to external developers amounted to SEK 946,000 (3,145,000).

Maturity of other receivables	2016	2015
0-3 months	4,306	1,622
More than 3 months	1,600	2,330

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 2016 there was no write-downs (0 KSEK) advances to external developers.

**Note C15 – Related parties**

Transactions with related parties consist of transactions between group companies, fees to the board, CEO and other managers, the warrant 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).

**Note C16 – Accrued receivables and expenses**

	2016	2015
Accrued income	56,997	24,856
Other	34	341
<b>Prepaid expenses and accrued income</b>	<b>57,030</b>	<b>25,197</b>
Royalty	-45,541	-29,480
Other	-4,113	-3,773
<b>Accrued expenses</b>	<b>-49,654</b>	<b>-33 253</b>
<b>Total</b>	<b>7,376</b>	<b>-8,056</b>

**Note C17 – Leasing**

The group does not have any financial leases. Operating leases consist of rent premises agreements, for the offices in Moscow, Kharkov, San Francisco, Stockholm, Kaliningrad and Sliema.

Office rent	2015	2014
Rent	3,043	2,848

The future aggregate minimum lease payment under non-cancelable operating lease are all due within one year (2017) at a total amount of 561 KSEK.

**Note C18 – Pledged assets**

Floating charge 3,000 SEK (3,000), pledged for cheque account with overdraft facility 400 KUSD (400). The overdraft facility was unused 2016-12-31.

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

**Note C19 – 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, ie 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 has a number of investments in foreign subsidiaries whose net assets are exposed to currency risks. 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, 2016 would be adversely affected by SEK 4.2 M and other comprehensive income would be positively affected by SEK 5.8 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, 2016 would be positively affected by 1.2 M and other comprehensive income would be affected by SEK 0 M.

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

Credit risk related to accounts receivable are considered immaterial, since almost all sales are generated through major telecom and media 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.

**Advances to external developers**

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 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. Moreover, the group has agreed bank credit facilities.

**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**

<b>Financial assets</b>	<b>2016</b>	<b>2015</b>
Accrued income	56,997	24,856
Account receivable	-	9,881
Other receivables	5,906	3,952
Cash and cash equivalents	70,584	33,870
<b>Loan and receivables</b>	<b>133,521</b>	<b>72,559</b>
<b>Financial liabilities</b>	<b>2016</b>	<b>2015</b>
Account payable	30,828	12,320
Other liabilities	2,840	1,225
Accrued expenses	49,653	33,253
<b>Financial liabilities measured at amortized costs</b>	<b>83,321</b>	<b>46,798</b>
<b>Maturity of financial liabilities</b>	<b>2016</b>	<b>2015</b>
0-3 months	83,321	46,798
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 C14.

**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 24 in the Directors report. G5 does not have any loan financing.

**Note C20 - Adjustments for items not included in cash flow**

	<b>2016</b>	<b>2015</b>
Depreciation/amortization	46,373	29,609
Write-down of fixed assets	4,506	8,177
Other	-	925
<b>Total</b>	<b>50,879</b>	<b>38,710</b>

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

**Note C21 - Significant events after the balance sheet date**

On January 10, G5 filed a complaint stating claims for breach of contract against MyTona LLC relating to the license agreement between the parties regarding the game "The Secret Society" signed on May 2, 2012. G5 seeks substantial damages for past and future lost profits, declaratory relief and other remedies against MyTona for these violations. In the suit, G5 contends that MyTona has failed to perform certain obligations under the May 2, 2012 license agreement with regard to "The Secret Society", and has improperly refused to extend the license agreement beyond its initial 5-year term. G5's action also seeks to enforce rights claimed by G5 in relation to MyTona's game "Seeker's Notes", in which G5 claims a contractual right under the license agreement to participate financially, and seeks substantial damages, declaratory relief and other remedies against MyTona.

On March 23, G5 received a formal answer and cross-complaint from MyTona in which MyTona generally denies G5's claims and asserts cross-claims for breach of contract, breach of the implied warranty of good faith and fair dealing, declaratory relief, and unfair competition. MyTona also seeks damages in an unspecified sum, an injunction and other equitable relief, including a ruling that MyTona need not renew the agreement, from G5 based upon these alleged violations.

The matter is pending in the Orange County Superior Court in Santa Ana, California.



# PARENT COMPANY FINANCIAL RESULTS

## INCOME STATEMENT – PARENT COMPANY

KSEK	Note	2016	2015
Net turnover		519,241	383,496
Cost of revenue		-383,712	-286,691
<b>Gross profit</b>		<b>135,528</b>	<b>96,805</b>
Research and development expenses		-66	-351
Sales and marketing expenses		-6,352	-2,100
General and administrative expenses		-122,199	-92,670
Other operating income		2,304	0
Other operating expenses		-7,124	-2,856
<b>Operating result</b>	P2, P3, P4, P5, P14	<b>2,092</b>	<b>-1,172</b>
Interest income and similar items		10,429	9,588
Interest expense and similar items		-109	-48
<b>Operating result after financial items</b>	P6	<b>12,412</b>	<b>8,368</b>
Taxes	P7	-2,729	-1,526
<b>Net result for the year</b>		<b>9,682</b>	<b>6,841</b>

## STATEMENT OF COMPREHENSIVE INCOME – PARENT COMPANY

KSEK	2016	2015
<b>Net result for the year</b>	<b>9 682</b>	<b>6 841</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>9 682</b>	<b>6 841</b>

**BALANCE SHEET - PARENT COMPANY**

KSEK	Note	Dec 31, 2016,	Dec 31, 2015
<b>Fixed assets</b>			
<b>Financial fixed assets</b>			
Shares in group companies	P9	70	70
Receivable from group companies	P10	79,211	100,084
		<b>79,281</b>	<b>100,154</b>
<b>Current assets</b>	P11		
Account receivables		0	9,874
Receivables from group companies		186	137
Other receivables		2,341	521
Prepaid expenses and accrued income	P13	56,208	24,856
Cash and cash equivalents		56,665	25,605
		<b>115,399</b>	<b>60,993</b>
<b>TOTAL ASSETS</b>		<b>194,680</b>	<b>161,147</b>
<b>Restricted equity</b>			
Share capital		880	880
<b>Non-restricted equity</b>			
Share premium reserve		54,273	54,160
Profit carried forward		54,081	47,239
Net result for the year		9,682	6,841
<b>Total equity</b>	P12	<b>118,916</b>	<b>109,120</b>
<b>Liabilities</b>			
Accounts payable		573	131
Liability to group companies		71,956	49,338
Other liability		392	150
Accrued expenses and prepaid income	P13	2,842	2,408
<b>Total liabilities</b>		<b>75,763</b>	<b>52,026</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>194,680</b>	<b>161,147</b>

## CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY

KSEK	Share capital	Share premium reserve	Profit/loss carried forward	Shareholders' equity
<b>Shareholders' equity as of 2015-01-01</b>	880	53,989	47,239	102,118
Net result for the year			6,841	6,841
Total other comprehensive income				
<b>Total comprehensive income for the year</b>			6,841	6,841
Premium for warrant program		171		171
<b>Total transaction with the owners recognized directly in equity</b>		171		171
<b>Shareholders' equity as of 2015-12-31</b>	880	54,160	54,080	109,120
<b>Shareholders' equity as of 2016-01-01</b>	880	54,160	54,080	109,120
Net result for the year			9,682	9,682
Total other comprehensive income <sup>1</sup>				-
<b>Total comprehensive income for the year</b>			9,682	9,682
Premium for warrant program		113		113
<b>Total transaction with the owners recognized directly in equity</b>		113		113
<b>Shareholders' equity as of 2016-12-31</b>	880	54,273	63,763	118,916

**CASH FLOW – PARENT COMPANY**

KSEK	Note	2016	2015
<b>Operating activities</b>	P17		
Operating result after financial items		12,412	8,368
Adjusting for items not included in cash flow		598	-5 426
		13,010	2 942
Taxes paid		-2,409	-2,354
<b>Cash before changes in working capital</b>		<b>10,601</b>	<b>588</b>
<b>Cash flow from changes in working capital</b>			
Increase/decrease in operating receivables		-23,346	-5,793
Increase/decrease in operating liabilities		43,692	7,093
<b>Cash flow from operating activities</b>		<b>30,947</b>	<b>-1,888</b>
<b>Investing activities</b>			
Investing in capitalized development costs			-
Sales of subsidiaries			-
Investments/new loans to subsidiaries		-	-4,270
<b>Cash flow from investing activities</b>		<b>-</b>	<b>-4,270</b>
<b>Financial activities</b>			
Premium for warrant program		113	171
<b>Cash flow from financial activities</b>		<b>113</b>	<b>171</b>
<b>CASH FLOW</b>		<b>31,060</b>	<b>-2 212</b>
<b>Cash and bank at the beginning of year</b>		<b>25,605</b>	<b>27 817</b>
Cash flow		31,060	-2 212
<b>Cash and bank at the end of the year</b>		<b>56,665</b>	<b>25 605</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.

### Translation differences

Translation differences which are attributable to receivables from subsidiaries, which are not scheduled to be settled in the foreseeable future (Note P8), 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 P2 – Expenses by nature

	2016	2015
Fees to distributors	154,632	115,469
Royalty to developers and license fees	229,080	171,223
Marketing	6,352	2,100
Personnel costs	2,713	2,252
Other costs	119,552	90,769
<b>Total</b>	<b>512,329</b>	<b>381,812</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 2 (2) employees during the year. Compensation to parent company employees amounted to 1,800 KSEK (1,798), social costs 547 KSEK (546) and pension costs 192 KSEK (226).

### Note P4 – Audit fees

	2016	2015
Auditing within the audit assignment		
Mazars	615	425
Other auditing tasks		
Mazars	225	275
<b>Total</b>	<b>840</b>	<b>700</b>

### Note P5 – Other operating gains and losses

	2016	2015
Currency exchange gains	2,304	-
<b>Other operating gains</b>	<b>2,304</b>	<b>-</b>
Currency exchange losses	-7,124	-2,856
<b>Other operating losses</b>	<b>-7,124</b>	<b>-2,856</b>
<b>Total other operating gains and losses</b>	<b>-4,820</b>	<b>-2,856</b>



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

	2016	2015
Interest income from group companies	3,906	4,150
Currency exchange gains	6,523	3,973
Other	-	1,465
<b>Financial income</b>	<b>10,429</b>	<b>9,588</b>
Interest costs	-	-48
Other	-109	-
<b>Financial expense</b>	<b>-109</b>	<b>-48</b>
<b>Financial income and expense</b>	<b>3,796</b>	<b>5,566</b>

**Note P7 – Taxes**

Income tax expenses	2016	2015
Current tax	-2,729	-652
Deferred tax	-	-
<b>Total tax expenses</b>	<b>-2,729</b>	<b>-652</b>

Actual tax charge	2016	2015
Profit / Loss before tax	12,412	8,368
Tax according to current tax rate 22%	-2,731	-1,841
Tax effect of income exempted from tax	2	-
Tax effect of expenses not deductible	0	-5
Result from liquidation of subsidiary	-	319
Other	-	-
<b>Tax charge</b>	<b>-2,729</b>	<b>-653</b>

**Note P8 – Related parties**

Transactions between group companies are conducted either as royalty, or at cost plus a certain margin. As of December 31, 2016, the parent company had 79,211 (100,084) KSEK in receivables from group companies and 71,956 (49,338) KSEK in liabilities to group companies. Parent company sales to subsidiaries amounted to 17 (143) KSEK. Parent company purchases from subsidiaries amounted to 342,054 (254,593) 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	2016	2015
Accumulated value, opening balance	70	570
Liquidation of subsidiary	-	-500
<b>Accumulated value, closing balance</b>	<b>70</b>	<b>70</b>

Below are the Group's principal subsidiaries as of December 31, 2016. 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.

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 P10 – Financial fixed assets**

Long-term receivables from group companies	2016	2015
<b>Financial assets at the beginning of year</b>	<b>100,084</b>	<b>91,845</b>
Investment in long-term receivables from group companies	-	4,270
Repayment	-27,425	
Currency effect	6,552	3,969
<b>Financial assets at the end of year</b>	<b>79,211</b>	<b>100,084</b>

Loans to subsidiaries in respect of these assets are not planned to be paid in the foreseeable future. Translation differences attributable to these assets are therefore recognized as part of the net investment in the foreign operation, that is, in other comprehensive income.

**Note P11 – Accounts receivables and other receivables**

Maturity of account receivables	2016	2015
0-3 months	0	9,874
More than 3 months	-	-
<b>Maturity of other receivables</b>	<b>2016</b>	<b>2015</b>
0-3 months	741	521
More than 3 months	1,600	-

**Note P12 – Equity****Proposed distribution of earnings**

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

Share premium reserve	54,273
Profit carried forward	54,081
Net result for the year	9,682
<b>Total</b>	<b>118,036</b>

The Board of Directors proposes that dividends be paid in an amount of SEK 0.75 per share.

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

To be distributed to the shareholders	6,000
To be carried forward to new account	112,036
<b>Total</b>	<b>118,036</b>

**Note P13 – Accrued income and expenses**

	2016	2015
Accrued income	56,208	24,856
<b>Accrued income</b>	<b>56,208</b>	<b>24,856</b>
Royalty	100	114
Marketing expenses	648	2,100
Other	2,084	194
<b>Accrued expenses</b>	<b>2,832</b>	<b>2,408</b>
<b>Total</b>	<b>53,375</b>	<b>22,448</b>

**Note P14 – Leasing**

The parent company does not have any financial leases. Operating leases consist of rent premises agreements.

Office rent	2016	2015
Rent paid	192	192

The future aggregate minimum lease payment under non-cancelable operating lease are all due within one year (2017) at a total amount of 48 KSEK.

**Note P15 – Pledged assets**

Floating charge 3,000 KSEK (3,000) pledged for cheque account with overdraft facility 400 KUSD (400). The overdraft facility was unused 2016-12-31.

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

**Note P16 – 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 C19 Financial risks.

**Financial instruments split into categories**

<b>Financial assets</b>	<b>2016</b>	<b>2015</b>
Accrued income	56,208	24,856
Account receivable	-	9 874
Receivables group (long-term)	79,211	100,084
Other receivables	2,527	658
Cash and cash equivalents	56,665	25,605
<b>Loan and receivables</b>	<b>194,610</b>	<b>161,077</b>
<b>Financial liabilities</b>		
Account payable	573	131
Liabilities group	71,956	49,338
Other liabilities	392	150
Accrued expenses	2,832	2,408
<b>Financial liabilities measured at amortized costs</b>	<b>75,753</b>	<b>52,026</b>
<b>Maturity of financial liabilities</b>		
0-3 months	75,753	52,026
More than 3 months	-	-

**Note P17 – Adjustments for items not included in cash flow**

	<b>2016</b>	<b>2015</b>
Exchange difference on intercompany balances	634	-3,974
Liquidation of subsidiary	-	-1,452
Other	-36	-
<b>Total</b>	<b>598</b>	<b>-5,426</b>

**Note P18 – Events after the balance sheet date**

Note C21 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, 2017-04-20

**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

Our audit report was issued on 2017-04-20  
Mazars SET Revisionsbyrå AB

**Bengt Ekenberg**  
Authorized public accountant

# AUDITOR'S REPORT

## TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS IN G5 ENTERTAINMENT AB.

### 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 2016. The annual accounts and consolidated accounts of the company are included on pages 18-50 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 as of 31 December 2016, 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 2016, 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. 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.

#### *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.

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

### 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.

### REVENUE RECOGNITION

In 2016, G5 Entertainment AB had revenue of 517 MSEK. G5 sells mobile games that are distributed by a number of digital stores of which Apple Appstore and Google Play are the most significant. Revenue recognition is considered to be a key audit matter as completeness and correct cut-off of revenue is necessary to ensure that the financial reports are not materially misstated.

See accounting principles on page 30 and note C3 on page 35 for further information.

Our audit of revenue has included, but not been limited to, the following procedures:

- procedures to ensure that relevant accounting principles have been applied correctly and that sufficient information has been given in the notes
- audit of G5: s procedures for revenue recognition
- reconciliation of revenue against information in the systems of significant distributors

### CAPITALIZED DEVELOPMENT EXPENSES

As per December 31, 2016 G5 Entertainment AB has capitalized development expenses of 109 MSEK and is therefore the groups most significant asset. Capitalized development expenses consists of the games that the group develops. The games are owned and managed by the groups Maltese company. The main part of the development is performed by the groups companies in the Ukraine and in Russia. Capitalized development costs is considered to be a key audit matter as correct valuation is necessary to ensure that the financial reports are not materially misstated.

See accounting principles on page 32 and note C11 on page 38 for further information.

Our audit of capitalized development expenses has included, but not been limited to, the following procedures:

- procedures to ensure that relevant accounting principles have been applied correctly and that sufficient information has been given in the notes
- audit of G5: s procedures of capitalizing development expenses and testing details of of capitalized expenses
- audit of G5: s model for impairment testing capitalized expenses
- audit of impairment tests of specific games

### ROYALTY COSTS

In 2016 G5 Entertainment AB had direct costs in the income statement amounting to 271 MSEK and as per Dec 31 2016 had accrued expenses in the balance sheet amounting to 50 MSEK. A significant part of these amounts relates to royalty costs connected to some of the games that G5 publish. Royalty costs is considered to be a key audit matter as correct cut-off of these expenses is necessary to ensure that the financial reports are not materially misstated.

See note C4 on page 35 and note C16 on page 40 for further information.



Our audit of royalty costs has included, but not been limited to, the following procedures:

- Audit of G5's process for reconciliation and cut-off of royalty expenses
- Audit of details of royalty expenses

#### **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 pages 54-61. 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 I 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 Directors 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 intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

#### *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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 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 Directors and the Managing Director of G5 Entertainment AB (publ) for the year 2016 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 Directors 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 Directors 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's 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 fulfill 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 my 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm, April 20th, 2017  
Mazars SET Revisionsbyrå AB

**Bengt Ekenberg**  
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 2016 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 2017 and is an account of how corporate governance has been conducted at G5 Entertainment during the financial year 2016. 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, 2016 the company had approximately 3,000 shareholders.

## Major share holdings

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.

## 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

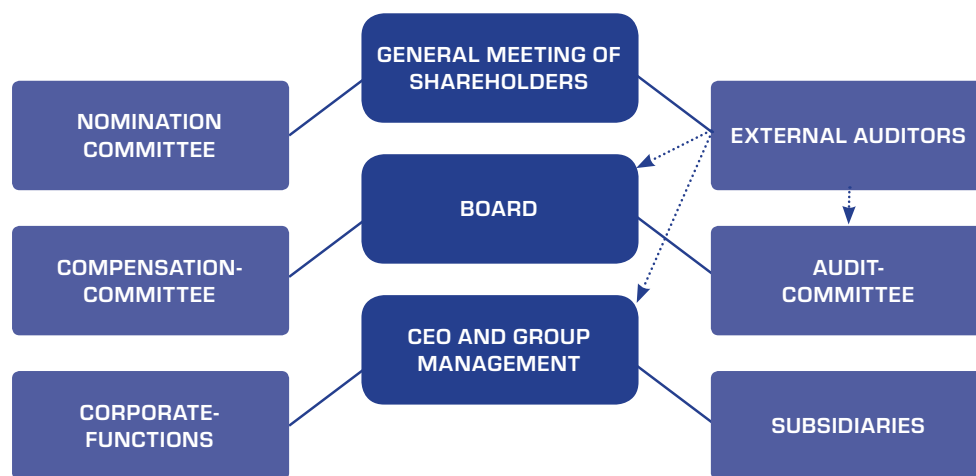
The current articles of association (see company’s website [www.g5e.com/corporate](http://www.g5e.com/corporate)) were adopted at the annual general meeting of May 20, 2014. The articles of association do not contain any specific provisions on the appointment and dismissal of board members or on amendments 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 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.

## G5’s corporate governance model



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

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 2016

G5 Entertainment held its 2016 annual general meeting on May 19 at 7a conference center, Sveavägen 7a, Stockholm, Sweden. 14 shareholders, representing 39 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 2015, 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 prolonged the incentive program initially decided on a general meeting 2015.

#### Extraordinary general meeting 2016

An EGM was held on August 11, 2016 at 7a Conference Center, Sveavägen 7a, Stockholm. 10 shareholders, representing 34 per cent of the votes and share capital, attended the meeting. The only item on the agenda was the election of Chris Carvalho to the Board of Directors. After the election the Board consists of 6 individuals.

#### Annual general meeting 2017

The 2017 annual general meeting will be held at 7a conference center, Sveavägen 7a, Stockholm, Sweden on May 12.

#### Authorizations

The Annual General Meeting 2016 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 880,000 shares, meaning an increase of the share capital of a maximum of SEK 88,000, corresponding to a dilution of about 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).

#### 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.

The nomination committee for the 2017 annual general meeting consists of representatives of G5 Entertainment's five largest shareholders:

- ▶ Christoffer Häggblom (representing Rite Internet Ventures)
- ▶ Jeffrey Rose (representing Wide Development Limited)
- ▶ Sergey Shults (representing Proxima Limited)
- ▶ Marianne Flink (representing Swedbank Robur Fonder)
- ▶ Petter Nylander (representing Purple Wolf Limited)

## Board composition, independence, remuneration and presence 2016

Name	Elected	Independent	Position	Committees	Board attendance	Audit committee attendance	Compensation committee attendance	Fees KSEK	No. of shares/warrants in G5 Entertainment <sup>1</sup>
Petter Nylander	2013	Yes	Chairman of the Board, the audit committee as well as compensation committee.	Audit and compensation committee	10 (10)	7 (7)	3 (3)	330	20,000/0
Annika Andersson	2015	Yes	Member of the board	Audit committee	10 (10)	7 (7)	-	165	1,000/0
Chris Carvalho <sup>2</sup>	2016	Yes	Member of the board		4 (4)	-	-	62.5	2,000/0
Jeffrey Rose	2011	No	Member of the board	Compensation committee	10 (10)	-	3 (3)	150	2,000/0
Pär Sundberg	2012	Yes	Member of the board	Audit and compensation committee	10 (10)	7 (7)	3 (3)	165	2,000/0
Vlad Suglobov	2006	No	Member of the board, CEO		10 (10)	-	-	-	624,800/60,000 <sup>3</sup>

<sup>1</sup>The information above is valid on March 31, 2017.

<sup>2</sup>Chris Carvalho was elected to the Board of Directors at the EGM on August 11, 2016.

<sup>3</sup>Holdings: 60,000 warrants. Vlad is also a deputy board member in Wide Development Ltd. that owns 624.800 shares.

## BOARD OF DIRECTORS

### Board composition

At the annual general meeting 2016 all members were re-elected and the Board consisted of Petter Nylander, chairman, Annika Andersson, Jeffrey Rose, Pär Sundberg, and Vlad Suglobov. At the EGM on August 11, Chris Carvalho was elected to 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 2016 the board met on nine occasions in addition to the constituent meeting following the annual general meeting (including one per capsulam). 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, Annika Andersson and Pär Sundberg.

In 2016, the audit committee held seven minuted meetings (of which one per capsulam). 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.

During the year the audit committee had an extra focus on improving the models surrounding intangible assets, with specific focus on impairment tests. 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 Petter Nylander, chairman, Jeffrey Rose and Pär Sundberg.

In 2016, the compensation committee held three minuted meetings.

Attendance by board members and committee members during the year is shown in the table on page 53.

## AUDITORS

The auditing firm appointed by the 2016 annual general meeting for a period of one year is Mazars SET Revisionsbyrå AB. Authorized public accountant Bengt Ekenberg 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.

## 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 gaming 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 Besedo Services AB, and Global CEO of Universum Communications AB.

Holdings: 22,000 shares, 0 warrants.

### **Annika Andersson (born 1958)**

Holds an M.Sc. Econ from the Stockholm School of Economics. She serves as executive Chairman of the Board at Pantor Engineering AB and is also Director of the Board of Karolinska Holding AB, Karolinska Innovations AB, Invisio Communications AB and Moira AB she is also corporate governance advisor. Annika Andersson has a long background in the financial services industry, among others from the Fourth Swedish National Pension Fund as investment manager and as responsible for corporate governance, information and sustainability.

Holdings: 1,000 shares, 0 warrants

### **Chris Carvalho (born 1965)**

Chris graduated from the University of California, Berkeley, Haas School of Business with a degree in business administration. Since then he has also completed an MBA at UCLA's Anderson School of Management. Most recently, Chris spent four years at San Francisco-based free-to-play mobile game company Kabam as Chief Operating Officer. Kabam was funded by Google Ventures and Time Warner, among others, and grew during Chris's tenure from 25 to 700+ employees with offices on three continents and from approximately \$2 million in revenue to \$360 million in revenue. Before Kabam, Chris spent almost ten years at Lucasfilm where he headed up Business Development for all of the Lucas companies and ran the company's Internet division. Chris is currently acting as an advisor to a number of companies and is a board member at Performance Lab, a B2B wearables technology startup, MaxPlay, a gaming, VR tools and tech company, and ROBLOX, one of the largest kids and teens gaming destinations.

Holdings: 2,000 shares, 0 warrants

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

Jeffrey W. Rose is an attorney specializing in intellectual property licensing, development, publishing, and strategy. For more than twenty years, he 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 W. Rose previously served on the board of Web Wise Kids, a non-profit organization dedicated to educating 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

### **Pär Sundberg (born 1972)**

After graduating from Luleå University of Technology with a Masters Degree in Industrial Engineering and Management, Pär Sundberg co-founded OTW, Sweden's leading provider of Content Marketing Services. He served as Group President and CEO of OTW from inception in 1996 until 2009. Following that, Pär Sundberg has also served as President and CEO of Metronome Film & Television. Pär Sundberg is currently executive chairman of the Brand New Content group, Chairman of the board in Näslund & Jonsson Import AB ("Snö of Sweden") and Board member in Hälsa Invest Sweden AB.

Holdings: 2,000 shares, 0 warrants

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

Vlad Suglobov started in the games industry as a programmer in 1995, Vlad Suglobov possesses over 20 years of industry experience. Before co-founding G5 in 2001 and since then serving as CEO of the group for more than 14 years, Vlad graduated from Lomonosov Moscow State University with M.Sc. in Computer Science. Growing with G5, Vlad was active in many essential roles, establishing company's strategy, client relations, product development and sales. Today, Vlad is concentrating on expanding G5's business internationally.

Holdings: 60,000 warrants. Vlad is also a deputy board member in Wide Development Ltd. that owns 624.800 shares.

The information above is valid on March 31, 2017

## 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, 2016 the executive team consisted of the CEO, the group's CFO and the group's COO.

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

Vlad Suglobov started in the games industry as a programmer in 1995, Vlad Suglobov possesses over 20 years of industry experience. Before co-founding G5 in 2001 and since then serving as CEO of the group for more than 14 years, Vlad graduated from Lomonosov Moscow State University with M.Sc. in Computer Science. Growing with G5, Vlad was active in many essential roles, establishing company's strategy, client relations, product development and sales. Today, Vlad is concentrating on expanding G5's business internationally.

Holdings: 60,000 warrants. Vlad is also a deputy board member in Wide Development Ltd. that owns 624,800 shares.

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

Alexander Tabunov is an experienced IT manager with background in software engineering. Since co-founding G5 in 2001, he is responsible for G5's day-to-day operations and processes in the COO position, including building G5's development team on multiple platforms and technologies. Alexander Tabunov received his MS degree in computer science from Moscow State Institute of Electronics and Mathematics. Holdings: 530,000 shares through the company Purple Wolf Ltd, 60,000 warrants.

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

After studies at Jönköping International Business School he worked five years within audit at MGI Revideco 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: 3,000 shares, 20,000 warrants.

Stockholm, April 20, 2016  
The Board of G5 Entertainment AB

## 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.

It is the board of directors who is responsible for the corporate governance statement for the financial year 2016 on pages 52-57 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that my our statutory 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.

In our opinion, the corporate governance statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm 2017-04-20

Mazars SET Revisionsbyrå AB

Bengt Ekenberg  
Authorized Public Accountant

## THE SHARE

As of December 31, 2016, G5 Entertainment's share capital was 880,000 SEK divided between 8,800,000 shares, at quoted value of 0.10 SEK per share. The average number of outstanding shares during the year is 8,800,000 shares. Each share confers equal rights to participation in G5's assets and earnings and confers the holder with one vote.

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. June 10, 2014, G5's share is quoted on Nasdaq Stockholm. At year-end 2016, the share price was 102 SEK and total market capitalization was 897,6 MSEK.

### Warrant program

At an extraordinary general meeting held on October 31, 2012, it was decided to implement a multi-year share warrant program, as part of a long-term incentive program. At the 2015 annual general meeting it was resolved that the warrant program would continue and the board of G5 then decided to allocate a total of 150,000 warrants to existing employees, keeping 26,000 warrants for potential new recruitments. 130,000 warrants were subscribed. 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.

### Largest shareholders as of December 31, 2016

Shareholder	No. of shares	Holding / votes
Försäkringsaktiebolaget Avanza Pension	835,554	9.49%
Rite Internet Ventures Holding AB	677,447	7.70%
Wide Development Limited*	624,800	7.10%
Swedbank Robur Ny Teknik	550,000	6.25%
Proxima LTD	531,000	6.03%
Purple Wolf Limited**	530,000	6.02%
Tommy Svensk	403,000	4.58%
Nordnet Pensionsförsäkring AB	377,191	4.29%
ABG Sundal Collier ASA	251,094	2.85%
Peter Lindell	143,673	1.63%
<b>Totalt</b>	<b>4,923,759</b>	<b>55.94%</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 2017	May 4, 2017
Annual general meeting 2017	May 12, 2017
Interim report, January-June 2017	July 27, 2017
Interim report, January-September 2017	November 7, 2017
Year-end report 2017	February 16, 2018

For questions regarding this report, please contact

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## 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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